

The President's UI, PRA and Budget Proposals

**National Association of State Workforce
Agencies (NASWA)
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Joint Economic Committee

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Talk Outline

- 1) Unemployment Insurance
- 2) Personal Reemployment Accounts (PRAs)
- 3) What has happened to deficit projections?
- 4) The President's Budget

Unemployment Insurance

- As in every recent recession, the federal government enacted a temporary federal program in March 2002. A bill passed early in January extended that program until May 31, with benefits paid until August 30.
- Temporary federal programs lasted 30 months in the 1990s recession and 34 months in the wake of the 1982 recession.
- This recession is as severe as the 1990s recession
 - More jobs have been lost since the current recession began than were lost over the same number of months in the 1990s (1.75 million compared to 1.41 million jobs fewer jobs 21 months after the recessions began)
 - A higher percentage of workers are exhausting their regular state UI benefits than ever before
 - IURs have increased by a slightly larger percentage in this recession than in the same number of months in the 1990s recession

Chart 1
Current Recession Mimics Jobless Recovery of the 1990s
(Percentage change in number of private sector jobs since peak of business cycle)

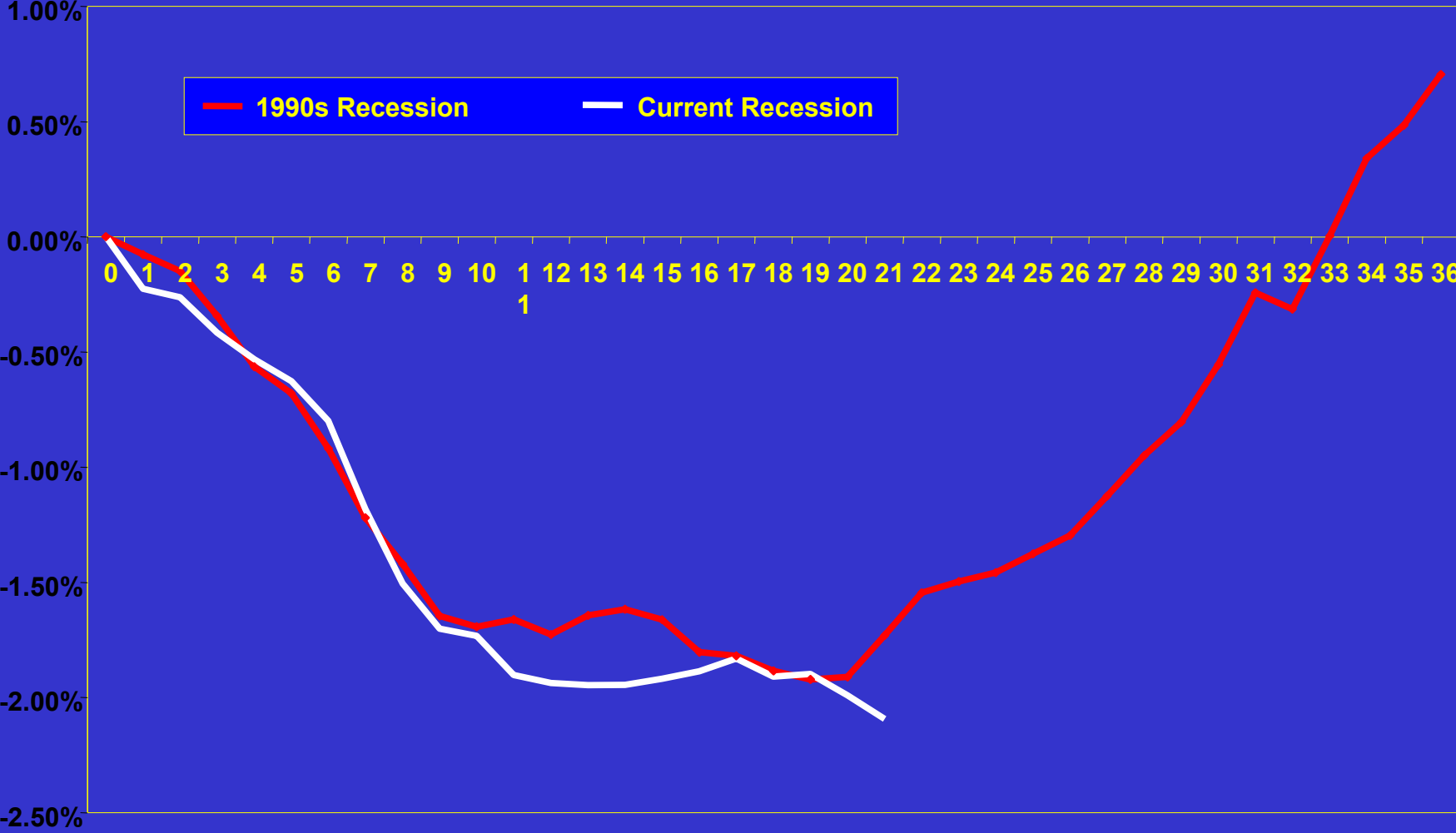
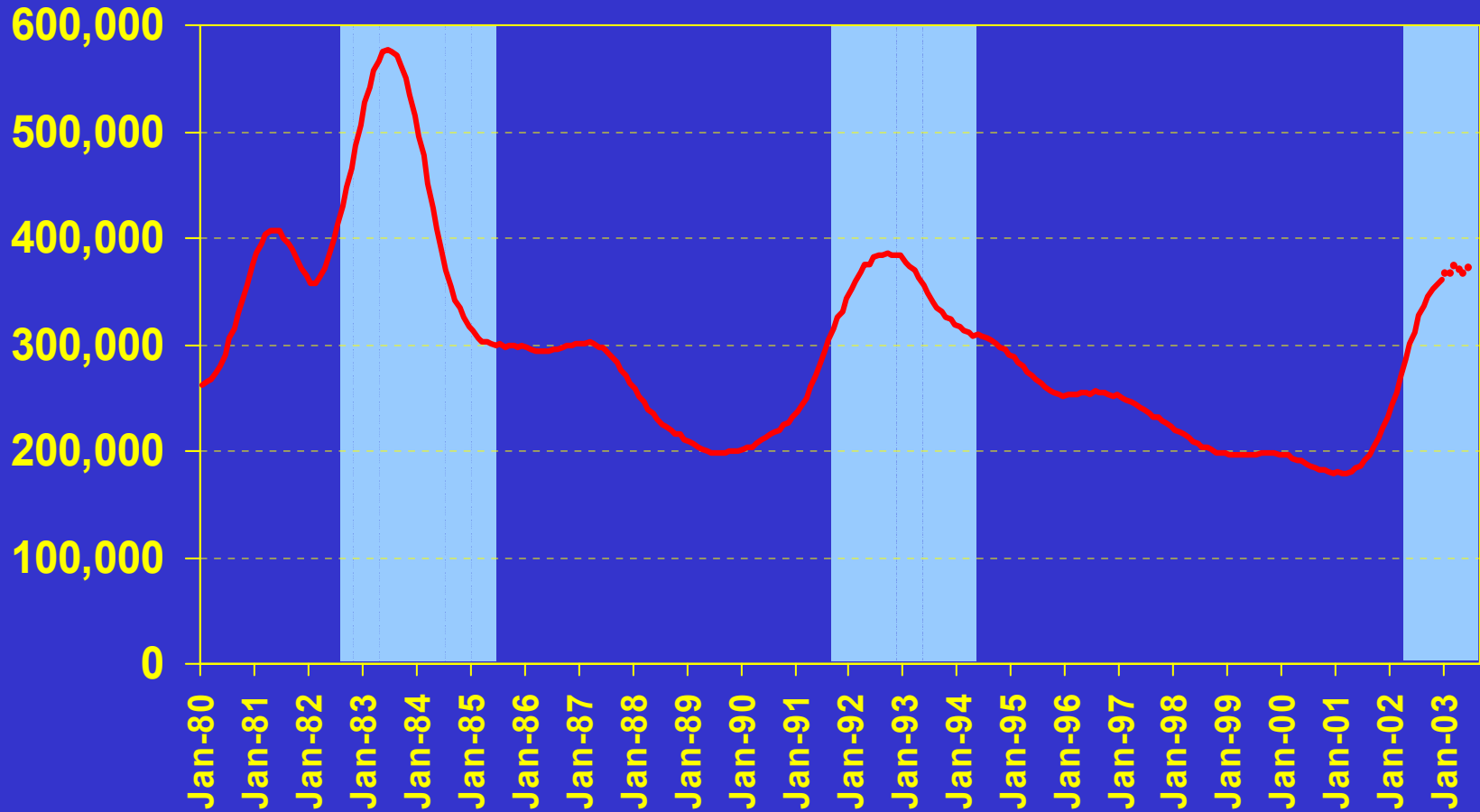


