Joint Economic Committee Democrats

Representative Pete Stark (D-CA) – Senior Democrat

Economic Policy Brief — September 2004

Job Loss in the 2001 Recession Was Greater Than it Was in the Previous Recession but Federal Unemployment Insurance Was Less Generous

Introduction and Summary

In economic downturns, the federal government has traditionally supplemented regular state unemployment insurance (UI) with additional benefits. Each of the last two recessions was followed by a persistent jobs slump of unprecedented duration in the post-WWII era. The additional benefits unemployed workers received during those difficult economic times were vital in helping them make ends meet in an economy with too few jobs.[1]

There is considerable evidence that the ongoing jobs slump following the 2001 recession is worse than that following the 1990-91 recession. However, the recent temporary federal UI program was both shorter in duration and less generous in the number of additional weeks of UI benefits provided to workers who had lost their jobs than the previous program.

While there are many forces beyond Presidential leadership that affect the performance of the economy, this administration did control the generosity of the federal UI program. Despite President Bush's rhetoric of compassionate conservatism, his administration was considerably less compassionate than his father's was towards unemployed workers and their families.

Job Loss Following Start of 2001 Recession Was Longer and Deeper

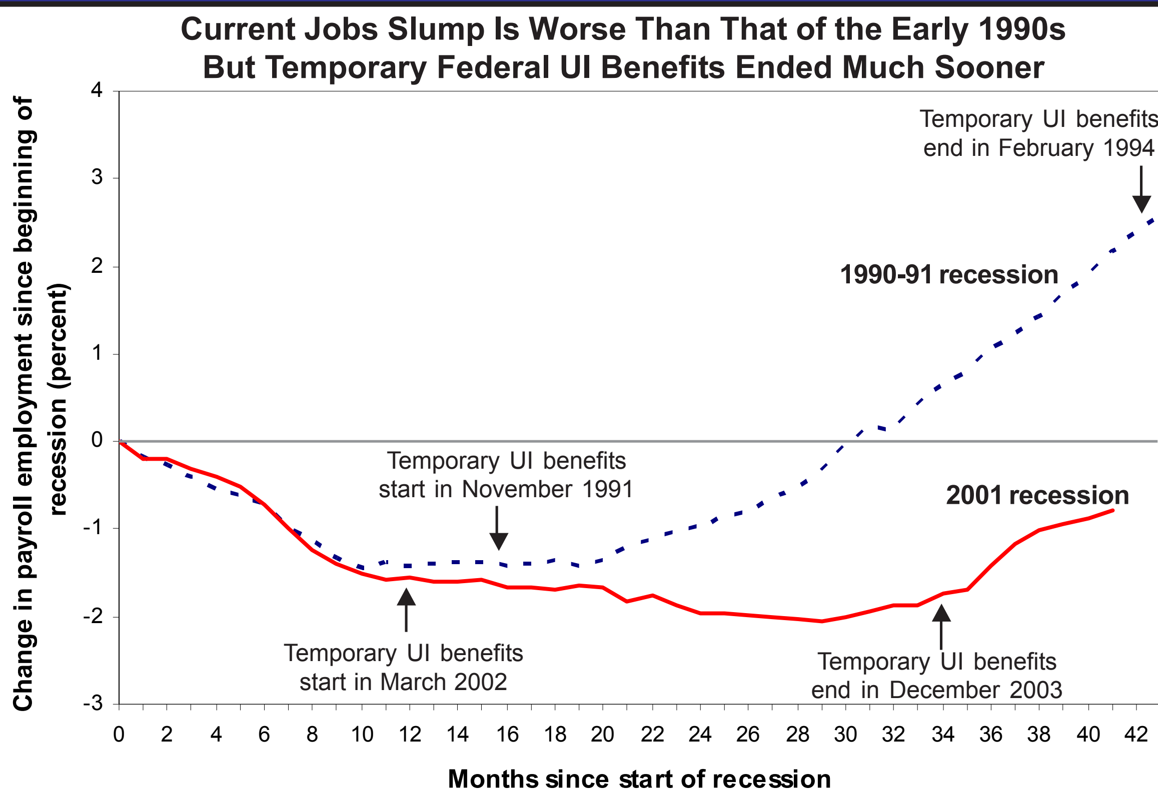
The 2001 recession was followed by the most persistent jobs slump in more than fifty years. That dubious honor was previously held by the jobs slump following the 1990-91 recession, when it took 31 months to recover the jobs lost in the recession. This contrasts with an average of just 21 months in all other post-WWII business cycles. Today, 41 months after the start of the 2001 recession, the economy still has not recovered all the jobs lost.[2]

