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Synopsis of Testimony

Extended Unemployment

- Unemployment insurance plans administered by states were promoted by the Social Security Act of 1935 and universally adopted. Both federal and state governments collect a tax from businesses to pay for unemployment claims (26 USC§3301). These taxes are structured much like an insurance model with industry and firm claims history, along with total payroll guiding the amount collected from each firm.
- The program typically provides 26 weeks of unemployment compensation for limited types of joblessness.
- During downturns, UI is generally extended, and has been since at least the 1970s. Today, UI is extended, up to 99 weeks depending upon the unemployment rate within a state. The thresholds of extended benefits are 8.5% and 6.0% in a complicated formulary history.
- The program provides two main benefits: It allows workers a brief period of time to find new work that matches their skills, and it acts as an automatic stabilizer to the macroeconomy during downturns. (Think Genesis 41 and the Pharaoh's Dream). Critics generally concur that these benefits exist, but worry about fraud and abuse.
- Several academic studies of the impact of extended benefits have been performed. Obviously the main questions are: Whether the extension of unemployment benefits actually causes the unemployment rate to remain higher than it would otherwise been? and How important is that effect? The answer to the first question is: Yes. You always get more of what you pay for, and that includes paying people to not work. So how big is the effect?
- There are two ways extended UI boosts unemployment. It can lead to people remaining on benefits who would otherwise take jobs, or it could slow the urgency of job searches.
- The 'consensus' research is that it is a very small contributor to both. I haven't done this research personally, but I have read it and applied the numbers to the Indiana experience. Applying the national numbers to Indiana (which are probably a bit too large), the extended UI would have added about 12,800



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additional folks to the unemployment rolls, or about 6.6 percent of all of those who were jobless because of the recession at any one time. This is a small share of those who exhausted extended benefits in any given year. For example the 12,800 estimate is about 13% of those who exhausted their benefits in the peak year of unemployment (2010).

- Indiana's experience with extended UI is probably not as extreme as the national experience. We lost many jobs with specific skills in low-density regions. This makes finding a replacement job more difficult than in an urban center. Likewise, it appears that the Indiana experience with the duration of unemployment was shorter than the national average. We fared better in the recession than we should have, and the continued unemployment of extended UI should be less as a result.
- Critically, much time spent in extended UI might have been used for educational
 or job retraining. Just how many this is will be a costly question to answer. It
 bears upon the efficacy of the program, and my guess (and it is no more than that)
 is that half or more of extended UI recipients engaged in some formal job or skill
 training.
- In a perfect world, DWD could ascertain who is abusing the system and alert prosecutors. What we just went through, and are still in, happens less than once in a working lifetime, and so is not a particularly good guide to the UI system in general. The specifics suggest that this is a low-threshold public policy concern.

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For further reading

Valetta, Rob and Katherine Kuang (2010) Extended Unemployment and UI Benefits FRBSF Economic Letter, April 19,2010.

https://www.frbsf.org/publications/economics/letter/2010/el2010-12.pdf