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EXTENDED UNEMPLOYMENT INSURANCE BENEFITS: BRIDGE OR DEAD-END?

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Two principal factors are at issue in the current public discourse regarding federal extended unemployment insurance benefits: the need of the unemployed and the ability to pay benefits. Democrats lean heavily on the first factor arguing that in addition to helping the long-term unemployed, extended benefits stimulate the economy through the monies spent by benefit recipients. Republicans rest their case on the second insisting that additional expenditures on extended benefits (EB) must be “paid for,” must be matched by equivalent budget cuts in discretionary spending. If they are held rigidly by both parties, those two stances result in gridlock in Washington.

How to get around gridlock without doing more harm than good? Based on both the first and second factors, EB should be restricted to jobless workers in those states with serious unemployment problems. States where the jobless rate is *below* some acceptable rate ought to be excluded. Using the latest state jobless numbers and taking four percent as acceptable, North Dakota, South Dakota, and Nebraska would be excluded. If five percent is acceptable, six more states would be excluded: Utah, Hawaii, Iowa, Vermont, Wyoming, and Minnesota. If six percent is acceptable, five other states would be excluded: Kansas, New Hampshire, Montana, Oklahoma, and Virginia. The state-level data to implement this change and avoid gridlock are readily available.

A second way to avoid gridlock is to insist that states offering EB ought to aggressively engage in placing EB beneficiaries in jobs. A workable norm in this regard affirms that most EB beneficiaries should be able to find work before they exhaust their benefits. Taking 50 percent as a workable criterion, a state would have to find work for at least 50 percent of its beneficiaries before they exhaust their benefits. States that comply with that norm would continue to receive EB. Those that do not would be cut back or excluded entirely. Finding work includes relocating to another state where jobs are available, and participating in a training program. Without this work requirement, states have little incentive to engage aggressively with EB beneficiaries because the monies come from the federal government and do not have to be repaid.

A third way to break the Washington gridlock is to restrict EB to those beneficiaries whose need is greater, to those who have dependents. A fourth way would require state matching

funds for EB that would help restrict the current perverse incentive for states to accept EB because the money is “free.”

Unemployment insurance is *insurance* whenever there is a connection between the duration of benefits and recent work history. The stronger the work history, the longer the duration of benefits. It transforms into *assistance* when that connection is broken. EB can have the effect of breaking that connection, thereby reducing beneficiaries to the status of relief recipients. Historically, the breaking point occurs around 26 weeks which is the usual limit set by most regular state programs. After World War II Congress extended benefits to servicemen for 52 weeks for a period of two years following their discharge from the armed services. Based on that experience Congress came to the conclusion that 52 weeks was too long. EB reverses that decision.

Regular state unemployment insurance confers a property right because employers pay taxes into an earmarked fund in the names of their covered employees. Unemployment assistance confers no such property right and sets up no such earmarked fund. The right involved is a legal right that depends on action taken by the legislature. Even though it is called unemployment insurance EB at times is really a form of welfare assistance.

A regular state unemployment insurance program operates primarily on the taxes paid by employers who have a strong and obvious interest in limiting benefit duration and weekly benefit amount. There is no such limit associated with EB. When the monies are not “paid for,” they increase the federal deficit and require additional borrowing. Even when they are “paid for,” the federal government uses either general tax revenues or borrowings to pay for EB. There is no effective limit on EB other than the willingness of federal legislators to say “no” to a popular program. And when they say “no” they put their own political futures at risk.

EB has a positive outcome when the unemployed find work before they exhaust their benefits. The program operates like a bridge helping the unemployed find their way back to the workplace. EB has a negative outcome when recipients are still without jobs when their benefits are exhausted. Then the program functions like a dead-end street leading nowhere. Before Washington legislators act on further extending benefits for the long-term unemployed they need to find out what happens to those who have been getting EB. Do they find work or are they reduced to relief recipients? Bridge or dead-end?

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