The current employment slump is not only much longer but also much deeper than its predecessor. At its peak, the jobs gap following the 2001 recession reached 2.7 million jobs. That compares with a peak loss of just 1.5 million jobs following the 1990-91 recession. Moreover, the maximum percentage of jobs lost following the 2001 recession was 2.1 percent, compared with a maximum of just 1.4 percent following the 1990-91 recession. See **Chart 1**.

The length and depth of the current jobs slump is particularly striking when one considers that it took *29 months* from the start of the 2001 recession before job losses peaked. In comparison, the percentage of jobs lost following the 1990-91 recession reached a maximum just 10 months after the start of the recession.

The number of long-term unemployed, those without a job for six months or more and precisely the population helped by the federal extended UI programs, tripled following each of the last two recessions. However, the plight of the long-term unemployed was extraordinarily harsh following the 2001 recession, when the average duration of

Chart 1



Source: Bureau of Labor Statistics, U.S. Department of Labor; Congressional Research Service.

unemployment reached its highest level in more than two decades. Furthermore, the fraction of the unemployed who were out of a job for more than six months has remained above 20 percent for 23 consecutive months, the longest such streak on record with data going back to the 1940s. In the early 1990s, the corresponding streak lasted for only 11 months.

Recent Federal UI Program Was Less Generous

Fewer Additional Weeks Provided

Despite a more prolonged jobs slump, the most recent temporary UI program was not only shorter in duration but also much less generous than the program enacted as a result of the 1990-91 recession. The recent program offered only 13 weeks of additional benefits to typical workers and paid out approximately $23 billion in benefits. The earlier program offered 20 or 26 weeks of additional benefits for the first two years of the program and paid out about $37 billion in benefits, adjusting for the size of the labor force and wages. Thus, during a longer and deeper period of joblessness, the current Administration offered unemployed workers a program with significantly less generous benefits than those of the 1991-94 temporary federal UI program. **Table 1** compares the generosity of the programs and the employment situation when the programs ended.[3]

Program Ended Much Sooner

The temporary federal unemployment insurance program of the early 1990s did not end until 2.9 million jobs had been created. The most recent program, however, was brought to an end while there were still 2.5 million fewer jobs than there were when the recession began. The temporary federal UI program should have lasted at least until the number of jobs in the economy was fully restored.

Table 1

Comparing Federal Extended Unemployment Insurance Programs Following the Last Two Recessions

	EUC (1991-94)	TEUC (2002-03)
Duration	27 months	22 months
Typical level of benefits	26, 20 weeks	13 weeks
Cost	$37 billion	$23 billion
Change from recession start to program end		
Payroll jobs (in millions)	2.9	-2.5
Unemployment rate	1.1	1.4
Percent Increase in Regular UI exhaustions	48%	106%

Notes: The Emergency Unemployment Compensation (EUC) program was in effect and accepting new entrants from November 1991 through February 1994. The Temporary Extended Unemployment Compensation (TEUC) program was in effect and accepting new entrants from March 2002 through December 2003. The program durations are defined as the period of time during which new entrants were accepted; those already receiving benefits were allowed to receive their full allotment even after the programs ended. The typical level of benefits during EUC was 26 weeks from November 1991 to June 1992, 20 weeks from June 1992 to September 1993, 10 weeks from September 1993 to October 1993 and 7 weeks from October 1993 to February 1994. EUC cost adjusted for labor force size and real wages.

Sources: Bureau of Labor Statistics and Employment and Training Administration, U.S. Department of Labor.

