WebMemo
Published by The Heritage Foundation

No. 3452
January 12, 2012

Extended Unemployment Insurance Benefits

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.
- Normally, states 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. In addition to the basic 26 weeks of UI, Congress created the Emergency Unemployment Compensation (EUC) program, which provides benefits for an additional 34 weeks in all states. Workers in states with unemployment above 6.0 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. Congress also increased the extended benefits program to 20 weeks and now covers the full cost of providing them.
- Congress has maintained extended benefits temporarily and periodically votes to reauthorize them at their extended level. In the absence of congressional action, the EUC program would expire and the extended benefits would revert to 13 weeks with joint state/federal funding.

Policy Concerns

- **Higher unemployment.** By reducing the need to look for new work, extended UI benefits cause some unemployed workers to take longer to find new work. Studies show that extending UI benefits to 99 weeks has increased the national unemployment rate by roughly 0.5 percentage points.[1]
- **Longer 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 reduce the pressure to make difficult choices—such as moving or switching industries—to begin a new job.

Economic research shows that each 13-week extension of UI benefits increases the average

This paper, in its entirety, can be found at:
http://report.heritage.org/wm3452

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

length of time workers receiving benefits stay unemployed by approximately one week.[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]
- **Ineffective monitoring and job search assistance.** The law requires UI recipients to actively search for work, but the government does little to enforce this requirement or assist unemployed workers in finding new jobs. This hurts workers in genuine need while allowing unscrupulous recipients to game the system.

  Congress can alleviate this problem by strengthening the job search requirements and by giving states waivers from the federal system to experiment with ways to return the unemployed to work faster.

Economic Effects

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

  Unfortunately, Congress does face trade-offs with UI spending. The studies that conclude that UI benefits boost the economy ignore their effect 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 shows that extending UI benefits beyond nine months slightly depresses economic activity.[5]

  Extended UI benefits are not a free lunch. Congress does not boost the economy by increasing UI spending. The arguments for extending benefits must be made on humanitarian grounds.
- **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 reduce workers' wages.

---

1. Bhashkar Mazumder, "How Did Unemployment Insurance Extensions Affect the Unemployment Rate in 2008–10," Federal Reserve Bank of Chicago, *Essays on Issues* No. 285, April 2011; Jesse Rothstein, "Unemployment Insurance and Job Search in the Great Recession," *NBER Working Paper* No. 17534, October 2011; Rob Valletta and Katherine Kuang, "Extended Unemployment and UI Benefits," Federal Reserve Bank of San Francisco *Economic Letter* 2010–12, April 19, 2010.
2. See David Card and Phillip B. Levine, "Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program," *Journal of Public Economics*, Vol. 78 (1–2) (October 2000), pp. 107–38; Lawrence Katz and Bruce Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment," *Journal of Public Economics*, Vol. 41, No. 1 (1990), pp. 45–72; Stepan Jurajda, "Estimating the Effect of Unemployment Insurance Compensation on the Labor Market Histories of Displaced Workers," *Journal of Econometrics*, Vol. 108, No. 2 (2002), pp. 227–52; John T. Addison and Pedro Portugal, "How Does the Unemployment Insurance System Shape the Time Profile of Jobless Duration?," *Economics Letters*, Vol. 85, No. 2 (November 2004), pp. 229–34; Alan B. Krueger and Bruce D. Meyer, "Labor Supply Effects of Social Insurance," in A. J. Auerbach and M. Feldstein (ed.), *Handbook of Public Economics*, First Edition, Vol. 4 (2002), pp. 2327–92; Rafael Lalive, Jan Van Ours, and Josef Zweimüller, "How Changes in Financial Incentives Affect the Duration of Unemployment," *Review of Economic Studies*, Vol. 73, No. 4 (October 2006), pp. 1009–38.
3. *Ibid.*; 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. 332–34.
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. 546–72.
5. See James Sherk and Karen Campbell, "Extended Unemployment Insurance—No Economic Stimulus," Heritage Foundation *Center for Data Analysis Report* No. CDA08-13, November 18, 2008, at *http://www.heritage.org/Research/Reports/2008/11/Extended-Unemployment-Insurance-No-Economic-Stimulus*.

Economic research finds neither effect: Extended benefits neither increase nor decrease unemployed workers' wages when they find new jobs.

*—**James Sherk** is Senior Policy Analyst in Labor Economics in the Center for Data Analysis at The Heritage Foundation.*