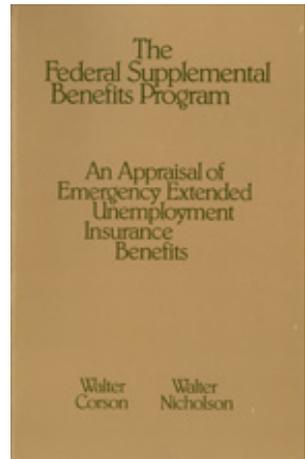

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Introduction and Summary

Walter Corson
Mathematica Policy Research

Water Nicholson
Amherst College



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**The Federal Supplemental Benefits Program: An Appraisal of
Emergency Extended Unemployment Insurance Benefits**

Walter Corson and Walter Nicholson

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I. INTRODUCTION AND SUMMARY

A. Introduction

Prior to the 1979-80 recession, Congress had temporarily extended the duration for which individuals were allowed to collect unemployment insurance (UI) benefits in every major recession since the 1950s. In 1970, Congress established a permanent standby program of extended benefits (EB) that automatically become payable during periods of high unemployment. Specifically, during periods when particular measures of the insured unemployment rate exceed certain levels, the EB program increases the maximum duration for UI benefits (including benefits payable under the regular state program) from approximately 26 to 39 weeks. In the recession of the early 1970s, Congress provided an additional emergency extension (beyond EB) that increased the maximum duration to 52 weeks. Later, during the recession of the mid 1970s, Congress adopted emergency extensions under the Federal Supplemental Benefits (FSB) program. That program increased the maximum number of weeks for which individuals could collect benefits from 39 to as high as 52 or 65 weeks. Although it was proposed, Congress did not adopt a temporary emergency extension during the high unemployment period that began in late 1979.

This paper evaluates the overall performance of the FSB program and provides a general framework for future consideration of emergency supplemental benefits programs. It

concludes that the desirability of such programs is questionable. On the one hand, emergency extensions satisfy a number of needs that existing policies are unable to meet. For example, they provide increased unemployment protection to workers, and temporarily maintain the income of those individuals who have exhausted their regular UI and EB entitlements. On the other hand, such extensions are inevitably costly because benefits are typically extended in an all-inclusive “shotgun” fashion and may provide substantial work disincentives. It appears then, that with the exception of severe recessions, emergency extensions of the FSB-type should be used but sparingly. Existing regular UI and benefits payable under the permanent EB program should remain the primary means for meeting the needs of the unemployed.

B. Outline of the Paper

The remainder of this paper is divided into five chapters. Chapter II provides a brief historical summary of legislation concerning unemployment benefits duration. It stresses the expanding federal role in such policies and points out the assumptions generally believed to have prompted this expansion. Chapter III briefly describes the characteristics and labor market experiences of individuals who collected benefits under FSB. Chapter IV discusses the general allocational effects of extended benefits programs and examines the specific effects of the FSB program—for example, whether FSB encouraged individuals to remain unemployed longer and how well it maintained aggregate purchasing power during the recession. Chapter V considers the distributional impact of FSB by examining how well it compensated workers for their recession-induced unemployment and whether it prevented poverty among the lowest income

FSB recipients. How FSB relates to existing and proposed welfare programs is also considered. Finally, chapter VI provides an overall assessment of FSB (and emergency extended benefits programs in general) by addressing seven basic questions that policy makers will have to answer in future recessions. A brief discussion of alternative policies during recessions is also included.

C. Summary of Findings

Because this paper is itself a summary of more extensive research on extended benefits programs, it is impossible to mention all of the issues examined in that research. However, some of the major themes, more fully detailed in this paper, are briefly summarized below. First, with respect to the legislative history of UI benefit duration provisions, the following points are noted:

- The debate over the ideal duration of UI benefits is long-standing. Disagreement still exists over how the increased benefits provided by longer UI durations should be traded off against any work disincentives they may cause.
- There is general agreement that the distinction between an “earned right” to unemployment insurance and an income maintenance rationale for benefits becomes less clear as longer UI durations are considered.
- The provision of emergency extended benefits is increasingly regarded as one aspect of an overall federal mandate to provide macroeconomic stability.
- Enactment of the permanent extended benefits (EB) program in 1970 marked the first time UI legislation

provided an automatic activation of extended benefits during recessions.