The 1991-94 temporary UI program lasted 27 months and continued for 11 months after the jobs deficit was erased. In comparison, the recent program lasted only 22 months, and the percentage of jobs lost since the beginning of the recession was still 1.8 percent when the program ended in December 2003. This jobs deficit was still higher than the peak of 1.4 percent reached in the 1990-91 recession. (**Chart 1**)

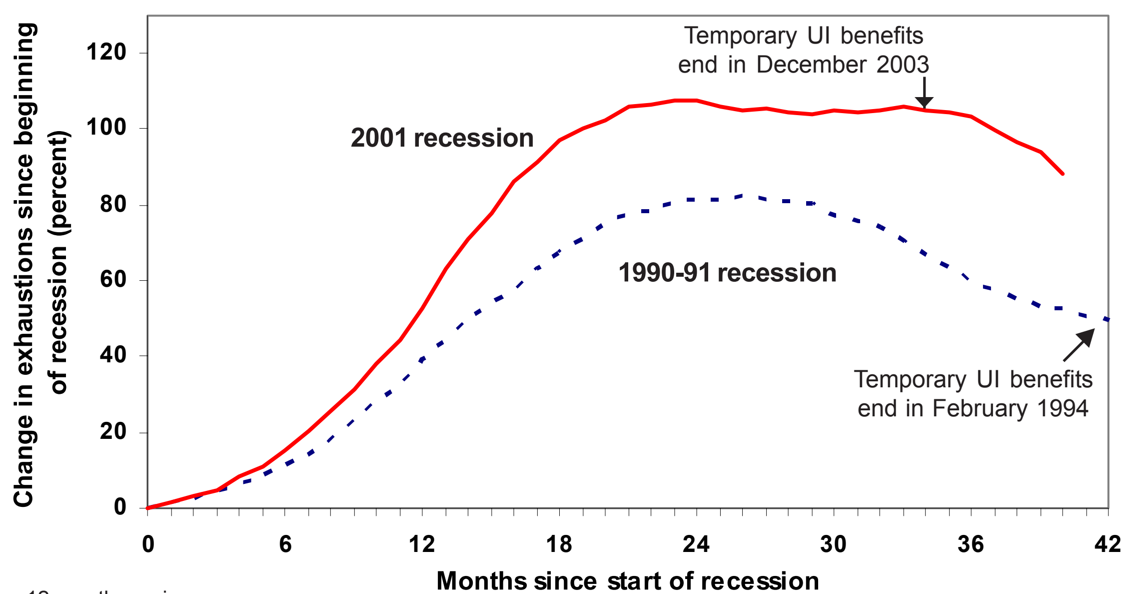
Record Number Exhausting Benefits Without Qualifying for Additional Assistance

Another excellent economic indicator for judging when an extended UI program should end is the number of long-term unemployed who exhaust their regular state unemployment benefits, which typically last 26 weeks. When the temporary UI program ended after the 1990-91 recession, exhaustion levels were 50 percent higher than at the start of the recession. When the recent program expired, exhaustion levels remained over 100 percent higher than when the 2001 recession began (**Chart 2**). This statistic should have served as a key indicator to Administration officials that workers are exhausting their benefits at a faster rate than they are able to obtain employment. During the first seven

Chart 2

Temporary Federal UI Benefits Allowed to Expire Even Though Regular State Exhaustions Remain High

Percent Change in State UI Exhaustions, 2001 and 1990-91 Recessions



Note: Data are 12-month moving averages
Source: Employment and Training Administration, U.S. Department of Labor.

months since the most recent program was allowed to expire, these exhaustions have led to a record two million workers exhausting their regular benefits without receiving additional aid.[4] The lack of additional benefits leaves these two million workers to face the challenges of involuntary unemployment without assistance.

Job Losses Severe in Many States

While the national jobs statistics show an exceptionally weak jobs recovery following the 2001 recession, the experience for many individual states is far worse. In percentage terms, Massachusetts, Michigan, and Ohio still have jobs gaps of *over four times* the national average **(Table 2)**. In total, twenty-one states are above the national average. Unemployed workers in such states are in especially dire need of federal UI benefits both to help make ends meet and to stimulate their states' economies. This Administration could have intervened and persuaded Congress to at least provide temporary federal UI benefits in the states most severely affected, but it did not.

Conclusion

Despite presiding over the longest jobless recovery since President Hoover, President Bush failed to provide adequate assistance to struggling workers. In ignoring the plight of unemployed workers, the Administration also lost the opportunity to stimulate the economy by providing these workers with the benefits that would help maintain their demand for goods and services.

