WebMemo
Published by The Heritage Foundation

No. 2759
January 14, 2010

Extended Unemployment Insurance Benefits: The Heritage Foundation 2010 Labor Boot Camp

James Sherk

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.
- States normally provide UI benefits for up to 26 weeks. Workers in states with high unemployment rates may collect extended benefits for an additional 13 weeks for a total of 39 weeks. The federal government and the states normally split the cost of these extended benefits.
- Congress has modified the UI program so that workers in states with high unemployment now qualify for a maximum of 99 weeks of UI benefits—almost two years. Congress increased extended unemployment insurance benefits to 46 weeks and now covers the full cost of providing them. Congress also created the Emergency Unemployment Compensation (EUC) program, which provides benefits for an additional 34 weeks in all states. Workers in states with unemployment above 6 percent qualify for an additional 13 weeks of UI benefits, and workers in states with unemployment above 8.5 percent qualify for an additional six weeks of benefits on top of that.
- Under current law, the EUC program expires on February 28, 2010, and benefits will continue to be paid until July 31. Workers who lose their jobs after February 28 will not qualify for the 53 weeks of EUC benefits. The full federal funding of the extended benefits program also expires on February 28. Congress will probably vote on continuing these programs before this happens.

Higher Unemployment

- By reducing the need to look for new work, extended UI benefits cause unemployed workers to take longer to find new work. Heritage Foundation macroeconomic modeling shows that the previous extension of UI benefits from 26 to 46 weeks increased the unemployment rate by 0.22 percentage points.[1]

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.[2] UI benefits subsidize unemployment. They reduce the need to search for new work and to make difficult choices—such as moving or switching industries—to begin a new job.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Labor/wm2759.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

The Heritage Foundation
LEADERSHIP FOR AMERICA

- 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.[3]
- Economic research shows that each 13 week extension of UI benefits increases the average length of time workers receiving benefits stay unemployed by approximately two weeks.[4]

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.[5]

Ineffective Stimulus

- Extended UI benefits are frequently claimed to provide significant economic stimulus. 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.[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.

—James Sherk is Bradley Fellow in Labor Policy in the Center for Data Analysis at The Heritage Foundation.

1. See James Sherk and Karen Campbell, "Extended Unemployment Insurance—No Economic Stimulus," Heritage Foundation *Center for Data Analysis Report* No. 08-13, November 18, 2008, at *http://www.heritage.org/Research/Economy/cda08-13.cfm#_ftnref8.*
2. *Ibid.*, footnote 8.
3. 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.
4. *Ibid.*
5. 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.
6. Sherk and Campbell, "Extended Unemployment Insurance."

The Heritage Foundation
LEADERSHIP FOR AMERICA