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TWO FOR THE PRICE OF ONE
Providing Unemployment Insurance Both Assists the Unemployed and Generates Jobs

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The expiration of the special unemployment compensation provisions enacted earlier in the recession has brought the problems of long-term unemployment and the role of unemployment compensation to the fore. The June unemployment rate was 9.5%, and 45.5% of the unemployed have been seeking work for more than six months. Roughly a quarter of the unemployed have been jobless for more than a year. In this context, more than 2 million unemployed workers have already lost their unemployment insurance benefits because of the failure to renew the program that provides extended benefits to the long-term unemployed. This is unfortunate because providing unemployment benefits during a recession fulfills two important national needs: assisting those most hurt by the recession and generating jobs in the midst of a deep downturn.

First, unemployment benefits help cushion the blow of unemployment for millions of unemployed workers. This recession has caused the most job loss by far of any recession in the last seven decades. During the first half of 2010, unemployment averaged nearly 15 million workers, and that will likely remain the case for the rest of the year. However, the number of people experiencing unemployment will be far greater since some unemployed will gain employment and some of those employed now will become unemployed. For instance, in 2008 (the year for which we have the latest data) there were 8.9 million people unemployed on average. However, over the course of the year, 21.2 million people experienced unemployment, a number 2.38 times the level of unemployment in the average month.[1] This means that in 2010 we might have 35.0 million people experience unemployment at some point during the year. Given that there have been at least five unemployed workers for every job opening in recent months, many of those who are unemployed have and will continue to need assistance to weather this economic calamity. For the week ending May 29, 10.2 million people were receiving unemployment insurance benefits, over 50% of whom had exhausted regular state benefits and were receiving benefits under provisions that were included in the Recovery Act. This is a crucial lifeline to those families most hurt by the downturn.

Second, providing assistance to the unemployed is a very effective mechanism for injecting spending into the economy and generating jobs. The reasoning is simple. Those who are unemployed are experiencing a major challenge to maintain anything close to their regular standard of living, so any assistance they receive will be spent on necessities, not saved. The spending that results as the unemployed pay their rent, buy groceries, and so on saves and creates jobs throughout the economy.

This paper provides estimates of the impact of the unemployment compensation system on jobs. We consider the impact of both the special provisions included in the Recovery Act (in particular, the extension of benefits beyond the normal 26 weeks, the expansion of weekly benefits by $25, and subsidies to help unemployed workers cover the cost of health insurance under COBRA) and the natural expansion of regular unemployment benefits as the number of unemployed workers grew in the recession.

We find that in early 2010:

- The expansion of the unemployment compensation system since 2007, including health insurance subsidies, was supporting 1.7 million full-time equivalent positions that would not have been there absent this spending. The provisions included in the recovery package—extended unemployment benefits beyond the normal 26 weeks, the extra $25 weekly benefit, and the health care subsidies—were responsible for over 1.2 million full-time equivalent positions.
- These jobs were generated by the increase in spending on unemployment compensation of $152.1 billion, which, in turn, raised gross domestic product (GDP) by $244.8 billion, a 1.7% boost.
- Two components of the unemployment compensation provisions of the Recovery Act have not been included in the legislation under consideration to extend this program—the COBRA subsidies and the $25 weekly benefit supplement. These provisions were responsible for 302,000 full-time equivalent jobs in early 2010.
- The jobs impact of the boost to GDP takes the form of both increased employment and increased hours worked by those who already have jobs. Both of these increases are good news, because they mean either new jobs, or more hours (and hence higher paychecks) for those with jobs. To capture the impact of both increases, hours and employment, we present (following the methods of the Congressional Budget Office) the change in full-time equivalent employment jobs (the number of 40 hours per week jobs) generated by unemployment compensation spending. Looking at the impact on the job count alone, payroll employment was 1.15 million higher as a result of the expanded unemployment compensation system, helping to offset the more than 8.0 million payroll jobs that had been lost in the downturn through the first quarter of 2010.

Table 1 provides estimates of the various categories of spending within the unemployment compensations system before the recession started at the end of 2007, and in the first quarter of 2010. As explained in the Appendix, we convert this increase in spending into the corresponding expansion of output (gross domestic product or GDP) and employment impact using parameters used by Economy.com and the Congressional Budget Office. Regular state unemployment benefits were paid out at an annualized level of $31.6 billion in the last quarter of 2007, before the recession began. By the first quarter of 2010, these regular benefits had expanded to $74.5 billion, a growth of $42.9 billion. This expansion reflects the doubling of the unemployment rate from 4.8% in late 2007 to 9.7% in early 2010. This increase in unemployment benefits received generated $69.1 billion of GDP in early 2010, a rise of 0.5%. Employment grew as a result of this increase in the size of the economy by 482,000 full-time equivalent positions.

The additional unemployment benefits associated with the Recovery Act provided more than 1.2 million full-time equivalent positions to the economy by early 2010 by expanding GDP by $175.7 billion, or 1.2%. The extended unemployment benefits, extra $25 weekly benefit, and COBRA subsidies were responsible for roughly 826,000 payroll jobs in early 2010 plus enough expanded hours for those currently employed to generate the 1.2 million full-time equivalent positions.

