

Extending the Federal Unemployment Insurance Benefits Program:

Critical to Keeping the Economic Recovery On-Track

- Prematurely ending the federal unemployment insurance benefits program would drain the economy of \$80 billion in purchasing power and result in the loss of over one million jobs over the next year.
- Ending the federal unemployment program with the unemployment rate well over 9 percent would be unprecedented. Over the past six decades, as the economy has recovered from recessions, the highest unemployment rate at which federal unemployment benefits were cut off was 7.4 percent.
- Unemployment benefits are one of the most effective tools for boosting economic growth. The President's Council of Economic Advisers estimates that every dollar spent on unemployment insurance benefits increases gross domestic product (GDP) by \$1.60. The nonpartisan Congressional Budget Office ranks extending unemployment benefits as more effective than other policies they analyzed for increasing growth and employment.

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Report by the U.S. Congress Joint Economic Committee

Representative Carolyn B. Maloney, Chair

Senator Charles E. Schumer, Vice Chair

Executive Summary

Extending unemployment insurance benefits is not only a critical form of economic security for American families, but also a key source of fiscal stimulus that has the potential to ease pressure on the labor market by stimulating economic growth. A failure to extend the federal unemployment insurance benefits program would drain the economy of \$80 billion in purchasing power, resulting in the loss of over one million jobs over the course of a year.¹ The nonpartisan Congressional Budget Office and private economic forecasters agree that extended unemployment benefits are an effective and necessary form of economic stimulus at a time when the labor market remains tepid.²

In every major recession since the 1950s, Congress has enacted a temporary program providing additional weeks of federally-funded unemployment insurance benefits. Congress has always continued providing those benefits until the economy was back on track and job prospects were improving. Today, the unemployment rate is 9.6 percent, job opportunities are scarce, and forecasters predict a glacial pace of improvement in the labor market over the coming year. In weak economies over the past six decades, the highest unemployment rate at which federal unemployment benefits have been cut off was 7.4 percent — over two percentage points lower than it is today.

Millions of unemployed workers will lose their benefits if the federal unemployment benefit program is not extended. First, nearly 2 million unemployed Americans who have been out of work for more than 26 weeks and are receiving federal benefits right now will lose those benefits in December if the program is cut off. Additionally, for the recently unemployed who are still receiving state rather than federal unemployment benefits, the expiration of the program means that for most workers, unemployment benefits will stop as soon as they enter their 27th week of unemployment. Currently, more than 40 percent of the unemployed have been out of work for 27 weeks or more. To be clear, the current debate is not about creating an additional tier of benefits. Unemployment benefits are capped at 99 weeks, and will not be extended beyond that. Instead, the debate over extending benefits addresses the fate of the millions of workers who will have their benefits cut off if Congress fails to act.

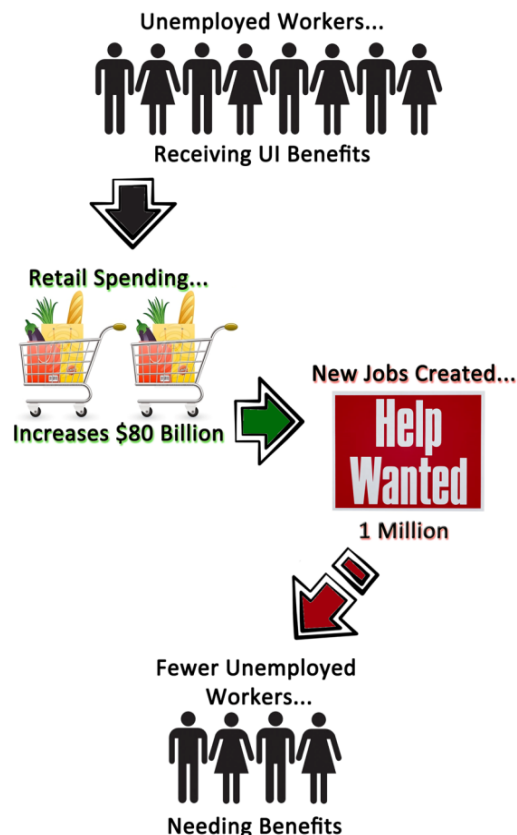
It is unlikely that extending unemployment benefits inhibits individuals' job search efforts. Unemployment benefits are not particularly generous — benefits replace less than half of lost wages, and average weekly benefits are just 74 percent of the poverty threshold for a family of four.³ Even a low-paying job is likely to provide more support than that offered by UI. Moreover, five unemployed Americans exist for every job opening today, which means that individuals who exhaust benefits are unlikely to find a new job with ease.⁴ Those who remain jobless and without unemployment benefits will need some form of social assistance in order to avoid complete destitution, and are likely to turn to alternative social programs at a cost to the federal government.

