



# Thousands of Jobless Wisconsin Workers Face Termination of Income at the End of December

This holiday season is a very worrisome one for the families of about two million Americans, including 40,000 in Wisconsin, who may soon lose their federal unemployment benefits. Those benefits, known as Emergency Unemployment Compensation (EUC), are scheduled to end on December 29.

For many Americans, the first effect of the so-called “fiscal cliff” will be just a small increase in payroll withholding. However, for people receiving Emergency Unemployment Compensation, that federal lifeline disappears completely if Congress doesn’t act soon to extend it.

In addition to the two million people who will very abruptly lose their EUC benefits at the end of the month, another one million who would otherwise become eligible during the first three months of 2013 may not be able to receive any EUC benefits. The Congressional Budget Office estimates that failure to renew the federal program will cost jobless workers an estimated \$30 billion in the coming year.

Wisconsin’s share of those benefits has averaged \$50.8 million per month over the first three quarters of 2012. Although it dropped to \$42.7 million in September, that still represents an extremely important infusion of funds into Wisconsin’s slowly recovering economy, especially for the communities with the highest unemployment rates.

## Background

The vast majority of states pay unemployment insurance benefits to jobless workers (who must be actively looking for employment) for a maximum of 26 weeks, and they finance those benefits from a payroll tax paid by employers. In times of higher unemployment, Congress authorizes federally-financed benefits that continue to provide assistance to people who reach the limit on their state-financed unemployment insurance.

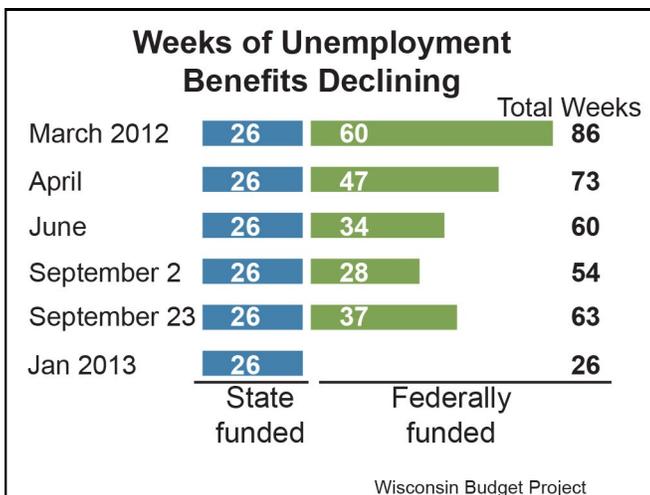
The current federal law varies the length of jobless benefits by creating additional “tiers” of eligibility that are in place in states with higher unemployment rates. During the worst of the Great Recession, the maximum length of federal benefits was 73 weeks (99 total weeks) and most states qualified for the maximum.

## Gradual Phase-out or Abrupt Termination?

At the beginning of 2012, workers in Wisconsin and 28 other states qualified for 60 weeks or more of federal benefits. Legislation passed by Congress early this year has phased down the length of benefits and made it harder for states to qualify for the higher tiers. Now the maximum in Wisconsin is 37 weeks and there are only 7 states where jobless workers qualify for more than that.

Because of the gradually improving economy and changes in the federal law, the number of people receiving federal unemployment benefits has declined very substantially — from a peak of six million in March 2010 to only about a third of that in November 2012.

The bar graph illustrates that the changes enacted by Congress, coupled with a decline in Wisconsin’s unemployment rate below 7 percent, decreased the maximum benefits in our state in several steps this year. The federal benefits reached a low of 28 weeks in early September, before a rise in Wisconsin’s unemployment rate back above 7 percent triggered an increase to 37 weeks of EUC benefits in late September.



The following chart shows that the contraction in the length of benefits this year came even as the unemployment rate was rising in Wisconsin. Now that there has been a resumption of the gradual decline in unemployment rate, the current EUC law would cause Wisconsin and other states to gradually lose eligibility for the higher tiers of EUC benefits. However, in contrast to that sort of reasonable phase-out, unemployment benefits will come to an abrupt and unprecedented end in the coming weeks if Congress does not take action to mitigate this part of the fiscal cliff.

## Bang for the Buck

Eliminating federal unemployment benefits would further slow economic growth. Mark Zandi, chief economist for Moody's Analytics, estimates that every dollar spent on federal unemployment benefits produces \$1.61 in economic activity. Moody wrote that, "there was arguably no more effective form of government support during the recession" than EUC benefits. He explained that EUC "provides an especially large economic boost, as financially stressed unemployed workers spend any benefits they receive quickly."

A recent report by the nonpartisan Congressional Budget Office found that extending the federal unemployment benefits through next year would create about 300,000 jobs and boost economic growth by 0.2 percent in the fourth quarter of 2013.

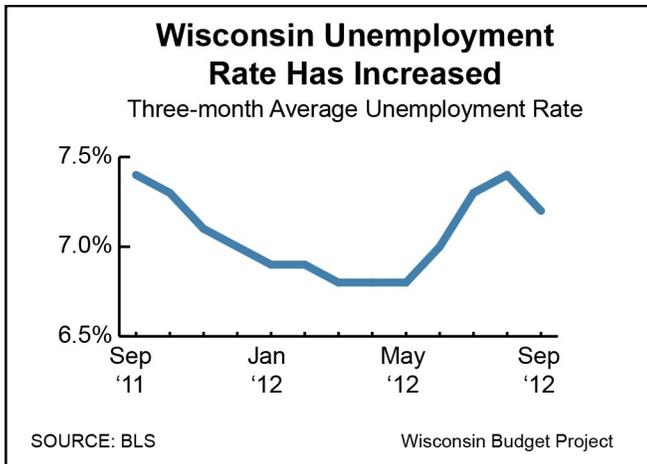
## Conclusion

Although most Americans will only gradually feel the effects of the "fiscal cliff," that's not the case for people who are receiving federal unemployment benefits. About 2 million jobless workers, including 40,000 in Wisconsin, will abruptly lose all of their unemployment income at the end of December. For most of those individuals, the termination of their federal benefits will eliminate their only source of income, and that looming threat will cause a bleak holiday season for many families.

According to the National Employment Law Project, the elimination of the federal benefits could take about \$30 billion out of the pockets of a total of roughly 5.7 million jobless workers over the course of 2013. That would be a severe hit to the national economy and especially to local communities with the highest unemployment rates.

Rather than ending federal unemployment benefits, abruptly, Congress should phase them out slowly as the economy improves. At a time when there are three times as many jobless workers as job vacancies and the economy is at risk of sliding back into recession, it is premature to cut off this lifeline for unemployed workers and economically depressed communities.

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## Persistently High Long-term Unemployment

One of the things that has been very different and troublesome about the Great Recession is the extremely high rate of "long-term unemployment," meaning joblessness that lasts for six months or more. Currently, 40% of all jobless workers have been unemployed at least six months. To put that in perspective, at no other time between 1980 and the current economic downturn did that figure reach as high as 26% (very briefly in the early 1980s).

The average unemployed worker has been searching for a job for 40 weeks, and the search is often much longer for older workers and those in communities with high unemployment rates. These figures don't include millions of other "discouraged" workers who have at least temporarily dropped out of the workforce.

In previous recessions, EUC benefits have not been eliminated until the national unemployment rate was 7.2% or less, and the long-term rate was always far lower than it is now.