



Congress Should Extend Emergency Unemployment Benefits

Sarah Ayres November 13, 2012

For months politicians and economists have warned us about the fiscal cliff—the combination of tax increases and government spending cuts threatening economic chaos scheduled to occur at the end of the year. But few are talking about the fiscal cliff that faces millions of unemployed Americans who will suddenly lose unemployment benefits on January 3, 2013, if Congress fails to act. Since the start of the Great Recession, lawmakers have recognized that millions of Americans who want a job cannot find one, and they have provided extra weeks of unemployment benefits to help cover workers' lost income while they job search. Maintaining these benefits is the right thing to do for the U.S. economy and for the families who rely on unemployment insurance to pay the bills.

Congress has provided extended unemployment benefits in every major recession since the 1950s, and to let them expire now would be unprecedented and unwise. Lawmakers have never allowed these benefits to expire when the unemployment rate was more than 7.2 percent. Not only does the national unemployment rate remain relatively high—7.9 percent in October—but workers are also finding themselves unemployed for longer than ever before—longer than states are able to provide them with unemployment benefits.

And unemployment benefits aren't just important to the unemployed—they're also good for the economy. By putting money into the pockets of people who will spend it, unemployment benefits boost demand, spur economic growth, and propel job creation. In fact, the nonpartisan Congressional Budget Office found that unemployment benefits are one of the most effective fiscal policies to increase economic growth and employment.

This issue brief discusses the history of extending unemployment benefits during economic downturns, explains the issues that face Congress, and lays out five reasons why we should extend unemployment benefits.

What are emergency unemployment benefits?

Unemployment insurance is an important social insurance program providing income support to workers who have lost their job through no fault of their own and are not able to find a new one. Employers pay taxes to states, and states use these funds to provide temporary and partial wage replacement to unemployed workers. In normal economic times, unemployed workers are eligible for up to 26 weeks of benefits in most states. In periods of high unemployment during and immediately following recessions, Congress has repeatedly enacted legislation to provide workers extended federal unemployment benefits in addition to regular state benefits.

In June 2008, seven months after the start of the Great Recession, President George W. Bush and Congress approved such legislation. The Emergency Unemployment Compensation Act initially provided 13 additional weeks of unemployment compensation. Later that year Congress raised the maximum amount of unemployment benefits to 33 weeks. In light of continuing high unemployment rates, subsequent legislation was enacted in 2009, 2010, and 2011 that extended emergency benefits and raised the maximum amount to 53 weeks.

Under the most recent extension, the Middle Class Tax Relief and Job Creation Act of 2012, emergency unemployment benefits will expire at the end of 2012. If Congress does not act to extend benefits, more than 2 million Americans will lose federal unemployment insurance just after Christmas with another 900,000 estimated to lose their benefits in the first three months of 2013.¹

Why should Congress extend emergency unemployment benefits?

Unemployment rates are still high

Despite 32 months of sustained job gains, there are still too many Americans who cannot find work. The U.S. economy has added 2.1 million jobs over the past 12 months compared to 1.9 million over the preceding 12 months, but at 7.9 percent the unemployment rate is still relatively high.² In September there were more than three workers actively searching for work for every job available, compared to just one and a half job seekers per job opening before the start of the Great Recession.³

To allow unemployment benefits to expire when the unemployment rate is so high would be unprecedented. Lawmakers have established federal emergency unemployment benefits in every major recession since the 1950s and have never allowed these vital benefits to expire when the unemployment rate was above 7.2 percent.

State unemployment benefits are not sufficient

Not only is the unemployment rate still relatively high but Americans are also finding themselves out of work for longer periods of time than was the case in previous economic downturns. While the average unemployed person has been out of work and searching for a new job for 40 weeks, states only provide unemployment benefits for a maximum of 26 weeks.⁴ Not surprisingly, close to half of unemployed workers run out of state unemployment benefits before finding a new job.⁵ Federal extended benefits provide much-needed income support during this time when many Americans would otherwise be left unable to pay their rent or put food on the table.

Extended emergency benefits are even more necessary now than they have been in the past because the Great Recession was deeper and more protracted than any recession since the Great Depression. While the economy has pulled out of the depths, many job seekers continue to face longer periods of unemployment than ever before. When Congress has allowed emergency benefits to expire in the past, the median length of unemployment has never topped 10.2 weeks and the share of workers who have been out of work for six months or more has not exceeded 23 percent.⁶ Today the median length of unemployment is nearly 20 weeks and more than 40 percent of the unemployed have been out of work for six months or more.⁷ With more and more Americans finding that it takes a much longer time to find work than is allowed by state unemployment programs, it would be unprecedented for Congress to let emergency unemployment compensation expire.