Unemployment Insurance as Effective Fiscal Stimulus

Workers receiving unemployment insurance payments are typically cash-strapped and will spend their benefits quickly. This quick spending generates a “multiplier” for the economy as a whole. Every dollar of unemployment benefits that a recipient spends can generate a cascade of spending by others, providing a significant jolt to the nation’s economy in terms of both economic activity and employment. Therefore, extending unemployment insurance benefits not only helps struggling households, but can also spur the creation of job opportunities.

In September, roughly 5 million workers were receiving additional weeks of federally-funded unemployment insurance benefits, with an average weekly benefit of roughly \$300. That translates into about \$6.5 billion a month that goes directly back into the economy in the form of consumer spending – unemployed Americans spend their benefits quickly, on essentials such as food, utilities, and housing expenses. Over the course of a year, extended unemployment benefits generate \$75 to \$80 billion in purchasing power. Based on the nonpartisan Congressional Budget Office’s estimates, that’s likely to mean one million or more jobs.⁵ A failure to extend the unemployment benefits program will mean draining that purchasing power from the economy, and as a result, costing more than one million much-needed jobs.

THE ECONOMIC IMPACT OF UNEMPLOYMENT BENEFITS



Unemployment benefits have a direct impact on job creation. The unemployed are quick to spend on necessities, and this purchasing power translates into jobs. A failure to extend the federal unemployment benefits program will drain \$80 billion in purchasing power from the economy, costing more than one million jobs. The economic recovery depends on unemployment benefits, and so do America’s 14.8 million jobless workers.

Indeed, the President's Council of Economic Advisers estimates that every dollar spent on unemployment insurance benefits raises gross domestic product (GDP) by \$1.60.⁶ The nonpartisan Congressional Budget Office reports that increasing aid to the unemployed is more cost-effective in terms of boosting economic growth and employment than a variety of other policies, including tax breaks.⁷

Economists predict that, without extended benefits, the economy will suffer. Consumer spending will fall by 0.5 percent – \$50 billion – over the next year.⁸ Economic growth will be reduced by as much as 0.4 percentage points between December 2010 and February 2011.⁹ In short, a failure to extend the unemployment insurance program could hamper the fragile recovery.

Unemployment Insurance Does Not Discourage Job Search Behavior

Unemployment insurance does not impact job search behavior. "The most compelling research shows only modest impacts of UI extensions on the search effort and duration of unemployment of unemployment insurance recipients," according to Harvard University economist Lawrence Katz in testimony to the Joint Economic Committee.¹⁰ Numerous other prominent economists agree that unemployment insurance benefits have only minimal impacts on job search behavior, and those impacts are likely to be infinitesimal given the bleak labor market.

