CBO PAPERS

SHORT-TERM RESPONSES TO THE RECESSION: THE EXTENSION OF UNEMPLOYMENT INSURANCE BENEFITS

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PREFACE

The increased unemployment resulting from the current recession has renewed interest in extending the maximum duration of Unemployment Insurance benefits. This paper examines the budgetary environment for doing so and analyzes several specific options to provide additional benefits to workers who exhaust available aid. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, this paper contains no recommendations.

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INTRODUCTION

The current recession has focused attention in the Congress on finding ways to help workers who lose their jobs. In past periods of economic downturn, the federal government has used a variety of tactics to counteract the sluggish economy and stimulate employment. Increased spending on infrastructure improvements, public service employment, and countercyclical revenue sharing was used to stimulate employment during the 1970s. Added Unemployment Insurance (UI) benefits and reductions in income taxes were used to increase incomes both in the 1970s and the 1980s.

With this recession predicted to be short by historical standards, much of the attention thus far has been on expansions of UI benefits. The number of program recipients is rising with the increase in joblessness, and the number of people exhausting the available aid is likewise higher. Additional UI aid could be provided relatively quickly because prospective recipients are easily identified and a delivery system is now in place.

Any changes in the UI program would probably have to be limited to changes in federal UI laws and paid for with federal funds. Changes that require modification of existing state laws could delay full implementation a year or even two because state legislatures do not meet continuously.

Changes in the UI program would also have to come to grips with the provisions of the recently enacted Budget Enforcement Act of 1990.[1] As part of the Omnibus Budget Reconciliation Act of 1990, this act sets new rules for federal spending through 1995. Automatic recession-related increases in spending on entitlements, such as UI benefits, food stamps, and Aid to Families with Dependent Children, are not affected by provisions of the Budget Enforcement Act. Legislative expansions in entitlements or increases in discretionary spending, however, are potentially limited by the new law. In particular, one entitlement program can be expanded only if another one is cut or if taxes or fees are raised and, through 1993, total spending on domestic discretionary programs is limited by specific spending caps set forth in the new budget law.

The Congress and the President can override these features of the act in the case of recession or slow economic growth. Indeed, on January 23, 1991, both the Congressional Budget Office (CBO) and the Office of Management and Budget forecast two quarters of negative growth, triggering a mechanism that could have led to this outcome. On January 31, 1991, however, the Senate defeated a special resolution that would have canceled the enforcement provisions of the Budget Enforcement Act for 1991 and 1992.[2] Provisions also exist to waive the act for

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1. For a discussion of the new budget process, see Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1992-1996* (January 1991), Chapter II.

2. The enforcement provisions of the act can also be suspended if a special resolution is enacted in response to a report by the Commerce Department of actual economic growth of less than one percent for two consecutive quarters. Thus, the Congress and the Administration will almost certainly have to revisit this issue in April 1991 when the Commerce Department reports on actual growth for both the fourth quarter of 1990 and the first quarter of 1991.

particular legislation, however, provided that the President designates and the Congress concurs that the legislation is directed at an "emergency."

The following section of this paper focuses on the UI program, including brief descriptions of its operation and of major issues facing it as the economy weathers the current recession. The next section considers specific options to modify the UI program by providing added benefits to workers who exhaust available aid.

Temporarily extending the duration of UI benefits could help many people but could also significantly increase expenditures. For example, providing up to 13 weeks of added benefits to all people who exhaust regular benefits during a one-year period beginning in early 1991 would cost nearly $5 billion. These outlays could be substantially reduced, however, by limiting the extension to those who exhaust their benefits in states with especially high unemployment rates or to workers with certain characteristics, such as long job tenure or low family income.

THE UNEMPLOYMENT INSURANCE PROGRAM TODAY

Originating as part of the Social Security Act of 1935, the UI program provides temporary income support and helps to stabilize the overall level of economic activity by providing weekly cash benefits to jobless workers. Program outlays increase as unemployment rises, thereby providing funds potentially to offset reductions in incomes and consumer spending that otherwise would occur. Benefits are financed through special federal and state payroll taxes on employers. In mid-January 1991, 3.1 million individuals were receiving UI benefits. They represented about 40 percent of all unemployed people and over 75 percent of the people who were unemployed because they lost their last job (rather than because they quit or because they recently entered or reentered the labor force).

Provisions of the Unemployment Insurance Program

Both federal and state laws affect how UI benefits are provided to jobless workers. The federal government finances administration of the entire UI program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on the operation of state UI programs. Within the constraints of federal law, states develop benefit and tax structures to meet the needs of workers and employers within their boundaries. The states establish eligibility requirements for UI benefits, determine the duration and amount of regular UI benefits, and specify state payroll taxes.

Two levels of UI benefits are available under current law. The first level of UI consists of regular state benefits, which provide up to 26 weeks of benefits in nearly all states. The maximum duration and the weekly amount of benefits for each worker are determined by the amounts of employment and earnings during a recent one-year base period. In fiscal year 1990, a total of more than 8 million unemployed workers received nearly $17 billion in regular benefits under state UI programs. The average weekly benefit was $154, and the average actual duration of benefits was 13.5 weeks.

The second level of UI is available when the unemployment rate in a state is high. UI recipients in that state can receive up to 13 additional weeks of benefits under the federal/state Extended Benefit (EB) program. This additional assistance, financed equally with state and federal UI tax receipts, becomes available or "triggers on" when the insured unemployment rate (IUR) in a state exceeds certain thresholds.[3] In particular, benefits are available when the 13-week average of the IUR exceeds 5 percent and is at least 120 percent of the average during the same 13-week period of the last two years or, at state option, when the average IUR exceeds 6 percent without the 120 percent factor. Of the 53 "states" in the UI program, 40 now have this optional trigger.[4]

Expenditures on EB have been low in recent years--generally less than $100 million--as a result of low overall unemployment rates, a general decline in the share of unemployed workers receiving regular UI benefits (discussed below), and changes in the EB program made in the early 1980s.[5] Only Alaska, Rhode Island, and

3. The insured unemployment rate is the number of regular Unemployment Insurance (UI) recipients relative to the number of workers in jobs covered by the UI program.