Chart 2

Previous Temporary Federal UI Benefit Programs Ended After Steep Declines in Exhaustions

Adjusted Exhaustions of Regular State UI Benefits (12-Month Moving Averages)

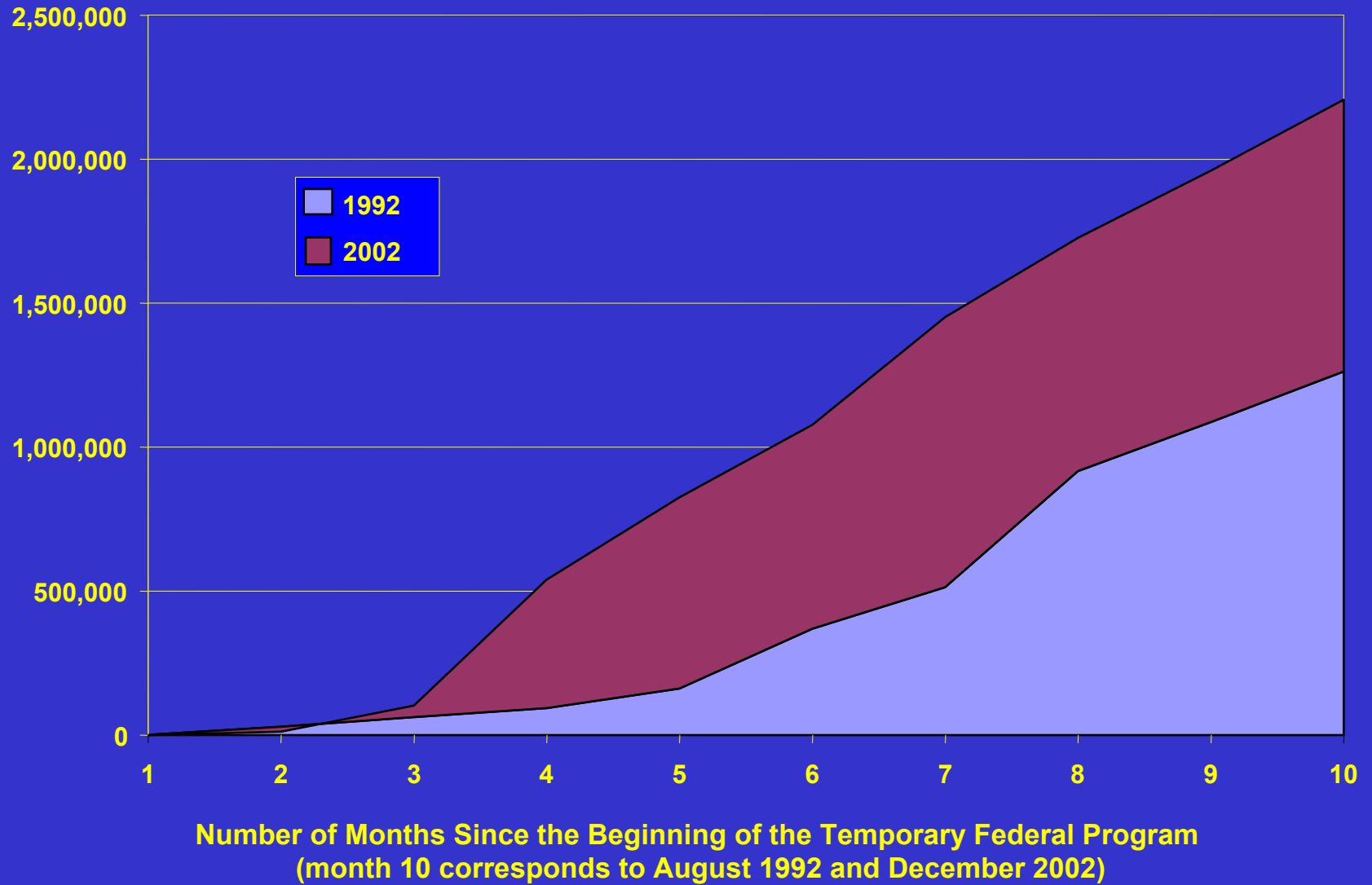


Temporary Federal UI Program in place during shaded regions.

Temporary Federal Benefits

- Current program less generous; therefore more workers have exhausted temporary benefits
 - Initially in the 1990s, workers in high unemployment states got up to 33 weeks of temporary federal benefits, and other workers got up to 26 weeks.
 - More states qualified to provide the higher tier of benefits in the 1990s than under the current program
 - At this stage of the 1990s recession, workers were getting 20 or 26 weeks of federal benefits, not 13 weeks
- Should have extended assistance to the 1 million workers who were still unemployed at the end of 2002 after exhausting all benefits
- Other improvements in UI are necessary
 - Use of the Alternate Base Period
 - Covering part-time workers
 - Expanding coverage to more workers, especially low-wage workers

Chart 3
Cumulative Exhaustions of Temporary Federal UI Benefits,
1992 and 2002



Personal Reemployment Accounts

- \$3.6 billion in funding to states, two year program
- Individual accounts of up to \$3,000 for workers who are likely to become long-term unemployed; Administration estimates 1.2 million workers could be helped
- Accounts administered by One Stop Career Centers; funds can be used for training or other intensive job search services
- Workers who exhausted all UI benefits not more than three months before PRAs are created could also receive accounts and use them as income support
- Workers would receive remaining funds from their account as a “reemployment bonus” if they find jobs within 13 weeks of starting to receive UI benefits (or within 13 weeks of receiving an account, for workers who get PRAs after exhausting all benefits). Workers would get 60 percent of remaining account immediately and the balance if they still have their jobs after 6 months
- Workers who run out of funds in their accounts before finding jobs cannot access intensive services from One Stop Centers for a year after receiving PRAs

Personal Reemployment Accounts

- Spending \$3.6 billion more on the unemployed during this recession is clearly a positive development. May help workers. However several key aspects of the proposal need improvement and the dollars could have been spent in better ways.
