PERSONALLY SPEAKING

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MORE AT STAKE IN EXTENDING UNEMPLOYMENT BENEFITS THAN THE NEED OF THE UNEMPLOYED

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The current public discourse in the United States on temporarily extending unemployment insurance benefits to 99 weeks is based on two principal considerations: the need of the unemployed and the requirement that any increase in federal spending must be balanced by an equivalent decrease elsewhere in the budget on the expenditure side or by an increase on the revenue side. The need of the unemployed is an *actuating* consideration that supports the extension. The PAYGO requirement is a *limiting* consideration that recommends fiscal discipline in any decision regarding the extension.

In the following we address the need of the unemployed using data from the operations of state unemployment insurance programs. We do not address the PAYGO requirement for which there is only one data point – the $34 billion dollars estimated cost of the extension. Beyond that, the matter rests on the judgment of each member of Congress as to whether the PAYGO requirement has been met.

The need of the unemployed is best demonstrated by state UI program data on benefit duration, weekly benefit amount, and the exhaustion rate. For calendar year 2007 which marks the 12-month period just prior to the onset of the current economic slump, duration was 15.2 weeks, weekly benefit amount was $287.73, and the exhaustion rate was 35.6 percent. For the 12-month period ending June 30, 2010, duration was 20.0 weeks, weekly benefit amount was $307.43, and the exhaustion rate was 53.81 percent. On an annual basis the current weekly benefit amounts to $15,986 which is less than the current poverty threshold of $17,330 for a family of three with one child and even further below the $21,834 threshold for a family of four with two children. These data provide strong support for extending benefit duration.

There are, however, three other considerations that should enter this discourse but apparently are not in play. They are the possibility that the extension has a negative effective on the intensity of job search thereby actually contributing to a higher rate of unemployment, the extent of fraudulent payments, and the insurance character of the program. All three function as *limiting* considerations.

A July 2010 report of the Joint Economic Committee of the U.S. Congress asserts that "the best evidence suggests that during this current economic downturn both the unemployment rate and duration of benefits were *minimally impacted* by unemployment insurance benefits

and the extension of benefits" (emphasis added). Mayo Research Institute is not surprised by that finding. UI is designed to provide enough benefits to keep a jobless person from taking a job at a compensation level below that worker's customary pay. Notice in this regard that the current weekly benefit amount of $307.43 is greater than the $290.00 earnings from a 40 hours-per-week job at the federal minimum wage.

The latest data from the U.S. Department of Labor indicate that state UI fraud payments nationwide average 2.81 percent. Applying that rate to the $34 billion extension results in fraud payments of approximately $955 million. This is over and above the estimate of $1.976 billion in fraudulent payments made by Mayo Research Institute by applying the same fraud rate to the total of $70.330 billion actually paid in regular state UI benefits over the 12-month period ending June 30, 2010.

The insurance character of the program refers to the linkage between work experience and benefits paid. If we think of UI as bridging the gap between jobs, extending benefits increases the span of joblessness covered by the program. Just as a bridge that spans a creek or small river is structurally different than one that spans a bay, extending benefits from 20 weeks to 99 weeks affects the very structure of the UI program.

By setting benefit duration at 99 weeks, UI is becoming less and less an *insurance* program and more and more a *relief* program. Less and less financed by employer contributions into a designated fund at the state level and more and more from general tax revenues at the federal level. More and more a one-size fits all federal program that glosses over the differences in the economies of states like Nebraska and Michigan, Texas and California, Vermont and Illinois. Finally, if PAYGO is not fully implemented and the extension adds to the federal budget deficit, more and more of the extended benefits will be paid by future generations of taxpayers.

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