EPI TESTIMONY

TESTIMONY GIVEN BY

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IN A HEARING BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

"Implementation of Unemployment Insurance Provisions in the Recovery Act"

Thursday, April 23, 2009

Rayburn House Office Building, Room B318

Good Morning Chairman McDermott, Ranking Member Linder, and distinguished members of the Subcommittee on Income Security and Family Support. My name is Heidi Shierholz and I am a labor market economist at the Economic Policy Institute; I appreciate the opportunity to appear before you today to share my views.

Next month, the current economic downturn will become the longest recession since the Great Depression. The ten post-war recessions prior to this one have averaged 10.4 months in length, with the longest being 16 months. The current recession is now in its 16th month, and the labor market is still shedding over 600,000 jobs a month. The impact of this recession on the labor market is documented below. The depth of the crisis – a crisis that will, before it's over, be the longest and steepest economic downturn since World War II -- highlights the need for unprecedented levels of assistance for the millions of hard-working, productive Americans who are unable to find the work they need to maintain the living standards of their families. Furthermore, as documented below, assistance to those most hurt by the downturn – specifically, the unemployment insurance provisions in the recovery act -- is also excellent economic policy, since these are the families most likely to immediately spend that money on necessities found in their local economy, which is precisely the kind of stimulus that is needed to help pull the US economy out of its nosedive.

The Unemployment Crisis

Since the start of the recession in December 2007, the unemployment rate has increased from 4.9% to 8.5%. The increase in unemployment from December 2007 to March 2009 is the largest 15-month percentage point increase in the unemployment rate since 1975 – in particular, it surpasses the increase in unemployment experienced during the deep recession of the early 1980s. There are now 13.2 million unemployed workers in this country -- 5.6 million more than there were at the beginning of the recession – and the widespread job loss shows no signs of slowing down. On average, 23,000 workers were added to the jobless rolls *every single day* of the first quarter of 2009. Figure 1 shows the unemployment rate over the last 20 years; the dramatic increase of the current recession is clear.

Long-term unemployment

With the severity and duration of this recession, long-term unemployment – defined as being unemployed for more than six months – is growing even faster. In March, 3.2 million American workers -- nearly one out of every four of the unemployed -- had been unable to find a job for over half a year. Figure 2 shows the percent of the labor force unemployed for six months or more, currently at a twenty-five year high. The extension to unemployment insurance in the recovery act is a crucial lifeline to the families of the long-term unemployed.

