

WebMemo



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Extended Unemployment Insurance Benefits: The Heritage Foundation 2009 Labor Boot Camp

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What Are Extended Unemployment Insurance Benefits?

- States provide unemployment insurance (UI) benefits to involuntarily unemployed workers. UI benefits typically replace 35–40 percent of a worker's weekly income.
- Most states provide UI benefits for up to 26 weeks. Workers in states with particularly high unemployment rates may collect UI benefits for an additional 13 weeks for a total of 39 weeks.
- Congress has temporarily provided funding for extended unemployment insurance benefits. Workers in all states may now collect unemployment insurance for up to 46 weeks after losing their jobs.
- Under current law, extended benefit eligibility expires on March 31, 2009, and UI eligibility reverts to 26 weeks. All extended benefit payments cease on August 27, 2009. Congress will probably vote on continuing extended benefits before extended benefits are allowed to lapse.

Policy Concerns

- **Subsidizes and Extends Unemployment**
 - The consequences of extended unemployment benefits are some of the most conclusively established results in labor economic research. Extending either the amount or the duration of UI benefits increases the length of time that workers remain unemployed.¹

- UI benefits subsidize unemployment. They reduce the incentive unemployed workers have to search for new work and to make difficult choices—such as moving or switching industries—to begin a new job.
- Roughly one-third of workers receiving UI benefits find work immediately once their benefits expire. This happens both when unemployment is high and when unemployment is low.²
- Economic research shows that extending UI benefits from 26 weeks to 46 weeks increases the average duration of unemployment by approximately three weeks.³
- **Reduces Other Income**
 - Families respond to unemployment benefits by reducing other income. Wives' earnings fall by between 36 and 73 cents for each dollar of UI benefits married men receive.⁴

Economic Effects

- **Ineffective Stimulus**
 - Extended UI benefits are frequently claimed to provide significant economic stimulus.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Labor/wm2211.cfm

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- The studies that come to this conclusion ignore the effect of UI benefits in raising unemployment and incorrectly assume that unemployed households spend every dollar of UI benefits they receive. Empirical studies contradict both of these assumptions.
 - Heritage Foundation macroeconomic modeling accounting for both these factors show that for each dollar spent extending UI benefits to 46 weeks, GDP expands in the first year by just \$0.17. Almost any other use of resources would provide a greater short term boost to the economy.⁵
 - **Higher Unemployment**
 - Heritage Foundation macroeconomic modeling shows that extending UI benefits to 46 weeks has increased the unemployment rate by 0.22 percentage points.⁶
 - **Negligible Wage Effects**
 - Some analysts suggest that extended UI benefits should enable workers to find better jobs and increase their wages when they return to work.
 - Other analysts suggest that workers skills deteriorate when they are unemployed and, by encouraging longer unemployment, extended benefits will reduce workers wages.
 - Economic research finds neither effect—extended benefits do not increase or decrease unemployed workers wages when they find new jobs.⁷
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1. See James Sherk and Karen Campbell, Ph.D., “Extended Unemployment Insurance—No Economic Stimulus,” Heritage Foundation *Center for Data Analysis Report* No. 08-13, November 18, 2008, footnote 8, at http://www.heritage.org/Research/Economy/cda08-13.cfm#_ftnref8.
 2. Stepan Jurajda, and Frederick J Tannery, “Unemployment Duration and Extended Unemployment Benefits in Local Labor Markets,” *Industrial and Labor Relations Review*, Vol. 56, No. 2 (January 2003), pp. 332–334.
 3. *Ibid.*
 4. J. B. Cullen and J. Gruber, “Spousal Labor Supply as Insurance: Does Unemployment Insurance Crowd Out the Added Worker Effect?” *Journal of Labor Economics*, Vol. 18 No.3, (2000), pp. 546-572.
 5. Sherk and Campbell, “Extended Unemployment Insurance.”
 6. *Ibid.*
 7. *Ibid.*, appendix C.