Policy Memorandum

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THE JOBS ACT WILL RESULT IN FEWER, NOT MORE JOBS

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The "Jobs, Opportunity, Benefits, and Services Act of 2011" (JOBS Act) allows states to divert the federal funds they will receive to pay for emergency unemployment compensation (EUC) and extended benefits (EB) to other purposes, including paying off the debt many states owe to the federal unemployment trust funds, paying for regular state benefits, paying for reemployment services (e.g., job search assistance and job training), and improving the balance in their own state unemployment insurance trust funds.

The Congressional Budget Office (CBO) anticipates that $32 billion will be paid for EUC and EB from July 2011 until May 2012 under current law. The JOBS Act ends the entitlement to those funds and allocates $31 billion to the states in a new block grant.

The JOBS Act essentially allows states to terminate the payment of EUC and EB, potentially eliminating about $40 billion in economic activity, according to CBO estimates, that would result from putting cash in the hands of needy families that will spend it. The $40 billion in economic activity generated by the EUC and EB programs under current law would create around 322,000 jobs.

Spending on unemployment insurance programs gives the economy its biggest bang for the buck in terms of job creation because the GDP multiplier effect of unemployment compensation—which CBO estimates in a range from 0.7 to 1.9—is greater than any of the other possible uses under the proposed Act. Putting cash in the hands of unemployed workers generates more economic activity than any other option: it results in more consumption of goods and services produced by private-sector businesses, generating more economic activity by their suppliers and contractors.

But if the states choose not to spend the money on EUC and EB, some funding options will be better than others. For example, if a state uses its share of the $31 billion to pay down its debts to the federal UI trust funds, it will remove that amount of money from the economy, generate no new economic activity, and create no jobs at all. Likewise, if a state chooses to eliminate EUC and EB and instead deposit its share of the federal funds into its UI trust funds to improve their balance, the money will be removed from circulation and create no jobs at all.

Alternatively, under the JOBS Act a state could decide to use the federal funds to pay for regular state unemployment insurance benefits. This would relieve state employers of the need to pay for those benefits and allow for a temporary tax cut on all employers in the state that pay UI taxes. Employer payroll taxes have a modest GDP multiplier effect that CBO estimates at somewhere between 0.4 and 1.2. If all states took this approach, then about 198,000 jobs would be created,[1] or 124,000 fewer than under current law.

The other allowable activity under the JOBS Act is spending on reemployment services such as job search assistance and job training, which have an even more modest effect on GDP. The CBO estimates the multiplier effect as ranging from 0.4 to 1.1. If all states spent the entire $31 billion on such services, then about 186,000 jobs would be created,[2] or 136,000 fewer than under current law.

Needless to say, any combination of these alternative spending paths would lead to the creation of fewer jobs than under current law. If, for example, half of the funds nationwide were spent on continuing to provide EUC and EB, while the other half was divided between employer payroll tax deductions and reemployment services, then about 257,000 jobs would be created, a loss of about 65,000 jobs compared to current law.

In summary, the JOBS Act is a job loser, not a creator.

Endnotes

1. This calculation uses the midpoint of the multiplier range and assumes that $125,000 of new economic activity is required to generate one job.
2. Using the midpoint of the multiplier range and assuming $125,000 per job.