FIGURE 1

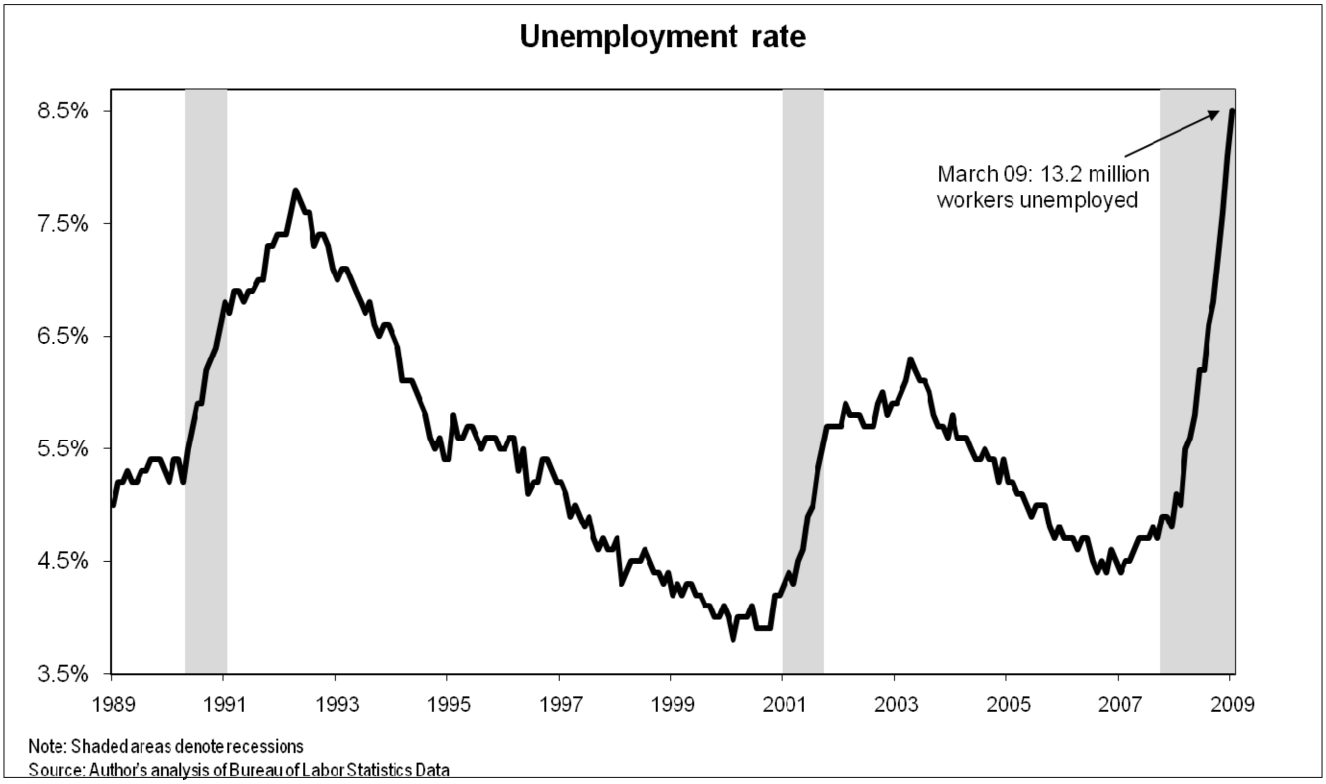