4. All 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands operate Unemployment Insurance programs under federal guidelines. In this paper, the term "state" refers to any of these jurisdictions.

5. The Omnibus Budget Reconciliation Act of 1981 made changes in the Extended Benefit (EB) program that significantly reduced the availability of those benefits. Particular changes included raising the trigger rates from 4 percent and 5 percent to 5 percent and 6 percent, respectively;

Puerto Rico provided EB in all or part of 1990. Recent levels of the IUR and the percentages relevant to the 120 percent factor are displayed in Table 1 for each state; that table also indicates the last year in which EB was available in each state.

Current Issues in Unemployment Insurance

The ability of the UI program to respond to the current recession, the reasons why a larger share of jobless workers are not now receiving regular benefits, and the desirability of augmenting the current program are the main issues now confronting the UI program.

The Financial Status of the UI Program. At the start of fiscal year 1991, state accounts in the federal Unemployment Trust Fund (UTF) totaled nearly $40 billion (see Table 2). This sum is up considerably from the end of the last recession when the net balance (in 1990 dollars) fell to -$7.5 billion at the end of 1983, as shown in Figure 1. At that time, loans to 23 states totaled over $17 billion (in 1990 dollars).

Federal accounts in the UTF also had sizable balances at the start of 1991, primarily from past collections under the federal UI tax, which exceeded outlays for EB and program administration and for loans to states. The extended benefit

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eliminating the then-existing national trigger mechanism by which EB was available in all states when the insured unemployment rate (IUR) for the nation exceeded 4.5 percent; changing the calculation of each state's IUR by not including EB recipients in the number of Unemployment Insurance recipients; and requiring recipients to have worked the equivalent of 20 weeks in the base period to be eligible.

TABLE 1. STATE INDICATORS FOR EXTENDED UNEMPLOYMENT INSURANCE BENEFITS, JANUARY 12, 1991 (In percent)

	Insured Unemployment Rate (13-week average)	Percentage of Prior Two Years	Year Last On
Alabama	2.8	119	1983
Alaska	5.9	109	1990
Arizona	1.8	120	1982
Arkansas	3.7	113	1983
California	3.5	133	1983
Colorado	1.5	94	1984
Connecticut	3.2	185	1981
Delaware	1.8	141	1982
D.C.	2.2	135	1981
Florida	1.7	161	1981
Georgia	2.1	145	1981
Hawaii	1.1	100	1981
Idaho	3.4	107	1987
Illinois	2.6	126	1983
Indiana	1.7	132	1983
Iowa	2.0	119	1983
Kansas	2.1	104	1982
Kentucky	3.0	135	1983
Louisiana	2.1	86	1987
Maine	4.2	189	1983
Maryland	2.3	156	1982
Massachusetts	3.9	150	1982
Michigan	3.6	121	1983
Minnesota	2.1	109	1983
Mississippi	3.0	111	1983
Missouri	2.9	136	1982
Montana	3.1	113	1983
Nebraska	1.2	99	1981
Nevada	2.7	145	1983
New Hampshire	2.5	233	1981
New Jersey	3.2	148	1982
New Mexico	2.0	97	1982
New York	3.1	152	1981
North Carolina	2.8	179	1983
North Dakota	1.7	89	1983
Ohio	2.6	126	1983
Oklahoma	1.7	108	1981
Oregon	3.9	134	1983
Pennsylvania	3.5	133	1983
Puerto Rico	5.6	120	1990
Rhode Island	4.7	153	1990
South Carolina	2.6	141	1983
South Dakota	0.8	85	1981
Tennessee	3.1	133	1982
Texas	1.8	102	1981
Utah	1.4	100	1983
Vermont	3.8	182	1983
Virgin Islands	0.7	25	1983
Virginia	1.5	161	1981
Washington	3.8	114	1983
West Virginia	3.2	119	1985
Wisconsin	2.7	117	1983
Wyoming	1.8	87	1987

SOURCE: Department of Labor, Unemployment Insurance Service.

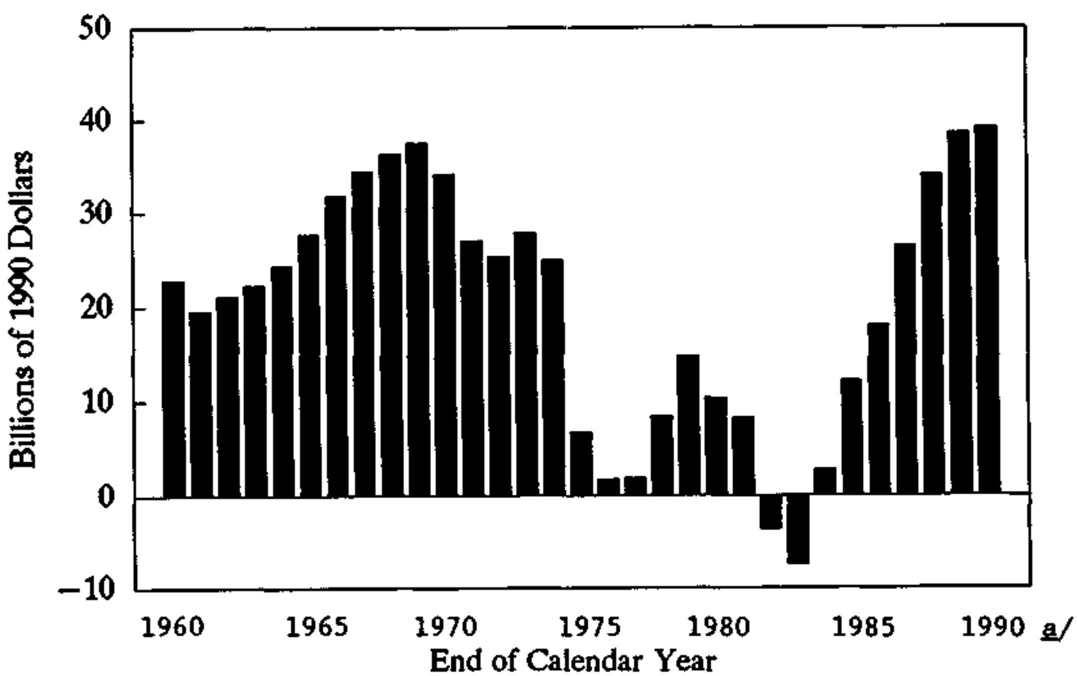
TABLE 2. FINANCIAL STATUS OF THE UNEMPLOYMENT TRUST FUND, BEGINNING OF FISCAL YEAR 1991 (In billions of dollars)

