



LABOR MARKET WILL LOSE 310,000 JOBS IN 2014 IF UNEMPLOYMENT INSURANCE 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 2014 would generate spending that would support 310,000 jobs. *If this program is discontinued, the economy will lose these jobs.***

Why extended UI benefits are still necessary

Is the federally funded extended UI benefits program still necessary more than four years after the recession officially ended, in June 2009? Absolutely. There are 4.1 million workers who have been unemployed for more than six months, which is well over *three times* the number of long-term unemployed in 2007, before the Great Recession began. Furthermore, 36.9 percent of unemployed workers have been unemployed for more than six months, a share nearly 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 2.9-to-1, as high as the *highest* the ratio ever got in the early 2000s downturn. A “job-seekers ratio” of 2.9-to-1 means that for nearly two out of every three job seekers, there simply are no jobs. 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, **job seekers vastly outnumber job openings in all major industries**, highlighting that the main problem in the labor market is a broad-based lack of demand for workers—not, as is often claimed, available workers lacking the skills needed for the sectors with job openings (Shierholz 2013a).

Job opportunities are no better than they were a year ago, when the current set of extensions were authorized, underscoring the need to continue the extensions. The unemployment rate has come down over the last year, but that was not for good reasons. Indeed, *all* of the improvement in the unemployment rate over the last year was due to people either dropping out of, or not entering, the labor force due to weak job opportunities (Shierholz 2013b). The share of the working-age population that has a job actually *declined* over the last year. One of the best ways to judge the relative strength of job opportunities over time is to examine the trend in the number of hires. The number of hires fell dramatically in the Great Recession, improved modestly between the middle of 2009 and early 2012, *but has made no sustained improvement over the last year and a half* (Shierholz 2013a).

Furthermore, the situation is unlikely to improve much in the next year: Moody’s Analytics (2013) projects an average unemployment rate of 7.0 percent in 2014, which is far higher than the highest unemployment rate of the early 2000s downturn (6.3 percent). This is no time for Congress to turn its back on the long-term unemployed.

Jobs created by unemployment insurance benefits

We estimate it will cost roughly \$2.1 billion per month to continue the current extensions, or \$25.2 billion total in 2014.² However, while it would cost roughly \$25.2 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 widely recognize government spending on unemployment insurance benefits as one of the most effective tools for increasing economic activity in a period of persistent high unemployment (for example, see Table 6 in Gravelle 2013).

Table 1 shows the impact on gross domestic product (GDP) of continuing the federally funded UI benefit extensions through 2014 and the consequent impact on employment in 2014. These estimates are calculated using the methodology described in Bivens (2011). Spending \$25.2 billion on unemployment insurance extensions in 2014 would increase consumer spending and expand GDP by an estimated \$37.8 billion, raising our \$16.7 trillion GDP by roughly 0.2 percent. This increase in economic activity would translate into around 310,000 jobs.

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 two most

TABLE 1

Impact of continuing federally funded unemployment insurance extensions through 2014 on GDP and jobs in 2014

Cost (billions)	\$25.2
Impact on GDP (billions)	\$37.8
Impact on GDP (as a share of GDP)	0.2%
Impact on employment	310,000

Source: Calculated using methodology described in Bivens (2011)

careful studies available on the effects of UI extensions on job search in the Great Recession, Farber and Valletta (2013) and Rothstein (2011) both find a very small increase in the duration of unemployment arising from the extensions, but they find that *this is primarily because workers who receive UI benefits are less likely to simply give up looking for work*. How can that be? Remember, to be counted as unemployed, workers must be actively seeking work; likewise, to receive UI, workers must be actively seeking work. These studies find that most of the small increase in unemployment duration attributable to the UI extensions comes from the fact that receiving UI is giving people a reason to continue looking for work even though job prospects are bleak, and that means they continue being counted as unemployed. This is actually a good thing because it may increase the share of displaced workers who ultimately find work.

Furthermore, these studies do not take into account the *macroeconomic* effects discussed previously—e.g., the roughly 310,000 jobs that would be supported by continuing UI benefit extensions through 2014. All else equal, discontinuing the UI extensions and thereby losing those 310,000 jobs would increase the unemployment rate by around 0.2 percentage points relative to where it would have been if the extensions had continued. Taking into consideration all of these factors, there is no doubt that continuing the extensions would benefit the labor market as well as assist the long-term unemployed.

Final cost much lower than the ‘sticker price’

The actual net cost of continuing the UI benefit extensions is far less than the \$25.2 billion “sticker price.” The 310,000 jobs created or saved by the economic activity this spending generates will in turn generate greater federal revenues from the taxes paid on the wages earned by those who otherwise would not have jobs. They will also 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, spending \$25.2 billion to continue the unemployment insurance benefit extensions through 2014 would generate a \$37.8 billion increase in GDP and, correspondingly, \$14.1 billion in higher revenues (as more people and firms pay taxes) and lowered expenditures.³ That is, \$14.1 billion of the \$25.2 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 \$11.1 billion instead of \$25.2 billion. This means that the continuation of unemployment insurance benefit extensions through 2014 would save 310,000 jobs at an effective cost of around \$36,000 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 2013) explains that in most states, workers who have been laid off are eligible for up to 26 weeks of benefits from their regular state-funded unemployment compensation program. 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 weeks in states with particularly high unemployment rates. For a fuller explanation, see CBPP (2013).
2. This rough estimate is based on the fact that according to the latest available data from the Department of Labor, an average of \$2.1 billion per month in Emergency Unemployment Compensation benefits were paid out during the first seven months of 2013. See Department of Labor (2013).
3. See methodology in endnote 2 of Mishel and Shierholz (2010).

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