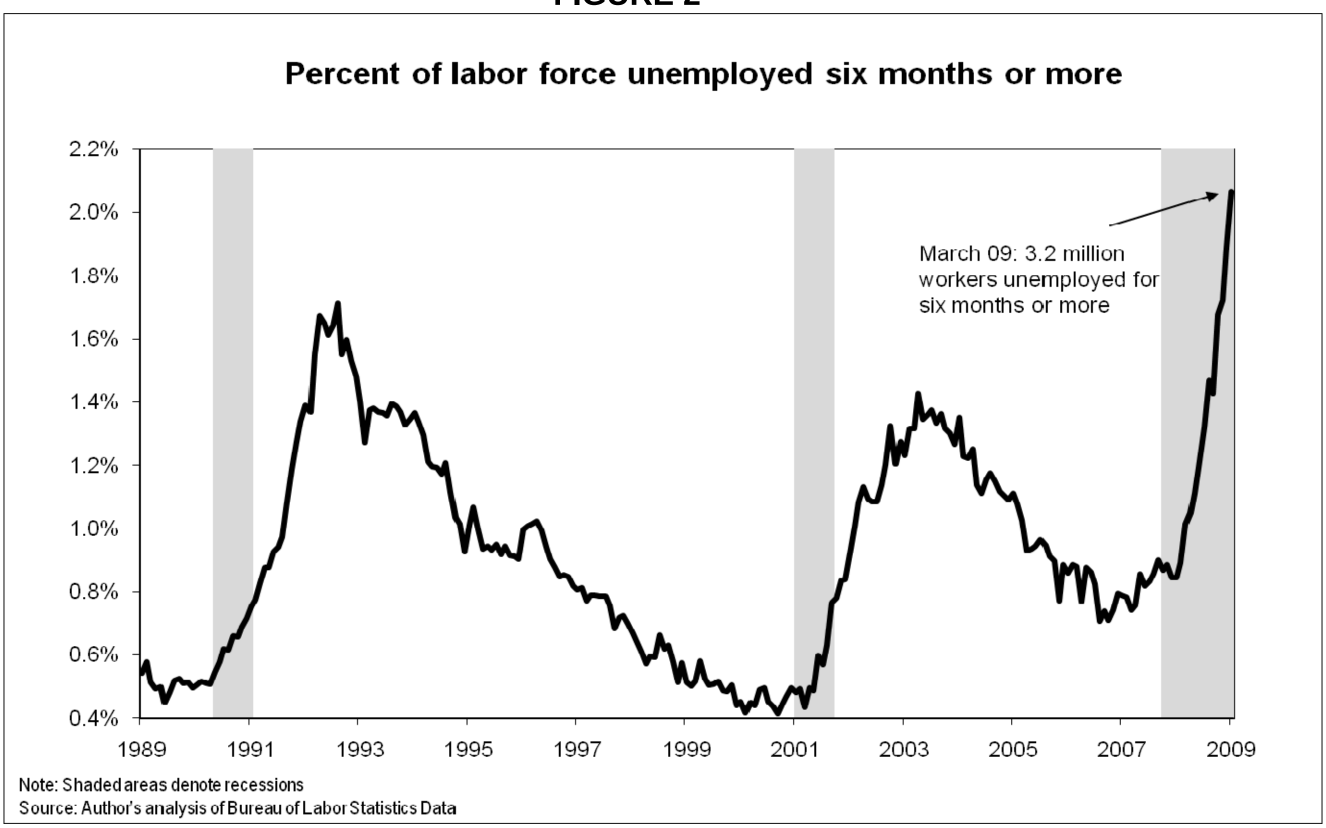
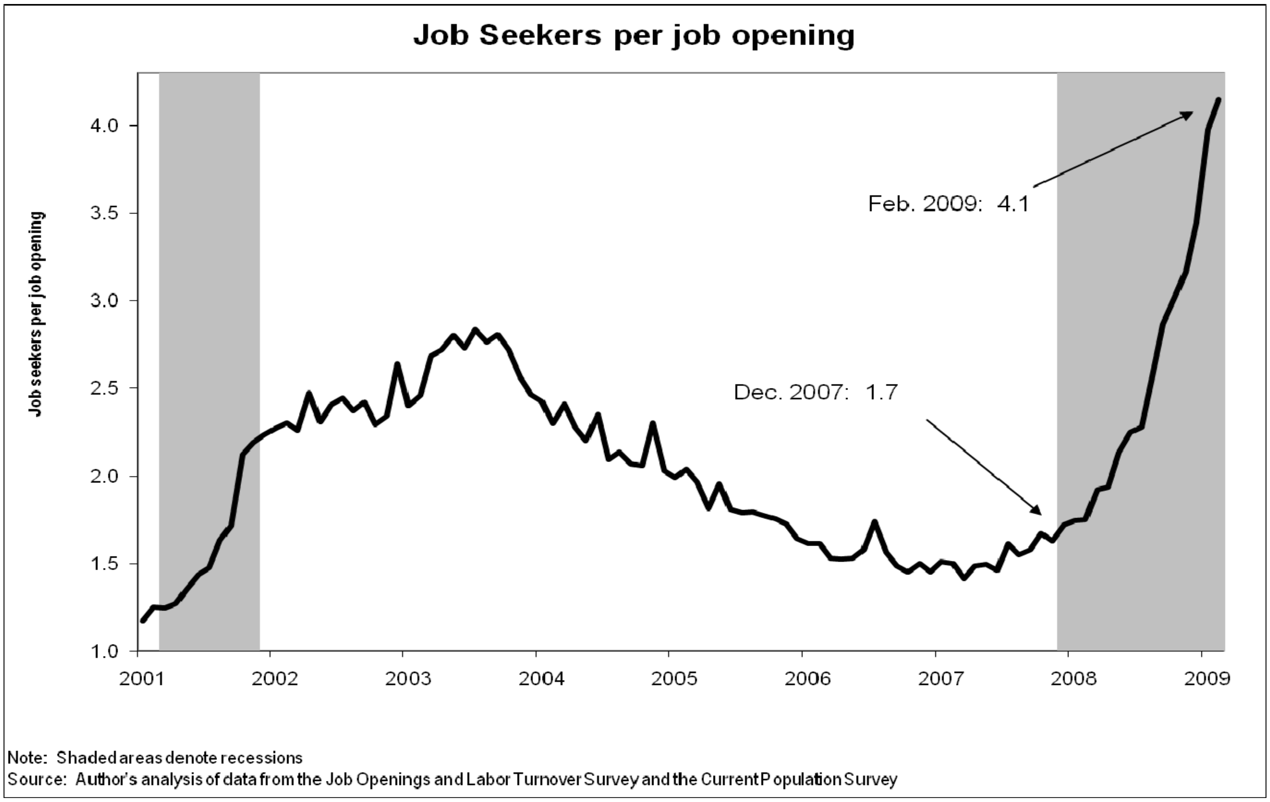