Examination of FSB recipients' characteristics and labor market experiences in chapter III shows:

- FSB recipients were more likely to be women and more likely to be older than other groups of unemployed individuals during the 1974-75 recession. This result stems partly from lower UI eligibility rates among younger workers. It may also have been the result of weaker alternative economic opportunities for women and older workers.
- FSB recipients had, in general, a long record of employment, having worked an average of 17 years, including 5 years at the job held prior to receiving UI benefits.
- Following the layoff that led to FSB, recipients were unemployed for a substantial length of time, an average of 61 weeks during their first completed spell. Three-quarters of these unemployment spells ended in reemployment.
- At a point approximately three years after the initial layoff, 57 percent of FSB recipients were reemployed, with males and younger individuals having relatively greater success in finding work. Real weekly wages on these jobs had, however, fallen by about 10 percent relative to wages on the pre-UI job; nearly one-third of all reemployed individuals experienced a reduction in real weekly wages of 25 percent or more. These declines in weekly wages were about equally attributable to decreases in hours worked and decreases in hourly wage rates.

Among the more important allocational aspects of extended benefits programs examined in chapter IV are the following:

- Extended benefits programs appear to contain work disincentives stemming from the increased unemployment durations they provide. There is disagreement, however, over the exact size of those effects. Some estimates suggest that FSB added about 0.5 percent to the unemployment rate during the mid 1970s.
- The connection, if any, between extended benefits and the job search behavior of recipients has not yet been well researched.
- Extended benefits programs may provide some degree of macroeconomic stabilization during recessions. However, evidence from the FSB program shows that such effects are probably small relative to other stabilization policy initiatives such as automatic and discretionary tax cuts, and that extended UI benefits programs may, of necessity, lag in their impact on the economy.

Chapter V discusses the following income distributional arguments for extended benefits programs:

- The permanent EB program may be sufficient to keep the percentage of claimants who exhaust their benefits within acceptable bounds during mild recessions. It appears that during the mid 1970s FSB reduced exhaustion rates to well below their pre-recession levels.
- To hold the earnings replacement rate (total benefits paid divided by lost after-tax earnings) constant as unemployment rates fluctuate, UI duration should be

extended by 3.5 to 5.1 weeks for each 1 percentage point increase in the insured unemployment rate. The permanent EB program is sufficient to hold earnings replacement rates constant during most recessions.

- Antipoverty arguments for UI extensions assume that alternative income maintenance programs do not provide adequate support for UI exhaustees and the need for income support by exhaustees is greater during recessionary periods. Evidence from the recession of the mid 1970s supports both assumptions, although the evidence concerning the second assumption is weak.
- The FSB program had a substantial antipoverty effect, but substantial benefits went to the nonpoor as well. That is, FSB was “target inefficient.”

Policy questions concerning UI extensions during future recessions are addressed in chapter VI. Some of the highlights are:

- It is argued that an FSB-type program is not needed during mild recessions because the EB program is sufficient to keep exhaustion rates from rising and earnings replacement rates from falling during such times. Furthermore, the EB program provides breathing space between the start of a recession and the time when further extensions might be needed, which allows policy makers time to assess the severity of a recession and, consequently, the need for FSB.
- Insurance arguments for FSB suggest that potential duration should be increased about 3.5 to 5.1 weeks for every 1 percentage point rise in the insured unemployment rate above the level necessitating the EB program.

Income maintenance arguments for FSB weakly support extensions in the upper part of this range.

- **Few options help policy makers mitigate the disincentive effects of extensions. Eligibility restrictions related to the amount of past work experience would have almost no effect on recipient characteristics and post-UI labor market activities. But stiffer job search and job acceptance requirements might have some effect by reducing eligibility for certain groups of workers.**
- **Several options allow policy makers to target unemployment benefits on the poor, although some of them would be administratively difficult. Use of an income eligibility screen appears to be the easiest, most effective way to achieve this potential program goal.**
- **Analysis of the recipients' experiences under the FSB program provides little guidance for improving job search outcomes. The availability of employment and training services had few effects.**
- **Future FSB programs should be financed from general revenues, thereby treating FSB as a countercyclical program and emphasizing that national recessions are a federal responsibility.**
- **A more generous welfare system would reduce the need for FSB as an antipoverty tool. However, an additional antipoverty effect would be achieved with UI extensions. Income-testing of unemployment assistance benefits for regular UI and EB exhaustees (as recommended by the National Commission on Unemployment Compensation) would reduce the costs involved in reaching that goal.**

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- **Other programs such as a countercyclical public service employment program for UI exhaustees would also mitigate the need for extensions, but they would probably be only a partial substitute during periods when emergency UI extensions were judged necessary.**