



# The Economic Case for Unemployment Insurance and the Supplemental Nutrition Assistance Program

How They Help Our Economy During the Recession

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Businesses can expect a dreary holiday shopping season if Congress does not continue benefits for the long-term unemployed. These benefits help families to weather hard times, and right now millions of American families remain out of work or underemployed. They help families keep a roof over their head and food on the table while they search for work and wait for the economy to improve.

Unemployment insurance, or UI, along with the Supplemental Nutrition Assistance Program or SNAP, formerly known as food stamps, stabilize the economy by increasing the demand for basic goods and services. Stabilizing demand remains critical to saving and creating jobs and boosting earnings at this point in the economic recovery. If Congress allows benefits for the long-term unemployed

## Retailers report that benefits matter to sales

Unemployment insurance and SNAP put money in the pockets of families facing unemployment who tend to spend many of these dollars in their local community on housing, food, and other basics. Retailers cannot keep tabs on how many of their customers receive unemployment insurance, but they do know how many customers use SNAP.

Two grocery chains report in interviews with the Center for American Progress that SNAP benefits now account for about a fifth (18 percent to 23 percent) of their total sales and support between 300 and 2,300 jobs depending on the grocery chain.

to expire at the end of November, this could potentially reduce the gains in retail sales in December by 14 percent compared to December 2009.

During the Great Recession, unemployment insurance and SNAP have kept families out of poverty and as a result boosted sales and steadied the economy as families are able to keep up with their mortgages and rent and afford necessities even as they face high unemployment. The UI system pulled 3.3 million people—including 1 million children—out of poverty in 2009 alone.<sup>1</sup> This is more people than the entire population of the Chicago metropolitan area.<sup>2</sup> Food stamps alone lifted 2.4 million children out of “deep poverty,”<sup>3</sup> which is greater than the number of children living in all of Los Angeles County.<sup>4</sup>

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## The current debate over unemployment benefits

Congress is debating whether to continue to fund UI for the long-term unemployed. If they do not, 2 million jobless workers will lose their long-term UI benefits at the end of November.

Of this group, 1.2 million will exhaust their 26 weeks of regular unemployment insurance benefits without finding work and be out on their own. Others are currently receiving UI through the Emergency Unemployment Compensation program, which provides an additional 34 to 53 weeks of unemployment benefits above regular benefits. They will see those benefits expire over the course of the month.<sup>5</sup>

The other 800,000 workers will experience an immediate loss of their Extended Benefits. The Extended Benefits program provides between 13 and 20 additional weeks of unemployment benefits to the long-term unemployed; but in 39 states, funding comes from the legislation set to expire on November 30.<sup>6</sup>

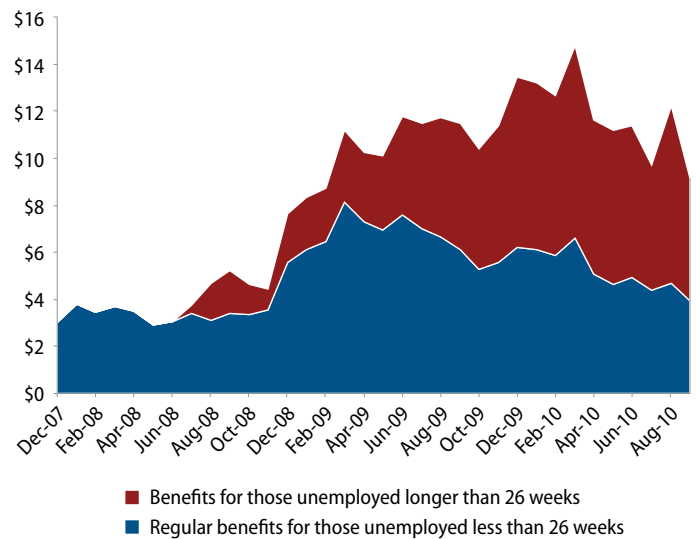
Because of historically high shares of workers out of work and searching for a job for more than six months the value of the benefits to

**FIGURE 1**

### Still a great need for long-term unemployment benefits

Total unemployment benefits paid by type and month, December 2007 to October 2010

Billions of U.S. dollars



Source: Bureau of Labor Statistics.

the long-term unemployed is now greater than the total benefits paid out to those who have been out of work for six months or less (see Figure 1). This means that more so than before the long-term unemployed's benefits comprise a critical component of an effective fiscal stimulus, as well as helping those who have been hit hardest by the Great Recession.

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## Discontinuing the program would hurt retailers and the economy at large

Discontinuing the UI program for the long-term unemployed will have real consequences for our economy. It will likely be felt most quickly among retailers during the upcoming holiday shopping season.

As we move through the holiday season the immediate cut-off in benefits for the long-term unemployed could have significant negative implications for our nation's retailers. The workers losing benefits have an average weekly benefit of a little over \$290 per week, which translates into a total loss of about \$2.5 billion dollars in benefits over December.<sup>7</sup> This is equal to about one in seven dollars of the total gain in retail sales seen between December 2008 and December 2009.<sup>8</sup>

If Congress does not act—or creates the impression that they will not act—this will also affect the purchasing decisions of the workers whose unemployment insurance benefits have not yet been cut off. These workers and their families will likely pare back their holiday spending in anticipation of losing benefits in early 2011.