FIGURE 2



A primary reason workers are getting stuck in unemployment is the dramatically diminished number of job openings. At the start of the recession in December 2007, there were 4.3 million job openings; in February 2009 (the latest data available), there were 3 million, a decline of 31.4%. As the number of unemployed has continued to rise, this means that there are more and more unemployed workers for every job opening. In February, there were over four unemployed workers for every available job, almost two and a half times the number at the start of the recession. Figure 3 shows the number of unemployed workers per job opening since 2001 (the job openings data are only available since December 2000). The February value is nearly 50% higher than the highest value of the series prior to the current recession.

FIGURE 3



An important point about a recession this long and severe is that all subgroups of the labor market are experiencing substantial unemployment and, in particular, substantial long-term unemployment. The following chart shows unemployment and long-term unemployed for the first quarter of 2009 by selected demographic groups. The unemployment rate shows that while young workers, blue collar workers, and workers with lower levels of schooling are seeing the highest unemployment rates, all groups are experiencing extensive unemployment. In fact, as the second column of data in the chart shows, older workers, white collar workers, and workers with higher levels of education are disproportionately affected by long-term unemployment. In other words, while more educated and experienced workers are less likely to become unemployed, they are more likely to get stuck in unemployment for long periods if they do lose their jobs. No subgroups of the labor market are sheltered from an economic downturn as deep as the recession this country is currently facing.