Account	Balance
States	39.1 a/
Federal	
Extended benefit	7.2
Administration	1.2
Loan	3.3

SOURCE: Congressional Budget Office, based on data from the Department of Labor.

a. Net balance. Michigan had an outstanding loan of $0.6 billion.

FIGURE 1.
Real Net Balance in State Accounts in the Unemployment Trust Fund, 1960-1990



SOURCE: Congressional Budget Office, based on Department of Labor, *Unemployment Insurance Financial Data*, and unpublished data.

a. Data for 1990 are at the end of the fiscal year.

account held \$7.2 billion, the administration account held \$1.2 billion, and the loan account held \$3.3 billion.

For 1991 and 1992, CBO projects that outlays will considerably exceed revenues for the regular UI program, thus drawing down states' balances (see Table 3). State spending for regular UI benefits is expected to be about \$23 billion in 1991 and nearly \$21 billion in 1992, while state UI revenues are expected to be \$16.1 billion and \$17.7 billion in those years. Outlays for EB are expected to be low compared with past recessions, with combined federal and state payments anticipated to total about \$300 million in 1991 and \$100 million in 1992. Federal expenditures for administration of state and federal UI activities, which is funded by the federal UI tax, are set at about \$2 billion for 1991 and are projected to be \$1.8 billion in 1992. Revenues from the federal UI tax, which is allocated among the three federal UI accounts, are expected to be about \$5.5 billion both in 1991 and 1992.

Considerable debate has focused on whether the recent buildup in state UI balances is sufficient. The underlying proposition is that the UI system should add to program reserves in good times when unemployment is low and should use those balances when the economy turns down. In 1990, the General Accounting Office determined that the level of funding was inadequate to handle a severe recession in the near future and that such a recession would result in several states having to

TABLE 3. CBO BASELINE BUDGET PROJECTIONS FOR UNEMPLOYMENT INSURANCE (By fiscal year, in billions of dollars)

	1991	1992
Outlays		
Regular benefits	23.1	20.7
Extended benefits	0.3	0.1
Administration	2.0 a/	1.8
Revenue		
State	16.1	17.7
Federal	5.4	5.5

SOURCE: Congressional Budget Office.

NOTE: Outlays for regular benefits and one-half of extended benefits are made by the states. All funds are included in the federal Unemployment Trust Fund, however, and are a part of the unified federal budget.

a. Appropriation for 1991.

borrow from the federal government to pay benefits.[6] The counterargument is that, if states collect more in tax revenues, they will be more inclined simply to spend it by providing excessively generous benefits.

While this debate is far from settled, the time for building up program reserves is clearly at a temporary end. What remains to be seen is the severity of the present economic downturn and the resulting reduction in reserves. If balances for particular states turn out to be too low, they may borrow from the federal government, increase taxes on employers, or reduce their levels of benefits. Each of these alternatives has disadvantages.

The funding level for program administration is a particular category of UI spending that has received considerable attention in recent years, especially with the recent upturn in joblessness. Some have argued that recent levels of appropriations have been inadequate for the states to administer the program properly, and that the federal government has limited these funds excessively in its efforts to reduce the federal budget deficit. This concern has been raised to a new level for 1991 because the $2 billion was appropriated before the onset of the current recession and the rise in program activity. While so-called contingency funds are part of the annual appropriation amounts, many believe the total amount available is

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6. See General Accounting Office, *Unemployment Insurance: Trust Fund Reserves Inadequate to Meet Recession Needs*, GAO/HRD-90-124 (May 1990).

considerably less than needed.[7] Indeed, the Administration has requested supplemental appropriations of $100 million for 1991 in its budget submission for 1992; others think even this amount is inadequate. The particular difficulty this year is that the new Budget Enforcement Act makes the approval of a supplemental appropriation such as this one more difficult. As a part of federal spending that is subject to the domestic discretionary cap and without the designation as an "emergency," increased spending on UI administration might have to be offset by decreased spending elsewhere.

The Share of Unemployed Workers Receiving UI Benefits. The share of unemployed receiving regular UI benefits, about 40 percent, has rebounded somewhat from its lower value in the 1980s (see Figure 2). That share averaged roughly 40 percent in the 1970s, dropped below 30 percent during several months between 1984 and 1989, and stood at nearly 37 percent in 1990.