Columbia University economist Till von Wachter, in testimony before the Joint Economic Committee, argues that "it is likely that in severe recessions, the benefit of extended UI outweighs the costs."¹¹ Analyzing data from Germany that is of much higher quality than most other studies on the disincentive effects of unemployment insurance, von Wachter finds that "extended UI would lead to a moderate increase in the rate of unemployment," but infers that the increase in the unemployment rate would be smaller in the United States right now because labor market conditions are tight and jobs are scarce.¹²

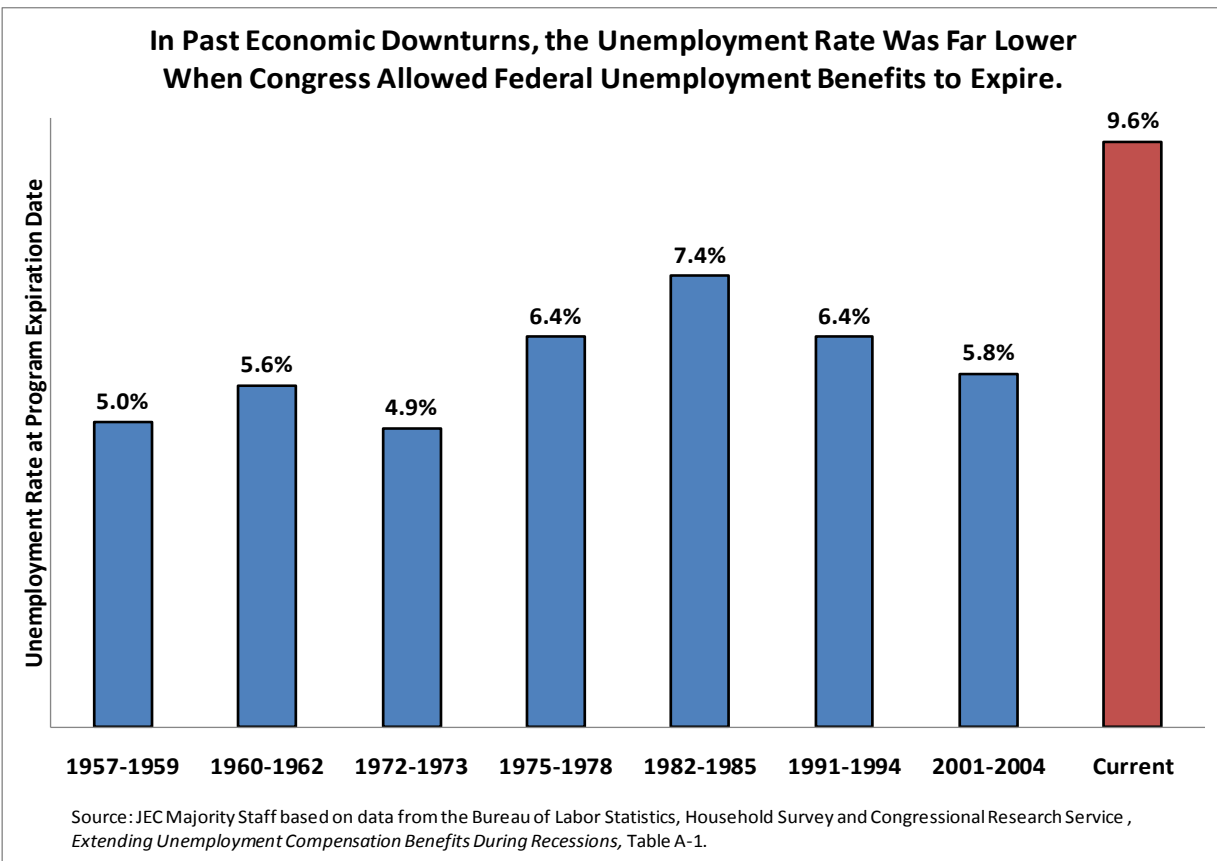
Harvard University economist Raj Chetty reaches similar conclusions. He finds that additional weeks of unemployment insurance have two distinct impacts on the duration of unemployment spells, in good economic times. On the downside, unemployment insurance provides a minor disincentive for a worker to look for a new job. On the upside, unemployment insurance provides a financially-strapped worker with the economic support he needs to look for a job well-suited to his skills – rather than taking the very first job offered regardless of whether it is a good match to his skills and abilities. Chetty finds that the beneficial effect of extended unemployment insurance benefits is far more important than the work disincentive effect, even when in good economic times.¹³ Moreover, in the current troubled labor market, the benefits of extended unemployment insurance benefits are likely to be even greater. In other words, the work disincentive effect is likely quite minor, due to the paucity of job opportunities. As a result, concludes Chetty, "Weighing costs against benefits, extending benefits further in [the] current economy would significantly increase economic welfare."¹⁴