TABLE 1

Employment impact of unemployment compensation system in 2010

	Regular unemployment benefits	Unemployment compensation provisions in Recovery Act: Extended weeks*	Additional weekly benefits ($25)	COBRA	Total	Total unemployment compensation
Spending ($ billions, annualized)						
2007 4th qtr	$31.6	$0.0	$0.0	$ 0.0	$0.0	$31.6
2010 1st qtr	74.5	82.2	13.7	13.2	109.1	183.6
Change	42.9	82.2	13.7	13.2	109.1	152.1
Impact on GDP						
Dollars	$69.1	$132.3	$22.1	$21.3	$175.7	$244.8
as % GDP	0.5%	0.9%	0.2%	0.1%	1.2%	1.7%
Impact on employment (thousands)						
Payroll count	325	622	104	100	826	1,151
Full-time equivalents	482	923	154	148	1,225	1,707

* "Extended weeks" includes spending under both the Emergency Unemployment Compensation (EUC) and the Extended Benefits (EB) programs.

SOURCE: See Appendix.

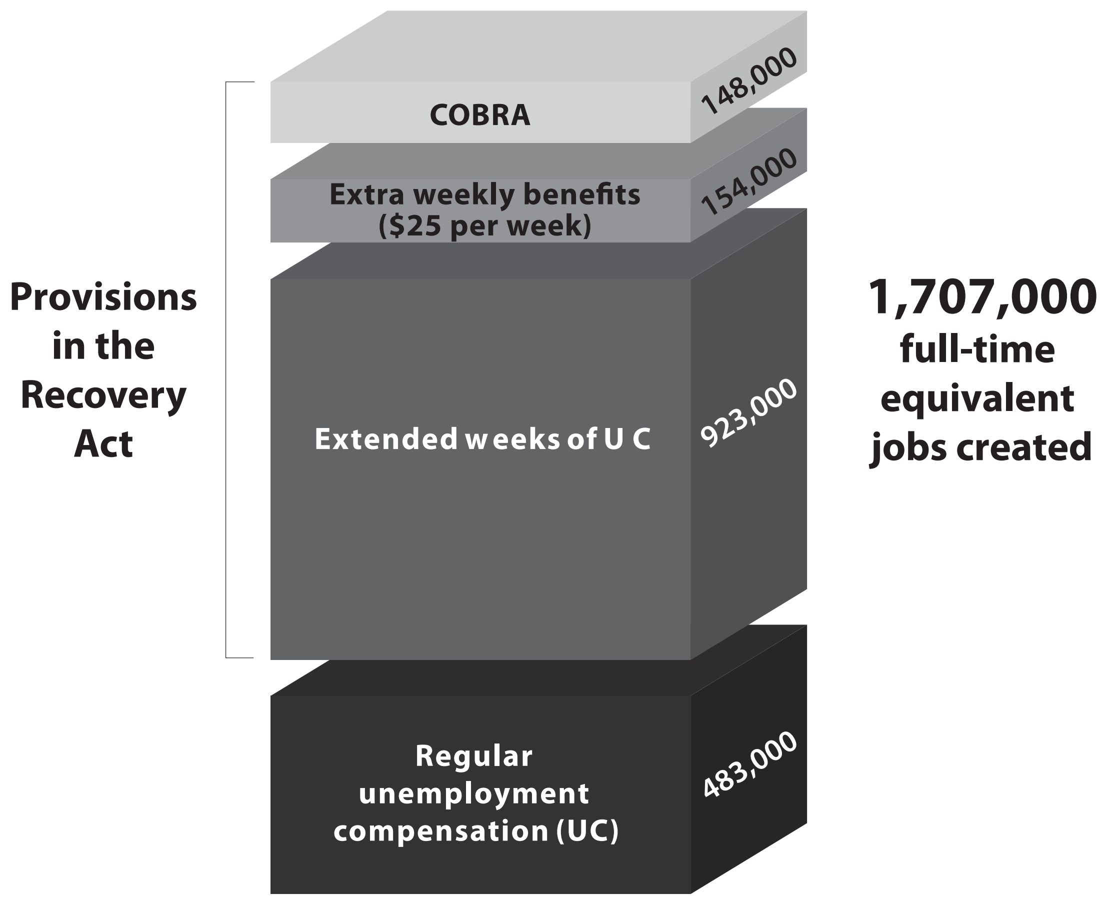
Importantly, the smaller two of the three major unemployment compensation provisions included in the Recovery Act—the additional $25 in weekly benefits plus the healthcare subsidies—together generated 302,000 full-time equivalent jobs. Both of these provisions have been excluded from legislation under consideration in Congress on extending the unemployment compensation provisions in the Recovery Act, an enormous lost opportunity for additional job creation.

