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LABOR MARKET WILL LOSE 400,000 JOBS IN 2013 IF UI EXTENSIONS EXPIRE

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Federally funded extended unemployment insurance (UI) benefits are set to expire at the end of this year. 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.[1] Less understood but equally crucial, the UI benefit extensions boost spending in the economy and thereby create jobs. We find that continuing the extensions through 2013 would generate spending that would support 400,000 jobs. If this program is discontinued, the economy will lose these jobs.

Is the federally funded extended unemployment insurance (UI) benefits program still necessary more than three years after the recession officially ended, in June 2009? Absolutely. There are 5 million workers who have been unemployed for more than six months, which is more than *four times* the number of long-term unemployed in 2007, before the Great Recession began. Furthermore, 40.6 percent of unemployed workers have been unemployed for more than six months, a share more than 20 percentage points higher than the 2007 average of 17.5 percent. The labor market still faces a profound long-term unemployment crisis due to the damage inflicted by the Great Recession.

That unemployed workers continue to face extremely long spells of unemployment is no surprise given how dramatically unemployed workers outnumber job openings. The ratio of unemployed workers to job openings is 3.4-to-1, and has been 3-to-1 or greater since September 2008 (Shierholz 2012). A "job-seekers ratio" of more than 3-to-1 means there are simply no jobs available for more than two out of three 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 unlikely

TABLE 1

Impact of continuing federally funded unemployment insurance extensions through 2013 on GDP and employment outcomes in 2013

Cost (billions)	$30
GDP increase (billions)	$48
GDP increase (as a share of GDP)	0.30%
Jobs created	400,000

Source: Calculated using methodology described in Bivens (2011)

to improve much in the next year: Moody's Analytics projects an average unemployment rate of 7.8 percent in 2013, which is higher than the highest unemployment rate of the early 2000s recession and equal to the highest unemployment rate of the early 1990s recession (Moody's 2012). More than 5 million jobless workers will be unable to collect federal UI benefits next year if federal benefits are not renewed (NELP 2012). This is no time for Congress to turn its back on the long-term unemployed.

Jobs created by unemployment insurance benefits

Table 1 shows the impact on gross domestic product of continuing the federally funded unemployment insurance benefit extensions through 2013 and the consequent impact on employment in 2013. These estimates are calculated using the methodology described in Bivens (2011). While it would cost an estimated $30 billion to continue the extensions, the economic boost would be much greater because this spending would have a large "multiplier" effect. Long-term unemployed workers, who are almost by definition cash-strapped, are likely 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 tools for generating jobs in a downturn. Spending $30 billion on unemployment insurance extensions in 2013 would increase consumer spending and expand GDP by an estimated $48 billion, raising our $15.8 trillion GDP by roughly 0.3 percent. This increase in economic activity would translate into roughly 400,000 jobs. In comparison, continuing the upper-income Bush-era tax cuts in 2013 would cost $52 billion—nearly 75 percent more than continuing the UI extensions—and generate just 102,000 jobs, nearly 75 percent fewer jobs than the number created by continuing the UI extensions (Bivens and Fieldhouse 2012).

But could there be a downside?

Could the net effect of continuing the UI benefit extensions in the current environment possibly weaken the labor market by providing a disincentive for UI recipients to return to work? The answer is a resounding "no." In the most careful study available on the effects of UI extensions on job searches in the Great Recession, Jesse Rothstein (2011) finds that a very small fraction of the increase in the unemployment rate during the Great Recession and its aftermath can be attributed to UI benefit extensions. In particular, he finds that 0.3 percentage points out of the 4.4 percentage-point increase in the unemployment rate between December 2007 and December 2010 can be attributed to UI extensions. Furthermore, Rothstein shows that at least half of that 0.3 percentage-point increase in the unemployment rate was due to the fact that workers who receive UI benefits are less likely to give up looking for work. In other words, most of the small increase in the unemployment rate attributable to the UI extensions comes from *increased* job searches, since UI gives people a reason to continue looking for work even though job prospects are bleak. This is a good thing because it will likely increase the share of displaced workers who ultimately find work.

And importantly, Rothstein is unable to account for two key factors in his research. First, 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. The small reduction in the rate of job-finding for UI benefit recipients documented by Rothstein does not necessarily mean that UI benefits increased the unemployment rate, given the lack of job openings. Rather, extensions have likely affected the *mix* of the unemployed, with a slight shift of jobs from UI recipients to other job-seekers, as UI recipients have more room than non-recipients to take the time to find a job that matches their needs.

Second, 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 400,000 jobs that would be supported by continuing UI benefit extensions through 2013. All else equal, discontinuing the UI extensions and thereby losing those 400,000 jobs would increase the unemployment rate by around 0.3 percentage points relative to where it would have been if the extensions had continued.

Factoring in both the micro and macro estimates, there is no doubt that continuing the extensions of unemployment insurance benefits would benefit the labor market.

Final cost much lower than the 'sticker price'

The actual net cost of continuing the UI benefit extensions is far less than the $30 billion "sticker price." The 400,000 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.

Specifically, continuing the unemployment insurance benefit extensions through 2013 generates a $48 billion increase in GDP and, correspondingly, $18 billion in higher revenues (as more people and firms pay taxes) and lowered expenditures.[2] That is, $18 billion of the $30 billion cost of the UI benefits extension is recouped from the taxes paid and expenditures lowered by the increased economic activity generated. Consequently, the effective cost to the federal budget of continuing the UI benefits extension for a year is $12 billion instead of $30 billion. This means that the continuation of unemployment insurance benefit extensions through 2012 would save 400,000 jobs at an effective cost of around $30,000 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 clearer.

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Endnotes

1. A Center on Budget and Policy Priorities fact sheet (CBPP 2012) explains that workers who have been laid off are eligible for up to 26 weeks of benefits from their regular state-funded unemployment compensation program in most states. Currently, workers in any state who exhaust their regular UI benefits before they are able to find a job can receive up to 14 additional weeks of benefits through the temporary federal Emergency Unemployment Compensation (EUC) program. The number of additional weeks rises to 47 in states with particularly high unemployment rates. For a fuller explanation, see CBPP 2012.

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