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The Costs of Paying for Unemployment Insurance

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Republicans are throwing a wrench into the debate over unemployment benefits by insisting that spending cuts offset any extension of federal aid for the long-term jobless.

It's a conversation shift that makes Democrats nervous. Once you start battling over how to pay for something, legislative talks become a new ball game. Passing the bill is no longer a brute battle of political wills. It's a trading match.

A bill to provide a three-month extension of unemployment benefits for people who have been out of work for more than six months has been scheduled for a vote Tuesday, after harsh weather prevented more than a dozen senators from making it to the Capitol on Monday evening. The measure needs 60 votes to move forward, and it's a high hurdle. The provision carries a cost of \$6.4 billion over 10 years, and conservatives aren't willing to go there.

That didn't stop Democrats from scolding them. "What are you going to tell the 1,600 people in Hagerstown, Maryland, and those across the country, who are desperately looking for work? What are you going to tell them?" demanded Sen. Jack Reed, the Rhode Island Democrat who sponsored the unemployment bill with Republican Sen. Dean Heller of Nevada.

Republicans are, however, willing to discuss extending unemployment benefits if they don't burden federal coffers. Even Sen. Rand Paul of Kentucky said Sunday that he is open to extending unemployment insurance as long as it is paid for. House Speaker John Boehner told the White House a month ago that he would go along with an unemployment extension if it was offset. Boehner also wants an unemployment bill to include other provisions to create jobs (and, he notes, the House has passed a bundle of them).

The Republicans' demands are complicating the unemployment issue for Democrats, who argue that extended unemployment benefits have been in existence since the late 1950s and have generally not been offset since 1972. The exceptions to that rule were in 2009, 2011, and 2012, when the extensions were part of larger legislative packages that included tax offsets. For example, the 2009 unemployment extension was part of the Worker, Homeownership, and Business Assistance Act.

For Democrats, setting a precedent that federal long-term unemployment benefits must be paid for opens up a can of trouble. It means that the benefits are no longer driven by economic and employment conditions but by the condition of the federal budget. Generally, tight-employment economies translate to tight budgets, which means it becomes infinitely harder for lawmakers to approve additional benefits.

“Quite frankly, I thought it was a mistake when we offset it before. It should not be offset,” said Sen. Ben Cardin, D-Md., who oversaw the unemployment-compensation program when he was in the House.

Cardin also argues, correctly, that extended unemployment benefits give a short-term boost to the economy of about 0.2 percent of GDP—not enough to offset the cost, but it is something.

Democrats have not completely closed the door on offsets, which confuses the matter. Rep. Sander Levin, D-Mich., the ranking member on the House Ways and Means Committee, and Rep. Chris Van Hollen, D-Md., ranking member on the Budget Committee, offered late last year to offset a short-term unemployment extension using revenues raised from the farm bill, but there is no sign that their proposal will come up again this year.

House Democrats now are preparing to pressure—or perhaps shame—Republicans into thinking they have to support an extension without an accompanying spending cut, aides say. Ways and Means Democrats are working on an unemployment “counter” that will show a running tally of the number of jobless people who have exhausted their benefits. (It’s running at about 7 per second.)

And the pressure tactics are working. Several Republicans in both the House and the Senate have called for some type of negotiation to allow an unemployment extension to continue. They just don’t want to give away the extension for free, which is exactly what Democrats are requesting.

Budget hawks, however, can be just as stubborn as liberals. They note that even if extended unemployment benefits passed muster as emergency spending in 2008, when the economy was collapsing, it’s been more than five years since then. It’s hard to argue that it’s an emergency now.

“If the state [unemployment] fund goes into deficit, they can borrow in the short term, but they’ve got to pay it back. Ultimately there has to be a balance. They have to make tough decisions,” said Chris Edwards, the CATO Institute’s director of tax-policy studies. “I think it’s a good idea. It ensures responsibility.”