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A GOOD DEAL FOR ALL

Further extending unemployment insurance benefits will generate over 700,000 full-time-equivalent jobs while saving millions from poverty

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On November 30th, the federally funded extended unemployment insurance (UI) benefits are set to expire. These benefits serve two very useful public purposes. One is to assist the unemployed during the deepest and longest recession since the 1930s. Less well known is the second purpose, which is to boost spending in the economy and therefore generate jobs at a time when we have substantial excess capacity and unemployment. This issue brief calculates the impact on employment of continuing the extended weeks of UI benefits through 2011. It is an update to the July issue brief *Two for the Price of One* (Mishel and Shierholz 2010), where we estimated that spending related to the expansion of the unemployment insurance system, both the regular program and the expanded federal supports for the unemployed, generated 1.7 million full-time-equivalent jobs in the first quarter of 2010 that otherwise would not have existed.

Table 1 gives the impact in terms of both gross domestic product (GDP) and employment of continuing through 2011 the federally funded unemployment insurance extensions that are currently in place. (The numbers in this table are calculated using the methodology described in the appendix of Mishel and Shierholz (2010).) The estimated cost of continuing the extensions through 2011 is $65 billion. The economic impact of this spending is much higher, however, because of its large "multiplier" effect. UI benefits for the long-term unemployed give the economy a particularly big boost because long-term unemployed workers are very unlikely to have any choice but to immediately spend their unemployment benefits. The resulting spending on rent, groceries, and other necessities saves and creates jobs throughout the economy. For this reason, government spending on unemployment insurance benefits during a downturn is recognized by the Congressional Budget office (CBO) as one of the most efficient things that can be done to create *new* jobs. Spending $65 billion on unemployment insurance extensions will increase GDP by an estimated $104.7 billion, which is roughly 0.7% of our $14.7 trillion GDP. This increase in GDP translates into 488,000 payroll jobs. In other words, extending the federally funded unemployment insurance extensions through 2011 would not only be a lifeline to the families of millions of unemployed workers, it also supports spending responsible for the existence of nearly half a million jobs.

Furthermore, it would not only create new jobs, it would boost hours for workers who already have jobs. Both results would be welcome improvements because this recession has seen both job losses and cuts in hours for those with jobs. Restoring hours means restoring weekly paychecks. In addition to the nearly half million jobs supported by continuing the UI extensions for a year, it would generate over 12 million weekly work hours for people who already have jobs. To get a sense of what these two factors (new jobs plus more hours for workers with jobs) add up to, we can look at the number of *full-time-equivalent* jobs created or saved. This measures how many 40-hour-per-week jobs the total hours created by the GDP boost would create. We find, using the CBO's methodology, that the $65 billion spent on unemployment insurance extensions through 2011 would support 723,000 full-time equivalent jobs. If this program is discontinued, then the economy will lose these jobs.

TABLE 1

Impact on GDP and employment of spending $65billion to continue unemployment insurance extensions through 2011

Impact on GDP	
In dollars (billions)	$104.7
As percent of GDP	0.7%
Impact on Employment	
Payroll count	488,000
Full-time equivalents	723,000

SOURCE: See appendix to Mishel and Shierholz (2010).

Furthermore, the actual cost to the budget is far less than the sticker price of $65 billion. The 723,000 full-time-equivalent jobs created or saved means: (1) the government will bring in *more revenue* from the taxes paid on the wages earned by those who otherwise would not have jobs, and (2) it will *spend less* on safety net measures (for example, Medicaid and food stamps) related to unemployment. In other words, when jobs are created, it adds to government revenues and reduces government expenditures. Using a methodology described in Mishel and Shierholz (2010), we find that of the $104.7 billion increase in GDP related to continuing the unemployment extensions through 2011, some 37.4%, or $39.1 billion, will be recouped both in higher revenues, as more people and firms pay taxes, and in lower expenditures. Consequently, the effective cost to the budget of continuing the unemployment insurance extensions for a year is $25.9 billion instead of $65 billion. This means that the continuation of unemployment insurance extensions through 2011 will create 723,000 full-time-equivalent jobs at a cost of less than $36,000 per position. That alone is a good deal for all involved, but when we remember that these expenditures will at the same time be providing a lifeline to 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.

References

Mishel, Larry and Heidi Shierholz. 2010. *Two for the Price of One: Providing Unemployment Insurance Both Assists the Unemployed and Generates Jobs.* Issue Brief #281. Washington, D.C.: Economic Policy Institute.