ECONOMIC SCENE

The stimulus package should fix the unemployment insurance program first.

By ALAN B. KRUEGER

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IT is often said that unemployment insurance is the first line of defense in a recession. The line needs some strengthening, however, because the program has not kept up with changes in the work force and has been neglected by many state legislatures.

Economists have a well-worked-out theory of unemployment insurance. The program helps laid-off workers maintain consumption and search for a job that matches their skills. But these benefits come at a cost: more generous or longer-lasting benefits reduce the intensity with which unemployed workers look for a job.

To balance the intended and unintended effects, most states replace 40 to 50 percent of lost wages. Benefits are temporary, typically lasting up to 26 weeks. Through a financing plan known as experience rating, employers with worse records of laying off workers pay somewhat more into the program to discourage layoffs.

This is a distinctly American brand of unemployment compensation. In France, for example, benefits replace around 80 percent of earnings and last up to two years; there is no experience rating. The relatively low level and short duration of benefits -- and experience rating -- partly account for our lower unemployment rate.

Unemployment insurance is the quintessential economic stimulus: benefits ramp up temporarily in a downturn and reach those most in need. Outlays soared from $14 billion in 1989 to $37 billion in 1992, when the jobless rate peaked, and fell to $21 billion in 1995, when the labor market improved. By building up reserves in prosperous times and spending them in weaker times, the program helps stabilize the economy.

Unlike many other programs being considered for the stimulus package, unemployment insurance provides security for those who do not directly receive benefits. Just knowing that benefits are available in case of job loss inspires confidence. A strong safety net also makes it unnecessary to have industry-by-industry bailouts in response to adverse shocks.

President Bush recently proposed spending $3 billion to extend unemployment benefits by 13 weeks for eligible workers. Extended benefits are a sensible and traditional response in a recession. The distortion caused by longer-lasting or more generous benefits is less significant in a downturn because jobs are less plentiful regardless of how hard people search for work, said Dale Mortensen of Northwestern University, who has done pioneering research on unemployment insurance.

Indeed, a bipartisan group in Congress is questioning whether President Bush's proposal goes far enough to mend the program and the particular way he would extend benefits.

In the president's proposal, benefits would automatically be extended in Virginia, New York and New Jersey, and in other states in which the jobless rate rises 30 percent, but only for those who lost jobs after Sept. 11.

This trigger mechanism has some peculiar implications. If the unemployment rate rises from 3 to 4 percent in one state, extended benefits will kick in, but if it jumps from 10 to 12.5 percent in another, that state will not qualify.

It is also unclear why Virginia, with an unemployment rate of 2.9 percent, the nation's third lowest, should qualify for extended benefits, while Washington -- which is across the Potomac from the the Pentagon and has a 6.4 percent jobless rate, the nation's second highest -- does not.

And why should a worker laid off on Sept. 10 be treated differently from one laid off on Sept. 12? Surely, those laid off before Sept. 11 will face tougher job competition because of the rise in unemployment after the attacks.

The terrorist attacks are not solely responsible for the slowdown: it was already in the works. The number of jobless workers rose 1.4 million in the 12 months before Sept. 11; unemployment claims reached their highest level in nine years over the summer.

Legislation sponsored by Representatives Benjamin Cardin, a Maryland Democrat; Amo Houghton, a New York Republican; and six others would do much more to strengthen the safety net than would the president's proposal. Their bipartisan bill would extend benefits for 13 weeks to those who exhaust their regular benefits in the next year; temporarily increase benefits by 15 percent, or $25 a week, whichever is greater; use more up-to-date earnings records to determine eligibility; and expand eligibility to those seeking part-time work.

Unemployed workers who seek part-time jobs are ineligible for benefits in most states even though their earnings are taxed to finance the program. Because many workers who left welfare for work in the late 1990's must work part-time hours to meet family obligations, they will not have much of a safety net to fall back on if eligibility is not expanded.

Mr. Houghton said, "There are so many part-time workers out there that you can't walk over that issue and think you have addressed unemployment insurance."

Mr. Cardin and Mr. Houghton failed in their bid to attach their $15 billion bill to the stimulus package that steamrolled through the House Ways and Means Committee last week, but they hope it will pass as a free-standing bill if it comes to a vote.

Mr. Cardin lamented that it was hard to understand why temporarily extending benefits to part-time workers had proved so controversial, but both he and Mr. Houghton made clear that they planned to pursue the issue.

In January I used this space to argue that many states -- particularly New York and Texas -- needed to shore up their unemployment insurance programs to prepare for a downturn. More than a dozen states let their experience rating lapse and failed to build up adequate reserves in the 1990's, hindering their ability to expand eligibility and provide adequate benefits.

Fortunately, the federal unemployment trust funds are flush and could be used to support the states in the current downturn if Congress and the administration act. But the longer-term issues -- like better experience rating, more realistic automatic triggers for extended state benefits, and adequate benefits and expanded eligibility in the least generous states -- still need to be addressed.

In announcing his goals for up to $75 billion of additional stimulus spending, President Bush urged: "We don't have time to try to invent new programs. We ought to make those programs that exist work better." Yet his proposal does little to fix unemployment insurance, a time-tested, antirecessionary program.