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## How unemployment insurance and food stamps help the economy

Unemployment insurance and food stamps are one of our economy's first lines of defense to address recessions. These programs are important for families and the economy at large. They create and save jobs and grow the economy.

### Job creation

- Unemployment benefits for the long-term unemployed have kept an average of 1.6 million American workers in jobs every quarter during the recession.<sup>9</sup>
- The U.S. Department of Agriculture estimates that \$1 billion in food stamps creates between 8,900 and 17,900 full-time jobs.<sup>10</sup>

## Growing the economy

- Since the recession began every dollar spent on benefits for unemployed has grown the economy by \$2.00, and every dollar spent on food stamps grew the economy by approximately \$1.79.<sup>11</sup>
- Unemployment insurance benefits reduced the fall in gross domestic product by 18.3 percent, which meant that nominal GDP was \$175 billion larger in 2009 than it would have been without these benefits.<sup>12</sup>
- UI benefits have increased GDP by \$315 billion overall from the start of the recession through the second quarter of 2010.<sup>13</sup>
- Pulling benefits for the unemployed out of the economy would remove 0.7 percent of total U.S. personal income. Over the course of the recession, total personal income fell by 1.6 percent. This means that discontinuing long-term UI would produce an impact that is nearly half as large as the recession's total impact on personal income.<sup>14</sup>

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## Conclusion

This Congress should stand up for American workers and reject the idea that what our economy needs is a dose of austerity. Extending unemployment insurance benefits to the long-term unemployed boosts demand and generates jobs, which helps us all. In the process, we do right by the Americans hit hardest by the recession.

For the past half century, Congress has always extended unemployment benefits to the long-term unemployed when unemployment was high and doing so in this recession should be no different. Maintaining unemployment benefits until the unemployment rate comes back down and the economy improves is necessary and the right thing to do.

Cutting off aid to the long-term unemployed will not make them go away and will drive down labor standards for the economy at large. Diana Furthgott-Roth, chief economist at the Department of Labor under President George W. Bush, has argued that we should not extend benefits to the long-term unemployed because it discourages people from taking jobs: “If people have been on unemployment benefits for two years and cannot find a similarly placed job to the one they were laid off, it is time for them to take lower paying jobs.”<sup>15</sup> If everyone did this, it would, of course, reduce demand—and retail sales—even more.

Lowering living standards cannot be the policy response to the Great Recession. With so many vying for too-few jobs even if every worker agreed to sharp salary reductions there would still not be enough jobs to go around. Further, it is not in our nation's interest to have millions of workers skilled in one occupation toiling in another—it wastes human capital and discourages future investments in skills.

The unemployed did not cause the Great Recession. It was caused by a lack of regulation of Wall Street. Conservative policymakers allowed the conditions to develop that created today's jobs crisis, and now they should take steps to put the economy on the right track—not obstruct policies that our economy very much needs.

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## Endnotes

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- 2 U.S. Census Bureau "Income, Poverty, and Health Insurance Coverage in the United States:2009" (2010), available at: <http://www.census.gov/prod/2010pubs/p60-238.pdf>.
- 3 Deep poverty is defined as being below 75 percent of the poverty line, as defined by the National Academy of Sciences. See Center on Budget and Policy Priorities, "Policy Basics: Introduction to the Food Stamp Program" (2010), available at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=2226>.
- 4 This was calculated by taking the U.S. Census Bureau population estimate for 2009 for Los Angeles County and multiplying this figure by the estimated percentage of the population aged 18 years and younger (as of 2009). Both figures are listed by the U.S. Census Bureau. U.S. Census Bureau, "State and County Quick Facts" (2010), available at: <http://quickfacts.census.gov/qfd/states/06/06037.html>.
- 5 Christine Riordan and others, "Out in the Cold Over the Holidays" (New York: National Employment Law Project, 2010), available at: <http://www.nelp.org/page/-/UI/2010/november.extension.report.pdf?nocdn=1?nocdn=1>.
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- 7 Riordan and others, "Out in the Cold Over the Holidays."
- 8 Author's calculations using Bureau of the Census Annual Retail and Trade Statistics.
- 9 Wayne Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession" (Washington: IMPAQ International and the Urban Institute, 2010).
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- 13 Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession."
- 14 Author's calculations. Personal income from Bureau of Economic Analysis, "Personal Income and Outlays," (2010), available at: <http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm>; Unemployment benefits from U.S. Department of Labor, "Monthly Program and Financial Data" available at <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp> and <http://workforcesecurity.doleta.gov/unemploy/euc.asp>.
- 15 "Should Unemployment Benefits be Extended?" Fox Business News, July 19, 2010, available at: <http://video.foxbusiness.com/v/4285576/should-unemployment-benefits-be-extended/>