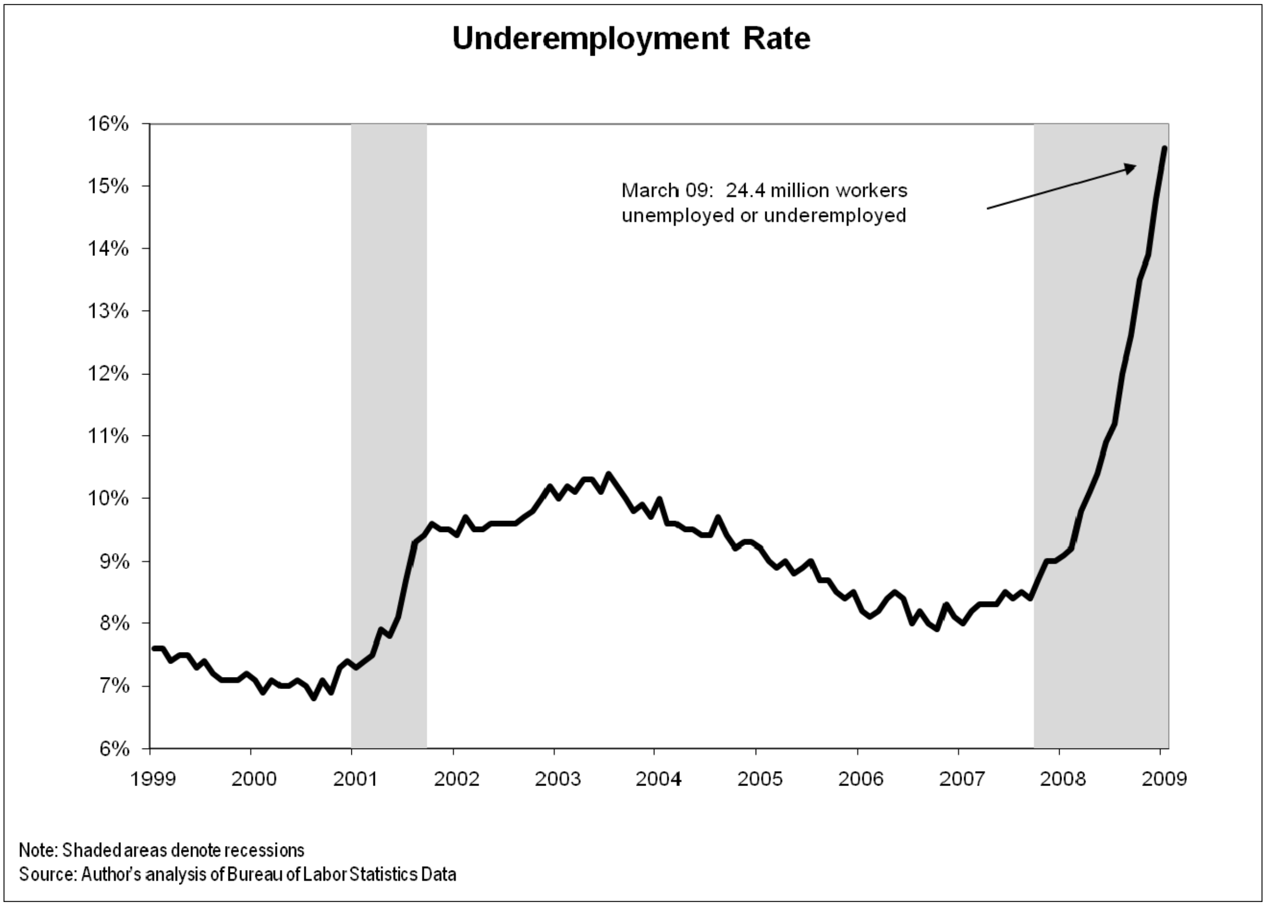
Unemployment and Long-term unemployment, 2009Q1			
		Unemployment rate	Share of unemployed who have been jobless for over six months
	All	8.8%	22.5%
Age	16-24	16.1%	20.0%
	25-54	8.1%	22.3%
	55 +	6.2%	28.2%
Occupation	Blue collar	14.9%	19.4%
	Service	9.2%	22.7%
	White collar	5.6%	24.1%
Education	High school or less	13.0%	22.3%
	Some college	7.8%	22.3%
	Bachelor's degree or higher	4.4%	23.6%

Note: Data not seasonally adjusted
Source: Author's analysis of Current Population Survey microdata

Underemployment
As mentioned above, there are currently 13.2 million unemployed workers in this country. That number, large as it is, actually understates labor market weakness because it only counts jobless workers as being officially unemployed if they have actively sought work in the last month. Thus, to the extent that jobless workers have stopped looking for work (or never started) because they felt they would not be able to secure meaningful work given current labor market conditions, the official unemployment rate understates labor market weakness. Since the start of the recession, the number of "marginally attached" workers has increased by 64%, from 1.3 million to 2.2 million. Marginally attached workers are defined as jobless workers who want to work, are available to work, have looked for work in the recent past, but are not currently actively seeking a job, and are therefore not counted as officially unemployed. If these workers were counted as unemployed, the unemployment rate in March would have been 9.8%.

Another aspect of employment during recessions is that when employers need to cut labor costs, they cut not just entire jobs, they also cut hours for workers who keep their jobs. There are currently over nine million "involuntary" part-time workers in this country – workers who want full-time jobs but are unable to get the hours they need. This is nearly double the pre-recession number of involuntary part-timers. An important comprehensive measure of slack in the labor market is the "underemployment rate", which includes not just unemployed workers, but also marginally attached and involuntary part-time workers. In March, the underemployment rate was 15.6%. This means that 24.4 million workers -- one in six workers in this country -- are either unemployed or underemployed. Figure 4 shows underemployment over the last 10 years (data on underemployment as currently measured are only available since the mid-nineties).