The reasons for the decline in this share in the early 1980s are not fully understood despite a number of serious studies of the issue. A 1988 study commissioned by the Department of Labor attributed the decline to several

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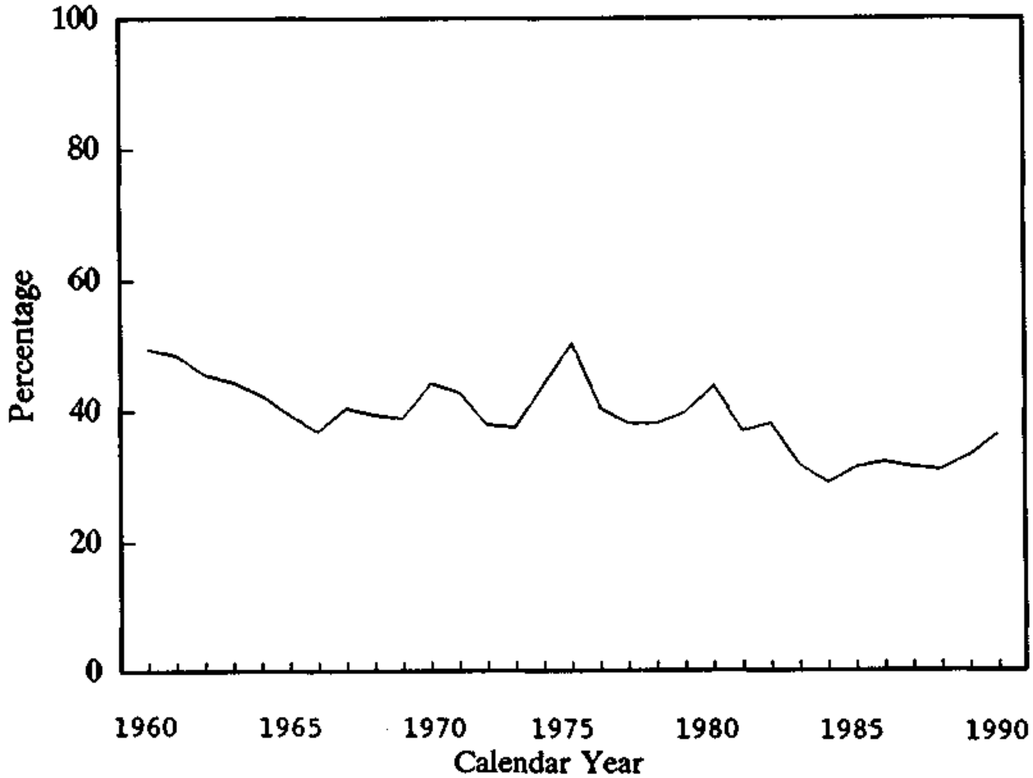
7. Contingency has a special meaning in this case. Because the actual work load in a given year is somewhat unpredictable, the Department of Labor employs a mechanism that permits funding to increase when work load rises and to decrease when it falls. The mechanism allocates funding to states in two steps--an initial or "base" level and a follow-on or "contingency" allocation. Generally, all states require contingency allocations because the process is designed to provide states with minimum funding in the base allocation. See General Accounting Office, *Unemployment Insurance: Administrative Funding is a Growing Problem for State Programs*, GAO/HRD-89-72BR (May 1989).

FIGURE 2.
Percentage of Unemployed Receiving Regular Unemployment Insurance Benefits, 1960-1990



SOURCE: Congressional Budget Office, based on data from the Department of Labor.

factors.[8] Changes in the economy was one broad category. It included a decline in employment in manufacturing and a shift in the geographic distribution of unemployment away from the Northeast. Changes in federal policies may also have accounted for some of the reduction: taxation of benefits reduced their after-tax value to jobless workers; reductions in the availability of EB gave workers an added incentive to return to work sooner (thus limiting their duration of regular UI); and the imposition in 1982 of interest charges on state UI loans raised the cost to states of borrowing to pay benefits.

Several changes in state UI laws and administrative practices apparently tightened the operation of state UI programs, also reducing the share of unemployed workers receiving UI benefits. These changes included an increase in the amount of work necessary for the unemployed to qualify for regular benefits, an increase in the number of states that completely disqualify workers who voluntarily quit their last job (rather than providing them with benefits after a longer waiting period), and several other factors.

Other studies have focused on the changing regional pattern of unemployment and the low, so-called take-up rate--the fact that many seemingly eligible jobless workers are not applying for UI benefits. On this second point, a supplement to the Current Population Survey in 1989 and early 1990 asked unemployed workers who were not receiving UI why they were not. Preliminary

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8. Walter Corson, Walter Nicholson, and Mike Dynarski, *An Examination of Declining UI Claims During the 1980s* (Princeton, New Jersey: Mathematica Policy Research, Inc., September 1988), republished as *Unemployment Insurance Occasional Paper 88-3* (Department of Labor, 1988).

analysis of those data suggests that a large share of unemployed job losers had not applied for UI.[9] The most frequent reason for not applying was that those individuals thought they were ineligible. (Whether they actually were eligible could not immediately be determined from the survey.) Two reasons that evidently were not important were that applying for UI was "too much hassle" and that UI was "too much like charity."

The reason for the recent upturn in the share of unemployed receiving UI has likewise not yet been explained. While a partial explanation is probably that a higher share of the unemployed are now job losers (who are more likely to be eligible for UI than individuals who are unemployed for other reasons), other causes are more elusive. They could include changes in the regional pattern of unemployment (back toward the Northeast) and the possibility that recent job losers expect to encounter substantial difficulty in finding new jobs and therefore are more likely to file claims.

This information can be interpreted in two ways. On the one hand, there may be little reason for concern because the share of jobless workers getting UI may rise if unemployment continues to worsen. On the other hand, even if 40 percent of the unemployed are now receiving regular UI benefits, in past recessions large numbers of additional workers received benefits through EB and federal extensions.

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9. Wayne Vroman, *The Decline in Unemployment Insurance Claims Activity in the 1980s* (Washington, D.C.: The Urban Institute, December 1990).

This may indicate the need to consider expansions of UI benefits. The next section considers specific options to do so, should the Congress wish to pursue them.