(Endnotes)

[1]Congressional Budget Office, "Family Income of Unemployment Insurance Recipients." March 2004; Karen Needles, Walter Corson, and Walter Nicholson, "Left Out of the Boom Economy: UI recipients in the Late 1990s," (report prepared by Mathematica Policy Research for the Department of Labor, May 2002).
[2]Based on current data through August 2004.
[3]The program following the 1990-91 recession (EUC) was in effect and accepting new entrants from November 1991 through February 1994. The program following the 2001 recession (TEUC) was in effect and accepting new entrants from March 2002 through December 2003. The 1991 temporary UI program began later after the start of the recession than the most recent program because George H.W. Bush effectively vetoed the program twice. If he had not effectively vetoed the UI bill the first time it was presented to him, the start dates would have been similar.
[4]Shapiro, Isaac, "Despite Job Growth, A Record 2 Million Unemployed Have Gone Without Benefits," Center on Budget and Policy Priorities, June 2004.

Table 2

Employment Situation More Severe than National Average in Many States

Change in Selected Employment Indicators, from Start of the Recession in March 2001 to July 2004

	Nonfarm Payrolls, percent change	Change in Nonfarm Payroll Jobs, in thousands	Unemployment Rate, change in rate	Unemployment Insurance Exhaustions, percent change
Massachusetts	-5.4	-181.1	2.3	116
Michigan	-5.4	-247.1	2.0	112
Ohio	-3.9	-217.0	2.3	135
Illinois	-3.6	-219.1	1.0	108
Colorado	-3.5	-78.6	2.3	169
Oklahoma	-3.3	-49.4	0.8	194
Connecticut	-2.7	-45.0	1.8	137
New York	-2.6	-225.2	1.7	66
Georgia	-2.4	-97.5	0.6	146
North Carolina	-2.2	-86.9	0.2	198
Kansas	-2.2	-29.5	0.5	116
Missouri	-2.2	-59.4	1.2	112
Iowa	-1.9	-28.0	1.3	78
Alabama	-1.8	-34.7	0.8	44
Indiana	-1.6	-48.2	1.2	118
California	-1.5	-215.4	1.3	77
Pennsylvania	-1.4	-81.3	1.0	88
Delaware	-1.2	-5.2	1.5	52
Texas	-1.1	-103.0	1.5	58
Tennessee	-1.1	-28.8	0.5	43
Vermont	-1.0	-2.9	0.0	156
Kentucky	-0.9	-17.1	0.3	86
Minnesota	-0.9	-25.1	1.0	116
Mississippi	-0.8	-9.2	0.8	43
Oregon	-0.7	-11.7	1.5	101
Nebraska	-0.7	-6.3	0.4	135
Louisiana	-0.7	-12.8	0.2	96
West Virginia	-0.6	-4.5	0.4	56
Arkansas	-0.5	-5.8	0.8	59
New Hampshire	-0.4	-2.4	0.8	605
South Carolina	-0.1	-2.3	1.1	122
Washington	-0.1	-2.9	0.0	53
Wisconsin	0.1	2.9	0.5	111
Maine	0.3	1.6	0.7	50
South Dakota	0.5	2.0	0.2	174
North Dakota	0.6	2.0	0.4	17
Utah	0.7	8.1	0.9	78
New Jersey	1.2	48.7	1.5	68
Virginia	1.7	59.0	0.6	145
Rhode Island	2.0	9.5	1.0	38
Arizona	2.7	62.5	0.3	133
Maryland	2.8	69.2	0.4	78
Idaho	2.9	16.3	0.3	77
DC	3.4	21.8	0.5	95
Hawaii	3.7	20.5	-1.2	27
Florida	3.7	263.5	0.2	80
Montana	4.0	15.8	-0.3	33
Wyoming	4.2	10.3	-0.1	86
New Mexico	4.4	33.3	0.6	93
Alaska	5.5	15.8	1.0	29
Nevada	7.6	80.1	-0.4	39
U.S.	-0.9	-1,176.0	1.2	88

Source: Employment and Training Administration, U.S. Department of Labor.

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