

## Unemployment Insurance Under the Knife

Kate Kahan and George Wentworth | December 14, 2011

The Great Recession officially began four years ago December, and although we may be in the third year of recovery, for more than 13 million Americans without jobs it doesn't much feel like a recovery. Even as the national unemployment rate inches down below 9 percent, the massive job hemorrhaging that began in 2008 has left a legacy of widespread suffering. Of the 8.7 million jobs lost since December 2007, fewer than 2.5 million have been recovered. With population growth factored in, we are 10.9 million jobs short of what we need to get the nation back to pre-recession levels, when the unemployment rate was 5 percent.

Perhaps the most striking feature of this economic catastrophe is the nation's continuing crisis of long-term unemployment. There are 5.7 million workers who have been unemployed more than six months—an unprecedented 43 percent of all jobless workers. Even more alarming is that a third of the unemployed have been unable to find work for a year or more. The average duration of unemployment is at a record level: 40.9 weeks.

In the midst of this crisis, there are huge gaps in our patchwork system of state and federal unemployment insurance. Many of the jobless don't get any benefits: only 29 percent receive state benefits, with federal benefits covering an additional 32 percent. More than half of those who do get state benefits exhaust them before they can find a job (they typically max out at twenty-six weeks). Then, depending on state unemployment rates, the federal government provides anywhere from thirty-four to seventy-three weeks of additional compensation—hence the plight of the “99ers,” for whom the federal program often represents the last chance to avoid plunging into poverty. For the ninth time since June 2008, Congress is staring down another deadline to keep the system of extended unemployment benefits from expiring. With roughly 3.5 million relying on federal benefits, why is renewal of the program once again a political question? Reauthorizing the Emergency Unemployment Compensation program was once treated as emergency spending that didn't need to be paid for. In today's highly politicized, deficit-focused climate on Capitol Hill, the Republicans are already insisting that the projected \$44 billion cost be offset by cuts from other programs, even though unemployment benefits stimulate local economies and reauthorizing them would create approximately 530,000 jobs.

The recurring debates about how long we should continue to care about the jobless before cutting them loose has, in some respects, obscured deeper damage to the larger federal-state system of unemployment insurance. The program was established in 1935 as part of the New Deal promise to insure American workers against the risk of involuntary unemployment. Today, it is a critical component of a fraying safety net, a lifeline that helps people pay for essentials like food and housing until they can find that next job. Unemployment insurance covers, on average, about a third of a worker's pre-layoff wage. The average weekly unemployment check is a modest \$295, but since benefits are spent quickly on basic needs, they have a direct stimulating impact on local economies. Yet in more than half the states, unemployment trust funds are drying up, forcing states to borrow from the federal government to pay their basic program benefits. Some of this is caused by the record high number of claims, but most results from poor financing of the program over many years. The crunch is about to

get worse: the more than \$38 billion states have borrowed is coming due in the form of interest and increases in federal unemployment taxes. Ten states enacted major benefit cuts and eligibility restrictions in 2011. Six states have reduced the number of weeks of state benefits below the twenty-six-week standard that states have maintained for half a century, and some have imposed new obstacles on applicants.

In the 1930s, when FDR and Frances Perkins proposed a system of insurance for jobless workers, only one state program existed. To make sure that states took on the challenge of insuring against job loss, the system stipulated that employers would be taxed on the labor of their employees, but that those taxes would be largely offset by a credit if the state created an unemployment insurance program that met minimum federal standards. The government commission that proposed this system noted, "So long as there is danger that business in some States will gain a competitive advantage through failure of the State to enact an unemployment compensation law, few such laws will be enacted."

More than seventy-five years later, every state has an unemployment insurance law, but in many states the fundamental state program is at risk of no longer functioning as an effective economic stabilizer. The interests of working people are being undermined by legislatures dominated by business interests. Many states, including high-unemployment states like Michigan and Florida, have elected to cut benefits for workers rather than commit to the forward-financing principles necessary to restore solvency. Not surprisingly, the thirteen states that tax employers at the lowest wage levels are responsible for almost three-quarters of federal borrowing to pay for unemployment insurance. These include large states like California (more than \$9 billion in borrowing), New York, Pennsylvania and Michigan (more than \$3 billion). Little is being done to ensure that these states maintain program reserves that are adequately responsive to the economic risks associated with job loss.

It is important that today's questions about how long to help the long-term jobless are answered in a way that does not undermine the current recovery. It is equally important that the federal government make sure states keep their part of the promise contained in the Social Security Act of 1935. Congress should not only extend federal benefits for the long-term jobless; it should act immediately to make sure states fund their programs responsibly and maintain adequate benefit levels. To look the other way is irresponsible. It may seem quaint in these politically divided times to invoke the New Deal. But now, as then, we have a right to expect that our government will stand beside the 99 percent as they struggle to regain their footing in an economy devastated by the unregulated profiteering of the 1 percent.

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