ISSUE BRIEF

ECONOMIC POLICY INSTITUTE | ISSUE BRIEF #318 NOVEMBER 4, 2011

LABOR MARKET WILL LOSE OVER HALF A MILLION JOBS IF UI EXTENSIONS EXPIRE IN 2012

HEIDI SHIERHOLZ AND LAWRENCE MISHEL

At the end of this year, federally funded extended unemployment insurance (UI) benefits are set to expire. These benefits serve two very useful public purposes. Most obviously, they provide a lifeline to the long-term unemployed and their families during the deepest and longest economic downturn since the 1930s. The ratio of unemployed workers to job openings is now 4.6-to-1, and has been well over 4-to-1 for the last two years and eight months (Shierholz 2011). A "job seeker's ratio" of more than 4-to-1 means there are simply no jobs available for more than three out of four unemployed workers. In other words, in a given month in today's labor market, the vast majority of the unemployed are not going to find a job *no matter what they do.* Furthermore, the situation is barely improving; the Congressional Budget Office (August 2011) projects an unemployment rate of 8.5 percent in the fourth quarter of 2012, which is higher than the worst months of the last two recessions. This is no time for Congress to turn its back on the long-term unemployed.

Less understood but equally crucial, the UI benefit extensions boost spending in the economy and thereby create jobs. This issue brief calculates how many jobs will be lost in 2012 if the current federally funded extended UI benefits are not extended through the end of next year.

Table 1 shows the impact on gross domestic product and employment of continuing the federally funded unemployment insurance benefit extensions through 2012. These estimates are calculated using the methodology described in Bivens (2011). While it would cost an estimated $45 billion to continue the extensions[1], the economic boost would be much greater because this spending would have a large "multiplier" effect. Long-term unemployed workers are almost by definition cash-strapped and have very little choice but to immediately spend their unemployment benefits.

Unemployment benefits spent on rent, groceries, and other necessities increase economic activity, and that increased economic activity saves and creates jobs throughout the economy. For this reason, economists, including those at the Congressional Budget Office, widely recognize government spending on unemployment insurance benefits as one of the most effective things that can be done in a recession to generate jobs. Spending $45 billion on unemployment insurance extensions in 2012 would increase GDP by an estimated $72 billion, raising our $15.2 trillion GDP by roughly 0.5 percent. This increase in economic activity translates into roughly 560,000 payroll jobs. In other words, extending the federally funded unemployment insurance extensions through 2012 would not only extend a lifeline to the families of millions of long-term unemployed workers, it would also generate spending that supports well over half a million jobs. If this program is discontinued, the economy will lose these jobs.

TABLE 1

Impact of continuing federally funded unemployment insurance benefit extensions through 2012

Cost (billions)	$45.0
Impact on GDP (billions)	$72.0
Impact on GDP (as a share of GDP)	0.5%
Impact on employment (jobs saved or created)	560,000

Source: Calculated using methodology described in Bivens (2011). See endnote 1 for source of cost estimate.

But could there be a downside?

Is it possible that continuing the UI benefit extensions could weaken the labor market by providing a disincentive for UI recipients to return to work? The answer is a very clear "no." In the most careful study to date on the effects of UI extensions on job searches in the Great Recession, Jesse Rothstein (2011) finds that the unemployment rate in December 2010 would have been about 0.3 percentage points lower if UI benefits had not been extended. The unemployment rate that month was 9.4 percent, up from 5 percent in December 2007, an increase of 4.4 percentage points. Thus, he finds that a very small fraction—0.3 out of 4.4—of the increase in the unemployment rate during the Great Recession and its aftermath can be attributed to the UI benefit extensions. Furthermore, Rothstein shows that at least half of the extension-induced increase in the unemployment rate is due to the fact that workers who receive UI benefits are less likely to give up looking for work. His estimates suggest that less than 0.2 percentage points of the 4.4 percentage point increase in the unemployment rate in the three years from December 2007 to December 2010 was due to an extension-induced reduction in the rate at which workers get a new job.

