JOINT ECONOMIC COMMITTEE DEMOCRATS

REPRESENTATIVE PETE STARK (D-CA) – RANKING MEMBER

ECONOMIC POLICY BRIEF (UPDATED APRIL 2003) MARCH 2003

DEBUNKING THE ARGUMENT THAT UNEMPLOYMENT IS NOT HIGH ENOUGH TO JUSTIFY EXTENDING UI BENEFITS

Many Republicans have argued that the current unemployment rate is not high by historical standards, and is below what once was considered full employment by economists. Therefore, they argue that unemployment insurance (UI) will not have to be extended again.

However, the labor market continues to show very sluggish performance, and the current unemployment rate masks the severity of that sluggishness. The impact of a recession is best measured by the change in unemployment or the change in the number of jobs from pre-recession levels – not by the level of unemployment or employment.

A careful assessment of the full range of labor market indicators shows that the job market today is at least as weak and possibly weaker than it was in the 1990-91 recession and subsequent jobless recovery. A comparable number of people have lost their jobs and they are having just as hard a time finding jobs now as in the last recession. The number of jobs available has shown no improvement over the last year and the unemployment rate fails to capture individuals who become discouraged by the lack of job opportunities and drop out of the labor force. More workers are now exhausting their unemployment benefits. Thus, today's lower unemployment rate does not provide a legitimate justification for not renewing the extended UI benefit program that is scheduled to expire in May.

- **The increase in unemployment in this recession is comparable to the last one.**

Because the unemployment rate is lower now (5.8 percent) than it was during the economic slump of the early 1990s (7.8 percent at its peak), many Republicans have mistakenly concluded that the employment situation is less dire today than it was a decade ago. This is wrong for two reasons. First, the unemployment rate recently has been as much as 2.2 percentage points higher than it was before the recession began–a jump in the unemployment rate that is roughly comparable to the increase that took place in the early 1990s. This means that the increase in the numbers of unemployed individuals in this recession is comparable to the last recession.

Second, the robust economic expansion of the 1990s drove the unemployment rate to 30-year lows, so the unemployment rate is lower today simply because it started at a lower point when the current slowdown began. If unemployment rates were to return to the peak of the early 1990s recession, that would result in increases of roughly *twice* as many unemployed people as in the last recession.

- **Jobs have declined sharply and are not recovering.**

The trend in private sector payrolls reflects net job creation or loss and is generally regarded by economists as the most accurate indicator of the overall strength or weakness of the labor market since it is based upon a survey of businesses. Through the end of last summer, declines in payrolls mirrored the experience of the 1990-91 recession. **(Chart 1)**[1] Since then, however, job opportunities have slumped to a *greater* extent than was the case a decade ago.

In March, private sector employment was 2.3 percent below its level in March 2001 and there were 2.6 million fewer jobs than when the recession began. At the same point in the business cycle a decade ago, private payrolls were only 1.5 percent below peak. Thus, over 900,000 more jobs have been lost in this recession than in the last. Moreover, both the current and 1990-91 economic slumps have hit payrolls more severely at this point after the recession began than would be expected from previous business cycles. If jobs had grown as they typically had in the eight postwar business cycles prior to 1990, private payroll employment would have recovered to its cyclical peak level by now.

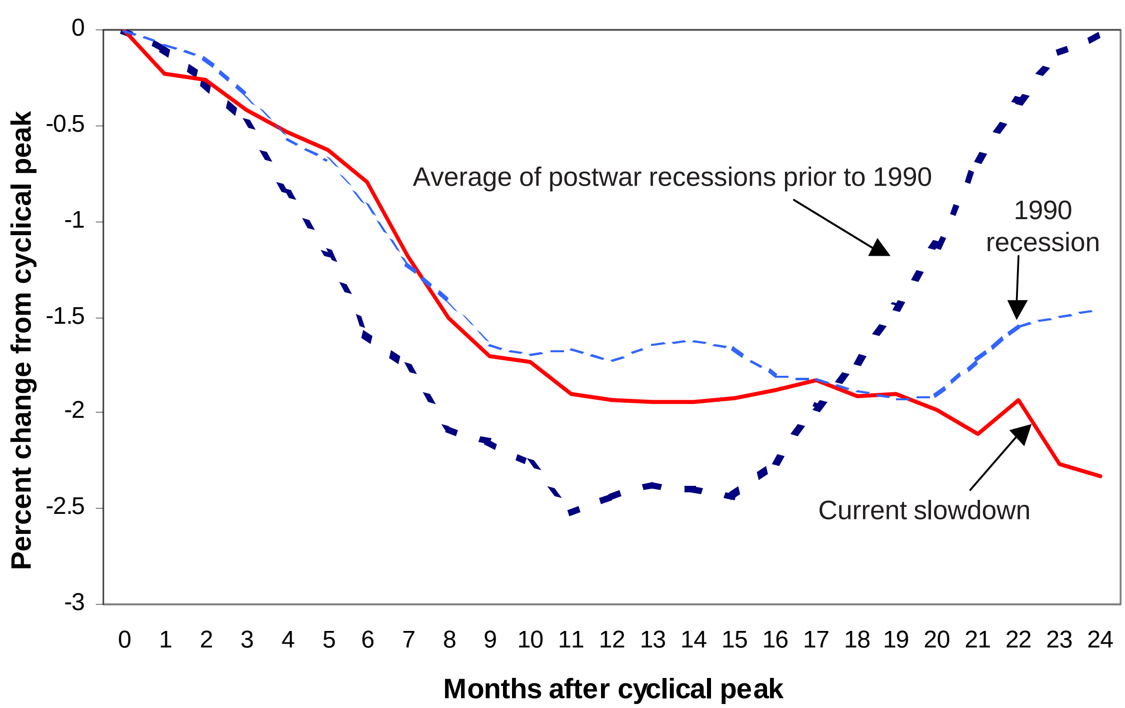
- **More workers are dropping out of the labor force.**