OPTIONS TO PROVIDE ADDITIONAL UNEMPLOYMENT INSURANCE BENEFITS

Legislation could be enacted that would temporarily extend the maximum duration of UI benefits. Doing so would deepen the protection available to regular UI recipients, rather than broaden coverage to help others who do not now qualify for regular benefits. The latter problem does not appear amenable to short-term federal legislation because eligibility criteria are defined primarily in state laws. Indeed, even in the longer term, significantly expanding the availability of UI to workers who do not now receive benefits would not be easy.[10]

In previous recessions, a third level of UI benefits was established. These benefits provided temporary, federally financed assistance for those exhausting regular UI benefits and, if available, extended benefits. Spending for this aid--most recently termed Federal Supplemental Compensation (FSC)--was considerable. During the 1975-1978 period, when the total maximum duration of benefits under all three tiers of UI reached 65 weeks (including 26 weeks of regular, 13 weeks of

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10. As an insurance program, eligibility is tied to prior employment, and states determine the minimum amount needed. Thus, to force an expansion in the number of recipients could require a federal minimum standard on states. This standard could mandate that states provide a nonnegligible amount of benefits to all workers who had worked some relatively low amount during the base period. Benefits now are tied to the amount of recent work experience, however, so it is not clear how an expansion would be accomplished without increasing benefits for currently eligible people as well.

EB, and 26 weeks of supplemental benefits), spending totaled $13 billion in 1990 dollars. In the 1982-1985 period, when the maximum duration was as much as 55 weeks in the states with the highest jobless rates, spending was more than $12 billion (in 1990 dollars).

If the maximum duration of UI benefits were to be expanded, several decisions would be necessary. What conditions would trigger the extension of aid, and under what terms would additional benefits be offered to individual workers? The remainder of this section mainly addresses the first question, assuming that all persons who exhausted their eligibility for regular benefits would be eligible for the new benefits if their jurisdiction triggered on. Strategies for restricting eligibility to groups of workers in particular need are briefly discussed at the end, although such restrictions would be difficult to impose quickly.

Several arguments in favor of and against expanding the maximum duration of benefits apply to all of the specific options analyzed below. Extending UI aid would help program recipients who would otherwise run out of benefits. The assistance could be targeted to recipients in places in which the difficulty of finding jobs is greatest, as indicated by relatively high unemployment rates. Extending benefits now would be timely because the number of UI recipients who use all available regular benefits increases substantially during recessions.

Opponents of expansion point out that the availability of additional UI benefits would discourage recipients from searching for work and, thus, they might remain unemployed and collect benefits longer.[11] The basic reason for this disincentive to search for a job is that UI benefits reduce the cost of being unemployed. Moreover, the additional benefits would go to people who had already received up to 26 weeks of UI benefits and would not necessarily be those most in need of assistance. Furthermore, unless the rules in the Budget Enforcement Act were waived, any net expansion in the UI program would have to be offset by increases in revenues or cuts in other entitlement programs.

Options for Triggering Additional Benefits

This section illustrates several options for extending the maximum duration of UI benefits, including the advantages and disadvantages specific to them, the number of people who would receive additional benefits, and their costs. The options range in coverage from extending benefits to all workers who exhaust their regular UI entitlement (but remain eligible under other criteria) to much more limited options that would provide benefit extensions only in jurisdictions with relatively weak labor markets.

Each option would provide up to 13 weeks of federally financed UI benefits to every worker who exhausted regular benefits in the states or areas triggered on. The program would take effect in April 1991 and would expire one year later. For

11. For a recent analysis of this issue, see Lawrence F. Katz and Bruce D. Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment," *Journal of Public Economics*, vol. 41 (February 1990), pp. 45-72.

simplicity, it is assumed that each option would replace the current EB program. (Recipients who exhausted regular benefits in the first three months of 1991 and who still met the eligibility criteria when the program takes effect could also be made eligible, increasing the estimated costs presented below by about one-fifth.)[12] The duration of the benefits, the eligibility criteria, and the effective dates, however, are issues that would need to be resolved.

Extending Benefits for All Who Exhaust UI Benefits. Temporarily extending the maximum duration of UI benefits for all regular UI recipients is the most costly approach of those considered here. Unemployed workers who exhaust regular benefits during the one-year period beginning in April 1991 would be eligible for up to 13 weeks of additional benefits (less if their potential duration of regular benefits were less than 26 weeks). Roughly 2.6 million workers would receive extended UI benefits under this option, at a net cost to the federal government of about $4.8 billion (as shown in Table 4).

A major advantage of this option is that it would quickly and directly provide temporary income support to a large number of long-term unemployed workers in a period when jobs are harder to find than they have been in recent years. A major disadvantage is that many of the recipients would be in labor markets that are not expected to be particularly affected by the recession.

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12. The provision of benefits to people who exhausted their entitlements before the legislation was enacted could generally follow the provisions of the Federal Supplemental Compensation (FSC) program. As enacted in September 1982, FSC was payable to eligible workers whose entitlement to regular Unemployment Insurance or Extended Benefits (EB) ended on or after June 1, 1982.

TABLE 4. ILLUSTRATIVE OPTIONS FOR TEMPORARILY EXTENDING THE MAXIMUM DURATION OF UNEMPLOYMENT INSURANCE BENEFITS BY 13 WEEKS

Option	Estimated Benefits (Millions of dollars) a/	Estimated Recipients (Thousands)
Extend duration for all who exhaust regular benefits	4,800	2,600
Lower the IUR triggers for EB by one percentage point	600	300
Provide additional benefits in states with a TUR of at least 8 percent	500	300
Provide additional benefits in states with a TUR of at least 7 percent	1,550	850
Provide additional benefits in states with either the lower IUR or the 8 percent TUR	1,050	600

SOURCE: Congressional Budget Office.

NOTES: Each option would provide up to 13 weeks of federally financed Unemployment Insurance benefits for all workers who exhausted regular benefits in the jurisdictions triggered on and who continued to satisfy the other eligibility criteria. The additional benefits are assumed available to workers who exhaust regular benefits during a one-year period beginning in April 1991 and for simplicity are assumed to substitute for the current Extended Benefits (EB) program. Administrative costs are not included in these estimates.