The total impact of all the expansion of unemployment compensation programs, regular and extended plus COBRA subsidies, was to expand GDP by $244.8 billion, or 1.7%, and, correspondingly, to expand employment by 1.7 million full-time equivalent positions (see **Figure A** and Table 1). This expansion of unemployment compensation over the course of the downturn to early 2010 lead to 1.151 million additional payroll jobs as well as expanded hours of work for those that already had jobs. In this same time period, the economy shed 8,164,000 payroll jobs. Had it not been for the expansion of unemployment compensation there would have been 9,315,000 payroll jobs lost as well as many fewer hours worked by those employed in early 2010.

Last, the actual cost to the budget is far less than the sticker price of the benefits provided, because the resulting larger economy and expanded job base bring in revenue and lessen the government expenditures (Medicaid, food stamps) associated with unemployment and a depressed economy. Consider, for instance, the $152.1 billion more being spent on the unemployment compensation programs in early 2010 than in late 2007. This expenditure raised GDP by $244.8 billion. However, some 37.4% of that higher output, or $91.6 billion, would be recouped both in higher revenue as more people and firms paid taxes, and in lower expenditures.[2] Consequently, the effective cost to the budget of these unemployment compensation programs is $60.5 billion rather than $152.1 billion, or 60.2% off their sticker price. This means that the unemployment compensation programs created 1.7 million full-time equivalent positions at a cost of $35,440 per position, a good deal for all involved. The provisions no longer being considered

FIGURE A

Employment impact of unemployment compensation system, 2010



SOURCE: See Appendix.

in the extension of the program—the $25 per week supplement and the COBRA subsidies—have an annual sticker price of $26.9 billion and an effective cost of just $10.6 billion. As noted above, these provisions have been providing 302,000 full-time equivalent positions.

Appendix: Translating spending to jobs

Our methodology translates spending on unemployment compensation into increases in output, or gross domestic product, and then translates these changes into their corresponding increases in employment.

Unemployment compensation spending

The first step is to compile the unemployment compensation spending in the last quarter of 2007 and the first quarter of 2010. Monthly spending on regular unemployment benefits are available at: *http://www.ows.doleta.gov/unemploy/content/data.asp*. Spending on Emergency Unemployment Compensation (EUC) is at: *http://www.ows.doleta.gov/unemploy/euc.asp*. Spending on Extended Benefits (EB) is available from the Department of Labor. The weekly supplemental benefits data are at: *http://ows.doleta.gov/unemploy/fac.asp*. COBRA benefits run $1.1 billion a month (see The Joint Committee on Taxation's March, 2010 analysis "JCX-9-10").

Gross domestic product

Mark Zandi of Economy.com provides his firms' multipliers for various policies in recent Senate testimony (Table 1) at *http://finance.senate.gov/imo/media/doc/041410mztest.pdf*. In particular, extending unemployment compensation has a multiplier of 1.61. This means, for instance, that for every billion dollars spent on extended unemployment compensation (which we apply to expanded payouts for regular benefits and COBRA subsidies) there is an associated increase in GDP of $1.61 billion. We convert this increase in GDP to shares of GDP by dividing by 2010 first quarter GDP, $14,592.40 billion, as provided by the Bureau of Economic Analysis: *http://www.bea.gov/newsreleases/national/gdp/2010/pdf/gdp1q10_3rd.pdf*.

Employment

We use the results from Table 1 of the Congressional Budget Office's May 2010 analysis *"Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2010 Through March 2010"* to develop the parameters that allow us to convert the impact of higher GDP on payroll employment and on full-time equivalent positions. CBO provided the following results of its analysis of the impact of the Recovery Act (**Table A1**).

TABLE A1

CBO analysis of the impact of the Recovery Act

	Low estimate	High estimate
Impact on GDP (percent)	1.7%	4.2%
Impact on payroll employment (millions)	1.2	2.8
Impact on full-time equivalent employment (millions)	1.8	4.1

SOURCE: CBO, estimated impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2010 through March 2010.

From these results we can compute how many payroll jobs and full-time equivalent positions are generated per percentage-point increase in GDP, according to CBO's modeling. We did so for both the low and high range and averaged them. For each percentage-point increase in GDP, there are 686,275 payroll jobs and 1,017,507 full-time equivalent positions.

Endnotes

1. See Table 3 of *http://www.bls.gov/news.release/pdf/work.pdf*
2. To calculate the share of increased GDP that is recouped through higher revenues and lower expenditures, we used CBO data from 1969 to 2008 on *actual GDP* (tab "Data"), *potential GDP* (tab "Jan 2010"), and the *cyclical contribution to budget deficits* (tab "F-12"). Dividing the cyclical contribution to the deficit as a share of GDP by the percent that actual GDP is below (or above) potential GDP gives the percent increase (or decrease) in the deficit (as a share of GDP) that results from running one percent below (or above) potential. This is a measure of how much the deficit is reduced, through higher revenues and lower expenditures, by increases in the GDP. From 1969 to 2008 the median value of this measure is 37.4%, i.e., a $1 billion increase in the GDP reduces the deficit by $374 million.