Another important labor market indicator is the employment-to-population ratio, which reflects not only changes in the unemployment rate but also changes in the portion of the population that is in the labor force, either working or seeking work. During an economic slump, a decline in labor force participation tends to show discouragement about the prospects of finding a job. The proportion of the working age population with jobs has declined by 2.0 percentage points since its business cycle peak in March 2001. At the same point in the business cycle a decade ago, the employment-to-population ratio had declined by only 1.2 percentage points. This means that 1.7 million more people

Chart 1

Jobs Have Fallen Sharply and Are Not Recovering

Decline in Private Nonfarm Payroll in this Recession Compared to Previous Recessions



Sources: JEC calculations using data from the U.S. Department of Labor and the National Bureau of Economic Research.

are not employed or have dropped out of the labor force during this recession than the in last one.

- **More people are exhausting their UI benefits.**

Two features of the current employment situation are especially relevant for the decision to extend UI benefits. First, both the current and previous spells of joblessness have been especially harsh on the long-term unemployed: then and now, more than one in every five of the unemployed has been jobless for more than 26 weeks. This is important because regular UI benefits run out after 26 weeks.

Second, as was the case in the 1990-91 recession but not in the prior postwar recessions, proportionally fewer of those losing jobs do so through temporary layoffs. From the start of the current recession through the end of last year, more than 9 out of 10 persons who became unemployed believed their job loss was permanent.[2] That is significant, because UI recipients are workers who have lost their jobs, and the trend during this and the previous slowdown toward fewer temporary layoffs among job losers suggests that those unemployed workers will have a tougher time finding new productive employment.

These two features of the current employment situation are reflected in both the number and rate of workers exhausting regular state UI benefits. The increase in the past year of the number of workers exhausting regular state UI benefits is 2.2 million more than when the recession began. This increase in the number of exhaustions is more than the increase in the previous recession (some 2.0 million even after adjusting for the size of the labor force).[3] The Department of Labor computes a 12-month moving average exhaustion rate–the percentage of workers who run out of regular state UI benefits without finding a job. This exhaustion rate is the *highest* (43.1 percent) in the post World War era.

By the end of May 2003, 3.2 million workers will have exhausted all of their temporary federal UI benefits before finding work, compared with 2.2 million in the last recession.

Because the federal government UI program has been far less generous than it was a decade ago, many more workers have exhausted their temporary federal UI benefits than was the case in the 1990 recession. The JEC Democratic staff estimates that, by the end of May 2003, 3.2 million workers will have exhausted all of their temporary federal UI benefits before finding work, compared with 2.2 million in the last recession.[3]

Conclusion

The current data suggest that the need for extending UI benefits is no less today than it was in the 1990 recession. But in contrast with the 1990 recession, when the federal government stepped in to extend benefits five times and the program lasted for 27 months, the federal government has done so only twice during the current slowdown and if the program ends in May, the program will have lasted only 15 months. Even if unemployment declines somewhat over the next two months, and falls below the unemployment rate of 5.7 percent when the temporary federal program began in March 2002, ending the program in May is premature.

Endnotes

1 The chart shows the percentage of jobs lost relative to the peak. This automatically provides an appropriate adjustment for the size of the labor force.

2 See T. M. McMenamin, R. Krantz, and T. J. Krolik, "U.S. Labor Market in 2001: Continued Weakness," *Monthly Labor Review*, February 2003, footnote 55, p. 25.

3 JEC Democrats, "Budget Resolutions Ignore the Plight of Long-Term Unemployed Workers" *Economic Policy Brief*, March 2003.

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