Center for American Progress

Extending Unemployment Benefits 101

UI Benefits Help Workers, Businesses, and the Economy

Heather Boushey and Jordan Eizenga September 21, 2010

Maintaining unemployment benefits until the unemployment rate comes back down is not only necessary and the right thing to do; it's also consistent with past practice.

UI benefits stabilize the economy by increasing the demand for goods and services, which at this point in the nascent economic recovery is crucial to saving and creating jobs and boosting earnings.

Unemployment benefits help workers and their families by putting money in their pockets while they search for a new job. During the Great Recession, these benefits have been effective in keeping families out of poverty and helping them keep up with their mortgages during this period of high unemployment.

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.

What is unemployment insurance?

Unemployment insurance is just like other types of insurance. It provides protection in this case against the involuntary loss of a job. If an employee loses a job through no fault of his or her own, then that individual can receive unemployment insurance benefits. These benefits cover about a third of an employee's pre-layoff weekly earnings while he or she searches for a new job. The benefits are time limited, however, and typically last only six months unless Congress or the states take action to extend benefits for the long-term unemployed.

Why are UI benefits important to the unemployed?

Unemployment benefits provide much-needed assistance to unemployed individuals and their families while they work to find a new job. The odds are tough for unemployed workers seeking employment right now: There are nearly five job seekers for every new job opening, compared to just over one job seeker for every job opening in the years prior to the Great Recession.

Unemployment benefits are particularly important today because not everyone who wants a job can find one. These benefits help families maintain basic spending—such as paying the mortgage and putting food on the table—and prevent families from slipping into poverty. The Census Bureau reported in September that unemployment benefits kept 3.3 million adults out of poverty in 2009.

Why are UI benefits important to the economy?

Unemployment benefits are one of the most effective and efficient ways to boost demand—which is exactly what our economy needs right now. Economists estimate that the economy grows by $1.61 for every dollar spent on extended unemployment benefits because recipients typically quickly spend all of their benefit payments.

UI benefits also help stabilize the economy by boosting small- and medium-sized businesses all across the United States. Small businesses continue to report that their main concern is sales, and many would see even fewer customers without unemployment benefits as the jobless would have no money to spend. These businesses would in turn have less income from which to invest and make purchases at other establishments, which lowers overall demand.

How do UI benefits work?

Unemployed workers apply to their state unemployment insurance program. The regular UI programs are state run and funded through state taxes on employers. These programs typically provide unemployment benefits for up to 26 weeks. This means that an individual who is unemployed can typically receive benefits payments for up to half a year, unless the state or federal government has extended long-term unemployment benefits.

Six months of unemployment benefits is usually sufficient time for the unemployed to find new work. The typical worker during the mid- to late-2000s, prior to the Great Recession, for example, spent eight to nine weeks out of work and searching for a new job.

What happens when 26 weeks of UI benefits isn't enough?

The typical unemployed worker has been out of work and searching for a job for 20 weeks, and more than 4 in 10 unemployed workers are long-term unemployed, taking at least six months to find a new job. The share of the unemployed who are long-term unemployed has risen higher during the Great Recession than at any point since the end of World War II.

States that have high unemployment are able to offer Extended Benefits that provide between 13 and 20 additional weeks of unemployment benefits to the long-term unemployed. These benefits are ordinarily funded 50-50 between states and the federal government, but the federal government has been paying the full cost of this program due to the exceptionally high unemployment rates nationwide. Congress implemented full federal funding for this program in the American Recovery and Reinvestment Act of 2009, but this funding is set to expire on November 30 unless Congress takes further action.

Long-term unemployment is at a record high level

Percentage of unemployed out of work for more than 27 weeks

Sources: Bureau of Labor Statistics, Current Population Survey, National Bureau of Economic Research.

Congress also used the Recovery Act to provide up to 34 additional weeks of benefits for the long-term unemployed in high unemployment states. This program, called Emergency Unemployment Compensation, is federally funded. But it too will expire on November 30 unless Congress takes further action.

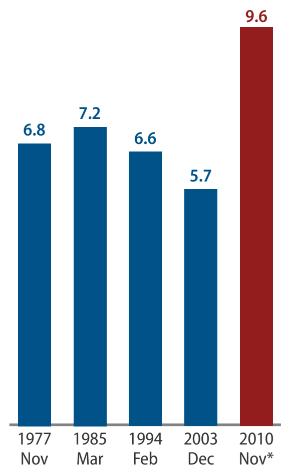
The absolute maximum amount of time a person can receive unemployment benefits through the regular Unemployment Insurance program, Extended Benefits, and Emergency Unemployment Compensation is now 99 weeks. But only workers in high unemployment states are eligible for the maximum. Workers in low unemployment states are eligible for just over a year—60 weeks—of unemployment benefits.

Has Congress ever extended UI benefits before?

Congress has provided emergency unemployment benefits to the long-term unemployed during every recession over the last four decades. Both Republican and Democratic Congresses have provided emergency UI benefits, so this was not historically a partisan issue. Congress has not once during the past 40 years allowed extended UI benefits to expire when the unemployment rate was above 7.2 percent—2.4 points lower than it is today.

Unemployment rates when Congress let long-term unemployment benefits expire

Date of benefits expiration in recessions since 1970



*latest data available (Aug 2010)

Source: Bureau of Labor Statistics, Current Population Survey.

Aren't UI benefits just a giant welfare program that disincentivizes job hunting?

Not everyone who wants a job can get one, as mentioned earlier. There is only one job opening for every five job seekers right now, compared to just under one job per job seeker in the years leading up to the recession.

Research by the San Francisco Federal Reserve Bank has found there is only a weak link between unemployment benefits and an unwillingness to job search due to high unemployment and a lack of jobs. Researchers found that unemployed workers who qualify for UI benefits have been unemployed for only 1.6 weeks longer than those who do not qualify for such benefits. This suggests that the persistently high level of unemployment is due to a lack of jobs—what economists say is currently due to a lack of demand—not an unwillingness on the part of unemployed workers to find those jobs. Unemployed workers are looking for work; employers just aren't very interested in hiring them.

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