FIGURE 4



Over four million long-term unemployed by early next year

After the official end of the recession of the early nineties, the unemployment rate continued to rise for more than a year, and unemployment didn't return to its pre-recession levels for another four years after that. After the end of the recession of 2001, the unemployment rate continued to rise for a year and a half, and unemployment didn't return to near pre-recession levels for an additional three and a half years. If current laws and policies governing federal spending and taxes do not change (specifically, if we do not see substantial additional stimulus) we can expect the unemployment rate to continue to rise for *at least* the next year, reaching 9% by summer, 9.5% for the fourth quarter of this year, and crossing into double-digits sometime early next year. With double-digit unemployment rates, we could expect the number of long-term unemployed workers to climb from its current level of 3.2 million to well over four million. The unemployment rate will likely average 9.5% for 2010, and remain elevated for years to come, continuing the hardship faced by America's working families.

Benefits to the macroeconomy of unemployment insurance

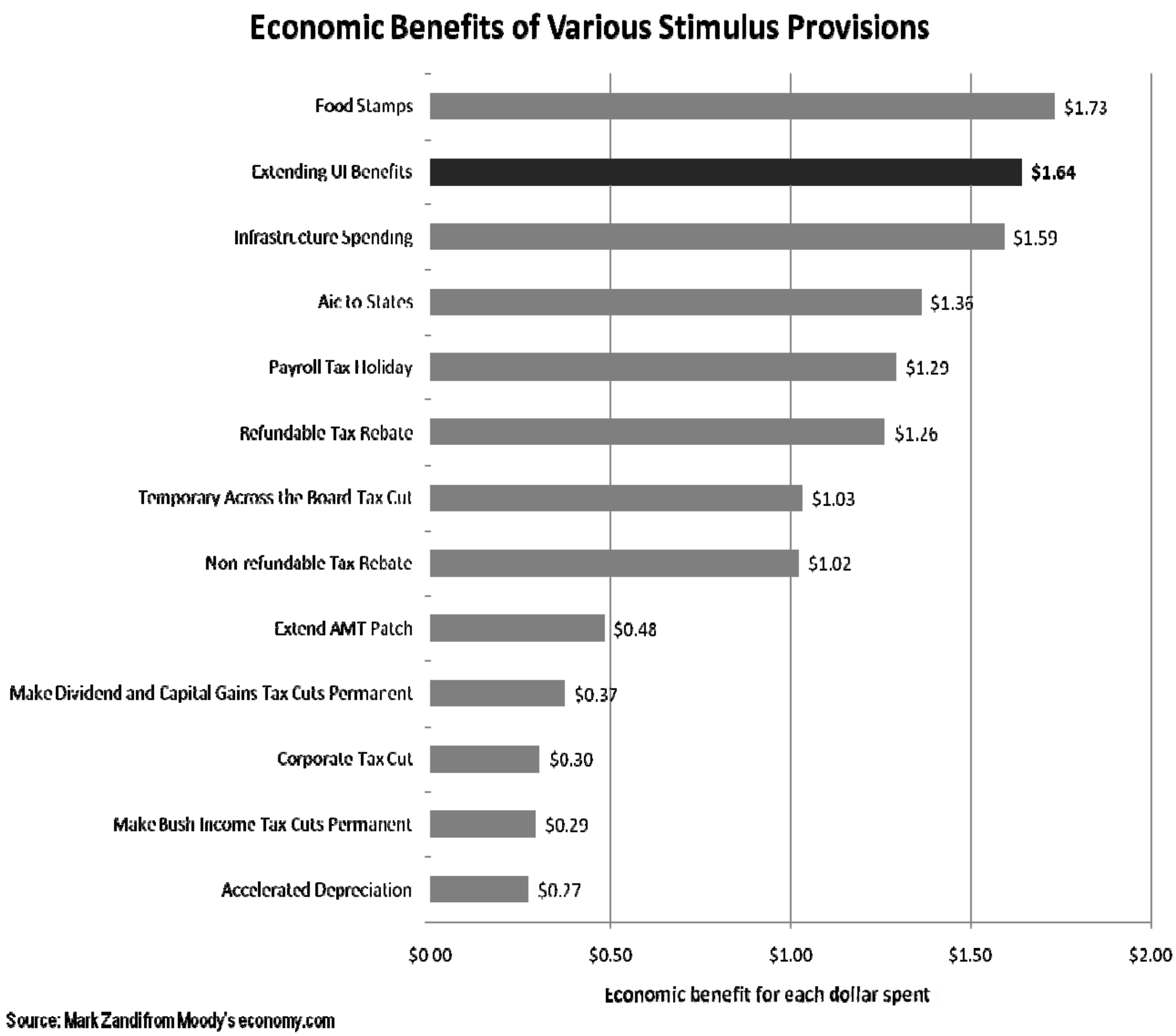
When an economy is floundering in a recession even with interest rates near zero as they are today, policy makers are essentially left with one tool in their kit for fighting recessions – direct government spending to boost demand. This can happen either through tax cuts – government giving money back to households to boost their spending -- or through the government spending the money itself. While there is variation in "bang-for-the-buck" estimates of different types of stimulus spending, among economists there is a generally accepted hierarchy of the economic benefits of various stimulus provisions. Figure 5 shows that hierarchy, along with the economic benefit for each dollar spent as estimated by Mark Zandi of Moody's Economy.com. The hierarchy shows that aside from food stamps, government spending on extending unemployment insurance provides the most economic benefit to the economy of any form of stimulus spending. In other words, *extending and expanding unemployment insurance benefits is one of the most efficient things the government can do to help pull the macroeconomy out of its nosedive.* The reason extending unemployment insurance is such good stimulus is that it gets money to people who are the most likely to have depleted their savings, and who tend to have no choice but to quickly spend essentially every dollar they receive on necessities found in their local economy. In other words, virtually every dollar spent on extending unemployment insurance benefits goes directly, and immediately, towards the purchase of local goods and services, providing an extremely efficient demand boost. The CBO estimates that 40 billion dollars will be spent on the unemployment insurance provisions in the recovery act. Using Zandi's estimate of $1.64 for the economic impact of one dollar of expanded unemployment insurance benefits, that translates into 66 billion dollars of stimulus to the U.S. economy. Not only is extending and expanding UI benefits the right thing to do for the people hurt most by this economic downturn, it is also excellent economic policy.