- \$3.6 billion could have funded UI benefits to the one million workers who are still out of work and have exhausted all UI benefits. The money could be used to help all dislocated workers, or to improve the UI system.
- Proposal will only assist a fraction of those who exhaust benefits.
- Not clear to what extent these are new employment service resources or the extent to which this will replace TEUC or assist the Administration in enacting their UI devolution proposal.
- Clearly not fiscal relief to the states.
- Not very stimulative because will take some time to enact.
- Very small amount compared to the size of their entire "stimulus package."
- Accounts force the predetermination of employment services funding for individual unemployed workers and set arbitrary caps on the amount of services they can receive.

Other Key Questions That Need to be Answered Before One Can Completely Assess This Proposal

- Do bonuses work? Will bonuses work for long-term unemployed during a recession?
- How well will profiling predict exhaustees given that by law certain factors (eg race, gender and age) can not be utilized?
- How much information do States typically receive from the unemployed to do profiling? How much of an administrative burden does this pose?
- Reemployment bonuses were typically tested for the entire UI population. How much of the monies will be spent on bonuses versus services? For what percentage of the unemployed will it cause them to get jobs sooner?
- Is the \$3.6 billion completely new resources? Will they be funded by the appropriations process? Do the monies come from federal UI accounts or general revenues?
- Why are only a small percentage of the long-term unemployed covered by the proposal according to Administration estimates?
- To what extent will new work requirements be imposed by the system of accounts?
- If the unemployed do not get employed in time to receive a bonus, can they use the remainder of their accounts for income support if they exhaust all UI benefits? If not, can they purchase child care and transportation, or are those considered income support?
- Is this the most effective way of providing employment services to the long-term unemployed? How will this be coordinated with WIA?