Unemployment benefits grow the economy and create jobs

Unemployment benefits have consistently been cited by economists as one of the most effective policies at spurring economic growth. Every week more than 2 million Americans receive an average emergency unemployment benefit check of about \$300—money that is spent on rent or the mortgage and utilities, as well as in local supermarkets, pharmacies, gas stations, and newsstands. By putting money into the pockets of the middle-income Americans who are most likely to spend it, unemployment benefits boost demand and create jobs.

The nonpartisan Congressional Budget Office found that unemployment benefits are the most effective fiscal policy to increase economic growth and employment—better than reducing business taxes or increasing spending on infrastructure.⁸ Mark Zandi, chief economist at Moody's Analytics, has found that every dollar spent on unemployment insurance grows the economy by \$1.55.⁹ Recently, Zandi has predicted that extending emergency unemployment benefits at a cost of \$40 billion would boost the economy by \$58 billion in 2013.¹⁰

All these dollars circulating through the economy create jobs. A detailed study by economist Wayne Vroman for the U.S. Department of Labor found that during the worst of the recession, emergency unemployment benefits led to the creation of 700,000 jobs per quarter.¹¹

Conversely, if emergency unemployment benefits are allowed to expire, millions of Americans will suddenly have less money to spend in stores, creating a drop in demand that will rob businesses of their customers and undermine the economic recovery.

Unemployment benefits lift people out of poverty

Unemployment benefits help millions of Americans continue to feed their families and keep a roof over their heads even when they lose their job. In doing so, unemployment benefits are an important mechanism for preventing people from falling into poverty.

In every year since the start of the recession, unemployment benefits have kept millions of people out of poverty. An analysis by the Congressional Research Service found that unemployment benefits lifted 3.3 million people out of poverty in 2009, including nearly 1 million children living with a family member who received unemployment benefits.¹² The same study found that the poverty rate for families who received unemployment benefits was about half what it would have been without unemployment benefits.¹³ In 2010 the U.S. Census found a similar effect: If unemployment benefits were excluded from income, 3.2 million people would have been counted as poor.¹⁴ And in 2011 unemployment benefits kept 2.3 million people out of poverty.¹⁵

Should Congress fail to extend emergency unemployment benefits, millions of families this holiday season will find themselves without sufficient funds to pay for necessities like food and heat—much less Christmas presents for their kids. By extending unemployment benefits we can help keep these families afloat and out of poverty.

Congress already cut unemployment benefits this year

When Congress extended emergency unemployment compensation earlier this year, lawmakers also reduced the amount of unemployment benefits available to workers. The 10-month extension agreed to in February cuts the number of weeks of federal unemployment benefits available to all states and raises the unemployment rate threshold for states to receive maximum benefits.

Under the previous law any unemployed worker who exhausted their state benefits was eligible for at least 20 additional weeks of benefits through emergency unemployment compensation. If the worker lived in a state with high unemployment, he could receive up to 53 weeks of additional benefits. Under today's law unemployed workers are eli-

gible for at least 14 additional weeks of emergency unemployment compensation and up to 47 weeks if they live in a high-unemployment state.

Largely as a result of these changes, fewer unemployed Americans are receiving unemployment benefits. While the number of unemployed workers has fallen by 11 percent since this time last year, the number of those receiving benefits has dropped by 26 percent. Last year nearly half of all unemployed workers received unemployment benefits.¹⁶ Only 40 percent do today.

With so many fewer Americans receiving benefits, now is not the time for Congress to further cut unemployment insurance benefits. If Congress fails to extend emergency unemployment benefits, it is likely that come January fewer than one in three unemployed workers will be eligible for benefits.¹⁷

Conclusion

At the end of this year, millions of unemployed Americans will be abruptly cut off from unemployment benefits unless Congress takes action to extend emergency unemployment compensation. Allowing extended unemployment benefits to expire will not only harm the many Americans who rely on unemployment benefits to provide food and shelter for themselves and their families—it will also harm the economic recovery by reducing demand and stifling job creation. America cannot afford to let emergency unemployment benefits expire.

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Endnotes

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