Former Chairman of the Federal Reserve Alan Greenspan has also expressed strong support for extending unemployment insurance benefits, and dismisses the argument that unemployment benefits discourage job search behavior. In testimony to the Joint Economic Committee, Chairman Greenspan said, “[U]nemployment benefit insurance here is essentially restrictive because it’s been our perception that we don’t want to create incentives for people not to take jobs. But when you’re in [a] period of job weakness where it is not a choice on the part of people whether or not they’re employed or unemployed, then, obviously, you want to be temporarily generous. And that’s what we’ve done in the past, and I think it’s worked well.”¹⁵

While an extension of unemployment insurance benefits will not discourage job search behavior, it may increase the unemployment rate. This is because the unemployment rate counts only those individuals who are actively seeking work, which is a requirement for receiving unemployment insurance benefits. Jobless individuals who drop out of the labor market entirely are not counted when the Bureau of Labor Statistics calculates the unemployment rate. Because unemployment insurance incentivizes labor force attachment, an extension of these benefits means that more jobless Americans will be counted as unemployed.

The Current Labor Market Provides Few Opportunities for Unemployed Workers

In every major recession since the 1950s, Congress has enacted a temporary program providing additional weeks of federally-funded unemployment insurance benefits. Congress has always continued providing those benefits until the economy was back on track and job prospects were improving. Today, the unemployment rate is 9.6 percent, job opportunities are scarce, and forecasters predict a glacial pace of improvement in the labor market over the coming year. In weak economies over the past six decades, the highest unemployment rate at which federal unemployment benefits have been cut off was 7.4 percent — over two percentage points lower than it is today.



There are currently 5 unemployed workers for every job opening.¹⁶ The slack labor market means that an unemployed worker who loses benefits faces a serious challenge in securing new employment. The jobs are simply not there yet.

Millions of unemployed workers will lose their benefits if the federal unemployment benefit program is not extended. Right now, more than 40 percent of unemployed workers have been out of work for more than 26 weeks. Failing to extend the federal emergency program means that when most unemployed workers hit their 27th week of joblessness, unemployment benefits for them will cease.¹⁷ As a result, millions of unemployed workers will not get the support they need to put food on the table and pay their rent or mortgage. To be clear, the current debate is not about creating an additional tier of benefits. Unemployment benefits are capped at 99 weeks, and will not be extended beyond that. The debate over extending benefits addresses the fate of the nearly 2 million unemployed Americans who have received fewer than 99 weeks of benefits, and who will be cut off if Congress fails to act.

In the absence of unemployment benefits, job seekers need some form of assistance in order to avoid further economic crisis. Private savings are not the answer, as the vast majority of unemployed Americans have minimal savings on which to draw upon during jobless spells. Indeed, economist Raj Chetty finds that nearly half of job losers in the United States report zero liquid wealth at the time of job loss, suggesting that many households simply do not have the resources to continue to pay their bills and put food on the table in the absence of unemployment insurance benefits.¹⁸

In the absence of unemployment insurance benefits or private savings, these workers will need an alternative source of income until they find employment. In the wake of the financial crisis, banks have tightened lending requirements, which constrains access to credit cards and home equity lines for economically-vulnerable Americans.¹⁹ Many are likely to turn to another social assistance program that may be even more expensive than unemployment insurance. For instance, the Joint Economic Committee estimates that the cost of failure to extend unemployment benefits would result in \$24.2 billion in additional spending on Disability Insurance benefits.²⁰ Other programs, including Temporary Assistance to Needy Families and food stamps (now SNAP), are likely to see a spike as well.