And importantly, Rothstein is unable to account for two key factors in his research. As mentioned above, there are far more unemployed workers than job seekers. With or without unemployment insurance benefit extensions, there are not nearly enough jobs to go around. While Rothstein documents a small reduction in the rate of job finding for

UI benefit recipients, it does not necessarily follow that UI benefits cause an increase in the unemployment rate, given the lack of job openings. After all, if someone receiving UI benefits fails to land a job, that job may be filled by someone else who is not receiving UI benefits.

Finally, Rothstein looks only at the *microeconomic* effect of UI benefit extensions on job search and reemployment for recipients. He doesn't address the *macroeconomic* effect discussed in this paper—the roughly 560,000 jobs that would be supported by continuing UI benefit extensions through 2012. All else equal, discontinuing the UI extensions and thereby losing those 560,000 jobs would increase the unemployment rate by around 0.4 percentage points. Factoring in both the micro and macro estimates, there is no doubt that continuing the extensions of unemployment insurance benefit would not increase the unemployment rate.

Final cost much lower than the 'sticker price'

The actual net cost of continuing the UI benefit extensions is far less than the $45 billion "sticker price." The 560,000 jobs created or saved will generate greater federal revenues from the taxes paid on the wages earned by those who otherwise would not have jobs, and save the government money on safety net spending related to unemployment (for example, Medicaid and food stamps). In other words, when people have jobs, government revenues increase and government expenditures go down.

Of the $72 billion increase in GDP related to continuing the unemployment insurance benefit extensions through 2012, some 37.4 percent, or $26.9 billion, would be recouped in higher revenues, as more people and firms pay taxes, and in lower expenditures.[2] Consequently, the effective cost to the budget of continuing the UI benefits extension for a year is $18.1 billion instead of $45 billion. This means that the continuation of unemployment insurance benefit extensions through 2012 would save 560,000 jobs at an effective cost of around $32,000 per position. That alone is a good deal, but when we remember that these expenditures would assist millions of families of the long-term unemployed during the worst downturn in seven decades, the case for continuing the extensions could not be more clear.

Endnotes

1. CBO (October 2011) provides a spending figure of $44 billion for the unemployment insurance provisions in the American Jobs Act of 2011. The additional $1 billion is the cost of suspending the Extended Benefit "look back" (not published).

2. See methodology in endnote 2 of Mishel and Shierholz (2010).

References

Bivens, Josh. 2011. *Method memo on estimating the jobs impact of various policy changes.* Washington, D.C.: Economic Policy Institute. http://www.epi.org/publication/methodology-estimating-jobs-impact/

Congressional Budget Office. August 2011. *The Budget and Economic Outlook: An Update.* Washington, D.C.: CBO. http://cbo.gov/ftpdocs/123xx/doc12316/08-24-BudgetEconUpdate.pdf

Congressional Budget Office. October 2011. *Cost Estimate for S. 1549, American Jobs Act of 2011.* Washington, D.C.: CBO. http://cbo.gov/ftpdocs/124xx/doc12470/s1549.pdf

Mishel, Lawrence and Heidi Shierholz. 2010. *Two for the Price of One: Providing Unemployment Insurance Both Assists the Unemployed and Generates Jobs.* Economic Policy Institute Issue Brief #281. Washington, D.C.: EPI. http://www.epi.org/publication/two_for_the_price_of_one/

Rothstein, Jesse. 2011. "Unemployment Insurance and Job Search in the Great Recession." National Bureau of Economic Research Working Paper No. 17534. Cambridge, Mass.: NBER. http://www.brookings.edu/~/media/Files/Programs/ES/BPEA/2011_fall_bpea_papers/2011_fall_bpea_conference_rothstein.pdf

Shierholz, Heidi. 2011. "No improvement in job-finding prospects since the spring." Economic Policy Institute Economic Indicators (Web page), October 12. http://www.epi.org/publication/improvement-job-finding-prospects-spring/