Conclusion

The United States is currently facing what will ultimately be the longest and steepest economic downturn since the Great Depression. There are currently 13.2 million unemployed American workers, nearly a quarter of whom have been unemployed for at least six months, and the economy is still losing 600,000 jobs a month. This recession calls for unprecedented levels of assistance for the millions of American workers who have little hope of finding a job in this dramatically weakened labor market. Fortunately, assisting workers most hurt by the downturn is also excellent economic policy, since extending and expanding unemployment insurance is one of the most efficient forms of stimulus spending available. It will takes years for the US labor market to fully recover, but the unemployment insurance provisions in the recovery act take an important step towards keeping the families of eligible unemployed workers afloat, while at the same time providing the economy with much-needed stimulus.

Thank you and I am more than happy to answer any questions you may have.

FIGURE 5


Economic Benefits of Various Stimulus Provisions
Food Stamps
$1.73
Extending UI Benefits
$1.64
Infrastructure Spending
$1.59
Aid to States
$1.36
Payroll Tax Holiday
$1.29
Refundable Tax Rebate
$1.26
Temporary Across the Board Tax Cut
$1.03
Non refundable Tax Rebate
$1.02
Extend AMT Patch
$0.48
Make Dividend and Capital Gains Tax Cuts Permanent
$0.37
Corporate Tax Cut
$0.30
Make Bush Income Tax Cuts Permanent
$0.29
Accelerated Depreciation
$0.27
$0.00
$0.50
$1.00
$1.50
$2.00
Economic benefit for each dollar spent
Source: Mark Zandi from Moody's economy.com