The federally-funded extended unemployment benefits program is a temporary program with a critical function to serve during these tough economic times, when the state-funded unemployment program simply cannot meet workers' needs. As the economy improves and the unemployment rate comes down, expenditures for unemployment insurance diminish automatically as the number of unemployed falls. As job prospects improve and the pace of job creation picks up, many more people will find jobs before exhausting all their available unemployment insurance benefits. As that begins to happen in earnest, the emergency benefits program can and should be phased out, as it has been after every previous economic downturn.

Endnotes

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- ² Congressional Budget Office, Policies for Increasing Economic Growth and Employment in 2010 and 2011. January 2010. <http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf>; RBC Capital Markets economist Tom Porcelli and Nomura Securities economist Zach Pandl, quoted in *Business Week* on November 5, 2010. <http://www.businessweek.com/news/2010-11-05/lapse-of-u-s-unemployment-benefits-may-cool-consumer-spending.html>.
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- ⁴ Joint Economic Committee calculations based on Bureau of Labor Statistics Job Openings and Labor Turnover Survey data and Current Population Survey data for October.
- ⁵ Stone, Chad and Hannah Shaw. November 10, 2010. "Emergency Unemployment Insurance Benefits Remain Critical for the Economy." Washington, D.C.: Center on Budget and Policy Priorities. http://www.cbpp.org/cms/index.cfm?fa=view&id=3320#_ftn12.
- ⁶ Statement of Jane Oates, Assistant Secretary for Employment and Training, U.S. Department of Labor, Senate Finance Committee (April 14, 2010).
- ⁷ Congressional Budget Office, Policies for Increasing Economic Growth and Employment in 2010 and 2011. January 2010. <http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf>.
- ⁸ RBC Capital Markets economist Tom Porcelli, quoted in *Business Week* on November 5, 2010. <http://www.businessweek.com/news/2010-11-05/lapse-of-u-s-unemployment-benefits-may-cool-consumer-spending.html>.
- ⁹ Nomura Securities economist Zach Pandl, quoted in *Business Week* on November 5, 2010. <http://www.businessweek.com/news/2010-11-05/lapse-of-u-s-unemployment-benefits-may-cool-consumer-spending.html>.
- ¹⁰ Joint Economic Committee testimony of Dr. Lawrence Katz (April 29, 2010).
- ¹¹ Joint Economic Committee testimony of Dr. Till von Wachter (April 29, 2010).
- ¹² *Ibid*.
- ¹³ Card, David, Raj Chetty, and Andrea Weber. "The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?" August 2007 NBER working paper.
- ¹⁴ From Raj Chetty's May 28, 2010 presentation before the Economic Policy Institute on "Should Unemployment Benefits Be Extended: An Economic Framework and Empirical Evidence." His presentation can be found at http://epi.3cdn.net/d5a99f04921083739f_t7m6bxxpa7.pdf.
- ¹⁵ Testimony of the Honorable Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, Joint Economic Committee (May 21, 2003).
- ¹⁶ Joint Economic Committee calculation using data from the Bureau of Labor Statistics Job Openings and Labor Turnover Survey and the Bureau of Labor Statistics Household Survey.
- ¹⁷ While most unemployed workers would lose their benefits when they enter their 27th week of unemployment, twelve states provide unemployment insurance beyond 26 weeks. The states and number of weeks of unemployment insurance provided follow: Alaska (46), Connecticut (46), Florida (46), Kansas (39), Massachusetts (30), Minnesota (39), Montana (28), New Jersey (46), New Mexico (46), Oregon (46), Rhode Island (46) and Washington (46).
- ¹⁸ Chetty, Raj. Moral Hazard vs. Liquidity and Optimal Unemployment Insurance. http://www.econ.berkeley.edu/~chetty/papers/mh_liq_ui_jpe.pdf.
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