See text for discussion of approaches that would reduce the costs of each option by reducing the number of workers in each jurisdiction who would be eligible.

IUR = insured unemployment rate; EB = Extended Benefits; TUR = total unemployment rate.

a. These costs are in addition to the estimated $200 million in outlays for EB under current law during the one-year period beginning in April 1991.

A recent study of long-term UI recipients in the mid-1980s who were not working three months after their UI benefits ended provides an indication of who the likely beneficiaries of such an extension would be (see Table 5).[15] They were more likely than workers in general to be married women, were somewhat older, were less likely to be white, and had fewer years of schooling. On average, their family income three months later was about 20 percent below its level while they were receiving UI benefits and 35 percent below its level while they were working. Their major source of income after their UI benefits ended was the earnings from jobs held by other members of their families, which accounted for over two-thirds of the average family income of these former UI recipients. Former recipients in families with no workers incurred especially large losses--an average loss of about 50 percent compared with their family incomes while they were receiving UI benefits.

These results were based on information about UI recipients during a nonrecessionary period. Both the types of UI recipients who exhausted their benefits and their economic condition could be quite different in the current recession. For example, a larger percentage of UI recipients now might be the sole earners in their families.

Lowering the IUR Triggers. A much narrower approach is to reduce temporarily the state triggers by one percentage point (that is, to 4 percent if the IUR exceeded

15. See Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits* (February 1990), pp. 33-43.

TABLE 5. CHARACTERISTICS OF JOBLESS FORMER LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE IN 1984 AND 1985 COMPARED WITH EMPLOYED PEOPLE IN 1985 (In percent)

Characteristic	Former Recipients a/	Employed People b/
Family Status		
Married man	34	35
Married woman	34	24
Other	32	41
Age		
Under 25	12	19
25 to 54	68	68
55 and over	20	13
Sex		
Male	53	56
Female	47	44
Race		
White	79	87
Black and other	21	13
Years of Education		
Less than 12	32	15
12	43	40
More than 12	25	45

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation and the Current Population Survey.

a. These former long-term recipients are those who were not working three months after their Unemployment Insurance benefits stopped.

b. Characteristics other than years of education are for all civilian workers ages 16 and over in 1985. The years of education are for workers ages 25 to 64 in March 1985.

120 percent of the average of the last two years and 5 percent without the 120 percent factor). This approach would enable those who exhaust their UI benefits to qualify for additional benefits in more states than under current law. Under this option, about 300,000 workers would receive additional benefits at an estimated net cost to the federal government of $600 million.[14]

This approach would provide the greatest degree of protection to UI recipients in states with the highest IURs. One criticism of this approach is that the state IUR can be an inadequate measure of the tightness of the labor market so those in the slackest labor markets would not necessarily be aided. (Subsequent options address this criticism.)

A variant of this option is to enact legislation similar to the FSC program. Unemployed persons who exhausted their UI benefits would be eligible for additional benefits for a number of weeks that would depend on the level of the state's IUR.[15] This approach could better concentrate the benefits on those who exhausted their benefits in states with the highest IURs, although it would increase the complexity of the program.

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14. Recipients of unemployment insurance who exhausted regular benefits in jurisdictions with relatively weak labor markets could differ from those in other jurisdictions. Information is not available at this time to examine these differences.

15. For example, at one point the Federal Supplemental Compensation (FSC) program provided a maximum of between 8 and 14 weeks of additional benefits, depending on the state's insured unemployment rate (IUR). The IUR trigger was 4 percent for 10 weeks of benefits, 5 percent for 12 weeks, and 6 percent for 14 weeks, with those who exhausted their benefits in all other states eligible for a maximum of 8 weeks of FSC benefits.

Enacting a Total Unemployment Rate Trigger. Another approach is to enact legislation that would trigger additional benefits based on a state's total unemployment rate (TUR)--the number of unemployed in a state as a percentage of its labor force--or on a combination of the state's TUR and its IUR. A bill reported out of the Ways and Means Subcommittee on Human Resources last year, for example, added a TUR trigger of 8 percent.[16] Using an 8 percent TUR trigger, instead of one based on the IUR, for the one-year period beginning in April would provide nearly 300,000 workers with additional benefits compared with current law, at a net cost of over $500 million. Using a 7 percent TUR trigger would considerably expand the number of those who both exhausted their benefits and would be eligible and, hence, the cost of the program. About 850,000 workers would receive the benefits, at a cost of about $1.55 billion.

Although the estimated cost of a TUR trigger of 8 percent is similar to that of lowering the IUR triggers by one percentage point, the distribution of states in which benefits would be available is likely to be quite different. The reason is that states with high TURs do not necessarily have high IURs, as shown in Figure 3.

Especially with IURs now relatively low, some argue that the total unemployment rate is a better indicator of the slackness of the labor market than is the IUR. Indeed, while the IUR is an indicator of program activity, the TUR provides a measure of the difficulty a typical unemployed worker faces in finding a