The President's Budget

Current Budget Spends Entire Social Security Surplus

Trillions of Dollars

	2002-2011
February 2001 Base	3.053
July 2001	0.575
February 2002	-1.651
July 2002	-1.968
February 2003	-4.363

Examining Tax Cuts

Table 1
Changes in CBO Projections Since January 2001
 in billions of dollars

	2003-2004 average	Ten-year total, 2002-2011	Share of the \$3 trillion, 10-year cost of legislation attributable to each type of legislation
CBO's projected surpluses, January 2001.	378	5,610	
Remove over-optimistic estimates	<u>-290</u>	<u>-2,577</u>	
CBO's projected surplus, January 2003, if no legislation had been enacted.	88	3,033	
Tax cuts	-150	-1,757	58%
Military appropriations	-60	-736	24%
Non-defense appropriations (including homeland security)	-26	-321	11%
<u>Entitlement legislation*</u>	<u>-24</u>	<u>-199</u>	<u>7%</u>
<u>Subtotal, all legislation</u>	<u>-260</u>	<u>-3,013</u>	100%
CBO projections, January 2003.	-172	20	

* Entitlement legislation includes the farm bill, extended unemployment compensation, 911 victims compensation, the airline bailout, student loan changes, veterans' education benefits, and dual benefits for military retirees and veterans, among others.

(Social Security Projections of Trust Funds between years 2002 – 2013
 = 2.9 trillion; Medicare Projections = 0.4 trillion)

The President's Budget Cont.

The Bush Administration's \$4.4 Trillion Tax Agenda

	<u>2001 – 2013</u>
2001 Tax Cut	\$1.349 Trillion
March 2002 Stimulus Package	\$0.042 Trillion
January 2003 "Growth" Package	\$0.615 Trillion
Other Tax Cuts in Budget	\$0.692 Trillion
Protect Middle Class from AMT	\$0.681 Trillion
Direct Effect of Bush Agenda	\$3.379 Trillion
+ Increased Debt Service	\$1.000 Trillion
TOTAL IMPACT ON DEFICIT	\$4.379 Trillion

The President's Budget Cont.

Mandatory:

- ⑩ No money for UI extension**
- ⑩ Real cuts in TANF and child care**
- ⑩ No money for States to offset cuts in social programs**

Major Structural Reforms:

- ⑩ UI Devolution**
- ⑩ Block Granting three DOL programs**
- ⑩ Housing assistance**
- ⑩ Medicaid**
- ⑩ Child Welfare**
- ⑩ Medicare Reform**
- ⑩ Super Waver**
- ⑩ School Lunch**
- ⑩ EITC**

The President's Budget Cont.

Table 2. Comparing the Bush Budget for 2004 Discretionary Programs

Discretionary budget authority, \$ billions	Baseline*	Bush Budget	Budget Above/ Below Baseline	% Difference
Defense	391.5	399.2	+7.7	+2.0%
International Affairs	26.5	28.6	+2.1	+7.9%
Homeland Security	23.2	24.8	+1.6	+6.9%
Other Domestic	345.5	329.6	-15.8	-4.6%
Total Appropriations	786.7	782.2	-4.4	-0.6%
Memorandum:				
Transportation	42.5	39.6	-2.9	-6.8%
<i>Adjusted Other Domestic</i>	388.0	369.3	-18.7	-4.8%
Adjusted Total Appropriations	829.2	821.8	-7.3	-0.9%

*Because 11 of the 13 2003 appropriations bills have yet to be enacted, the table compares the Bush budget to CBO's most recent estimate of full-year appropriations, adjusted for inflation. See footnote 1 for more information.