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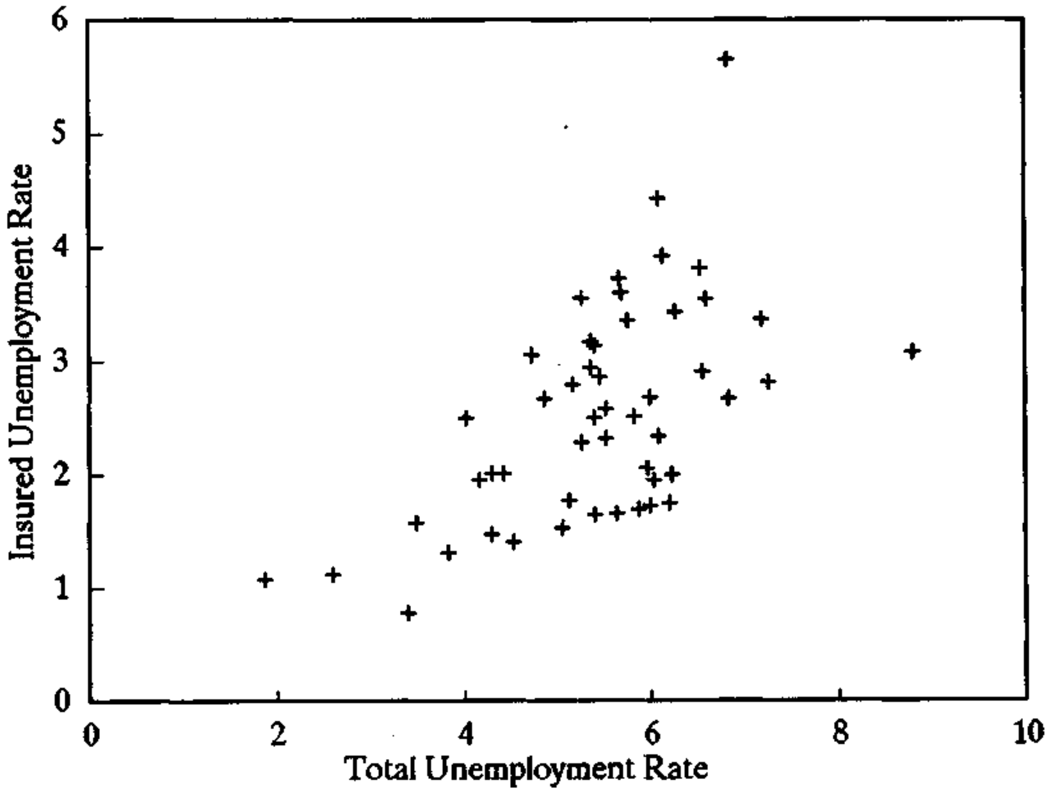
16. The Unemployment Compensation Reform Act of 1990 (HR 3896) was reported to the full Committee on March 13, 1990.

FIGURE 3.
Distribution of Insured and Total Unemployment Rates of States, October 1990-December 1990 (In percent)



SOURCE: Congressional Budget Office, based on data from the Department of Labor.

NOTES: The insured unemployment rate is for the 13-week period ending January 5, 1991.

Does not include the District of Columbia, Puerto Rico, and the Virgin Islands.

job. By including new entrants and reentrants to the labor market, however, the TUR includes many young and inexperienced workers who do not directly compete for jobs with more experienced UI recipients. Moreover, the TURs are based on estimating techniques that are likely to be subject to more error than the corresponding IURs.[17]

Basing the Trigger on the IUR or the TUR. Because high insured unemployment rates and high total unemployment rates each indicate conditions in a state that might warrant extending the duration of benefits, another option is to trigger benefit extensions on the basis of either of these conditions.[18] Because there is now little overlap between the two groups who would receive additional benefits, the costs would total $1.05 billion, or nearly the sum of the costs of the two separate options.

Adding a Substate Trigger. A further option is to add a substate trigger, so that persons in high-unemployment areas within a state could receive additional benefits even if the state as a whole did not trigger on. For example, the subcommittee's bill last year would have permitted a governor to declare a substate area eligible for added benefits if the TUR in the area were at least 8 percent.

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17. Monthly estimates for the 11 largest states are based on the Current Population Survey (CPS), which is the basis for the national total unemployment rate (TUR) estimates as well. Because of small sample sizes, the monthly estimates for the remaining states and for the District of Columbia are based on sets of equations rather than the direct CPS estimates. These equations are used to estimate a state's TUR based on several different sources of data, including unemployment insurance claims.

18. In fact, the subcommittee's bill last year would have lowered the insured unemployment rate triggers to 4 percent and 5 percent, as well as adding a total unemployment rate trigger of 8 percent.

Because labor market areas often do not conform to state boundaries, some analysts have long advocated the use of substate triggers for enacting UI benefit extensions. The main difficulty in implementing them is the lack of accurate and timely data on local unemployment and the lack of clear definitions of local labor market areas.[19] (The cost of this option was not estimated because of these data limitations.)

Options for Restricting Eligibility for Benefit Extensions

Limiting eligibility for the additional benefits could reduce the cost of implementing each of the preceding options. Rather than provide additional benefits to all who exhausted their regular benefits in jurisdictions that would trigger on, eligibility could be limited to a subset. The general advantage of doing so is to target the benefits better. The general disadvantage of doing so is that a jurisdiction would treat some recipients differently from others, possibly causing administrative difficulties and perceptions of unfairness.

Three options for limiting eligibility illustrate the general approach. First, pay the additional benefits to only those who exhausted regular UI benefits and who had the lowest family incomes (or lowest incomes and fewest assets). In the mid-

19. For additional information about the feasibility of substate triggers, see John Czajka, Sharon Long, and Walter Nicholson, *An Evaluation of the Feasibility of a Substate Area Extended Benefit Program: Final Report* (Princeton, N.J.: Mathematica Policy Research, July 1989), republished as *Unemployment Insurance Occasional Paper 89-5* (Department of Labor, 1989).

1980s, almost one-third of those who exhausted their UI benefits and who had not found new jobs had monthly incomes below the poverty threshold, although that percentage might be higher in a recession.[20] Restricting eligibility to those who exhausted their benefits and who had low incomes would more efficiently target the benefit extension. This option is a fundamental departure, however, from the original design and subsequent operation of the UI program. Moreover, it would probably be difficult for UI offices to carry out quickly, especially during a period in which many UI offices were already faced with large caseloads.

Second, pay additional benefits to only those who had an especially strong attachment to their previous jobs, as indicated by long job tenures. A recent study found that about 40 percent of those who exhausted their UI benefits had worked for their last employers for at least three years.[21] Workers with relatively long tenures--if they are not recalled by their employers--generally take longer to find new jobs than workers with shorter tenures. Moreover, some argue that workers with long service have, in effect, "paid their dues" and deserve additional benefits. Because this group is likely to have higher incomes and assets than those with shorter tenures, however, this option would not target additional benefits to those with the least means of support.

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20. Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits* (February 1990).

21. Walter Corson and Mark Dynarski, *A Study of Unemployment Insurance Recipients and Exhaustees: Findings from a National Survey* (Princeton, N.J.: Mathematica Policy Research, September 1990), republished as *Unemployment Insurance Occasional Paper 90-3* (Department of Labor, 1990).

Third, tie eligibility to participation in some other activity, such as enrollment in a job club or other program that assisted participants in finding new jobs faster. Recent evidence of the effectiveness of such assistance in shortening the duration of participants' receipt of UI benefits is strong, although the assistance was not provided during a recession.[22] Launching effective programs would require some time, however, and doing so would add significantly to the administrative costs of the UI program.

22. An experiment conducted in New Jersey in 1986 and 1987, for example, required unemployment insurance (UI) recipients who had worked for their previous employer for at least three years and who did not have a specific recall date to participate in a job search assistance program. Evaluators recently estimated that the recipients' average duration of compensated unemployment was reduced by three-quarters of a week during the four-year period following their initial claim. The average cost of the program was similar to its estimated savings in UI payments (about $150). See Walter Corson and others, *The New Jersey Unemployment Insurance Reemployment Demonstration Project: Final Evaluation Report* (Princeton, N.J.: Mathematica Policy Research, April 1989), and their "Follow-Up Report" (October 1990 Draft).

APPENDIX

RESPONSIVENESS OF THE FEDERAL BUDGET TO ECONOMIC DOWNTURNS

The recession and accompanying increase in unemployment will automatically increase government spending and reduce tax revenues. While increased spending will lessen the adverse consequences of the economic downturn for some people, added spending and reduced tax revenues will also worsen the already-high federal budget deficit.

The Congressional Budget Office (CBO) expects the current recession to be relatively short.[1] CBO anticipates only two quarters of negative economic growth followed by a period of moderate economic expansion that will begin before mid-1991. The civilian unemployment rate, which averaged 5.5 percent in 1990, is expected to rise to an average of 6.8 percent in 1991 before declining to 6.4 percent in 1992 and to 5.6 percent by 1996. An average of 8.5 million people are expected to be unemployed during 1991, up nearly 25 percent from 1990.

Cyclical turning points and the depth of recessions, however, are notoriously difficult to forecast. With the data regarding the onset of the recession still in preliminary form, the recession could turn out to be more severe than expected.

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1. For more information on the Congressional Budget Office's economic and budgetary forecast, see CBO, *The Economic and Budget Outlook: Fiscal Years 1992-1996* (January 1991).

The pervasiveness of problems in the financial sector is not yet clear, which also obscures the economic outlook.

Given this uncertainty, CBO also examined the effects on the federal budget of a one-percentage-point increase in the unemployment rate beginning in January 1991. Rather than occurring in isolation, this rise in joblessness is assumed to result from an overall decline in real economic growth compared with CBO's baseline projection. Thus, rather than just registering the effect of an added 1.3 million unemployed workers, this scenario assumes a more widespread economic decline, which results in reduced employment and lower incomes for many workers who remain employed as well as decreased sales and profits in the corporate sector.

Overall, lower economic growth sufficient to raise the unemployment rate by one percentage point increases the deficit by over $30 billion in the first fiscal year, although the higher jobless rate is assumed to occur for only three quarters of that year (see Table A-1). In the second year (the first full year of the assumed increase), the increase is about $50 billion.

Decreases in federal revenue account for the bulk of the increase in the deficit, especially in the early part of the projection period. Lower individual and corporate income tax receipts as well as a decline in contributions for social insurance (such as Social Security and Unemployment Insurance) result from the lower overall level of economic activity and the consequent decreases in incomes, profits, and wages.

TABLE A-1. EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF A ONE-PERCENTAGE-POINT HIGHER UNEMPLOYMENT RATE, BEGINNING IN JANUARY 1991 (By fiscal year, in billions of dollars)

Change	1991	1992	1993	1994	1995	1996
Revenues a/	-28	-42	-43	-44	-46	-47
Individual	-17	-26	-28	-30	-32	-35
Corporate	-1	-3	-3	-3	-3	-3
Social insurance	-9	-12	-12	-10	-9	-8
Outlays	5	8	12	16	21	25
Unemployment Insurance	3	2	2	2	2	2
Means-tested benefits b/	c/	1	2	2	2	2
Debt service	1	4	8	12	17	21
Deficit	33	49	55	61	66	73

SOURCE: Congressional Budget Office.

NOTE: Details may not add to totals because of rounding.

a. Total includes other items not separately identified.

b. Includes increased outlays for the Earned Income Tax Credit.

c. Less than $500 million.

A relatively small share of the increase in the budget deficit is attributed to automatic increases in spending. Increased outlays for UI account for the largest portion of the automatic rise in program-related spending at about $3 billion in the first year and $2 billion in the second and future years. The larger first-year impact is attributed to an increased share of the unemployed who are assumed to have lost their jobs during the initial rise in unemployment, rather than being unemployed for other reasons. Increases in outlays for means-tested benefit programs (including Food Stamps, Medicaid, and Aid to Families with Dependent Children) and for the Earned Income Tax Credit account for the remainder of the rise in automatic program-related spending. Finally, increased interest payments necessary to finance the higher deficit also add to federal costs. This added spending is estimated to increase by 1996 from less than $1 billion in the first year to about $21 billion--or almost one-third of the annual increase in the deficit.