CALIFORNIA BUDGET PROJECT

policy points

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ALLOWING FEDERALLY SUPPORTED UNEMPLOYMENT INSURANCE BENEFITS TO EXPIRE WOULD COST JOBS AND COULD ENDANGER THE FRAGILE RECOVERY

Hundreds of thousands of jobless Californians who are struggling to find work in the weakest job market in decades face the prospect of struggling to make ends meet without Unemployment Insurance (UI) benefits just before the holidays. Unless Congress acts, emergency measures currently in place that provide additional weeks of federally supported UI benefits to unemployed workers who exhaust their regular state benefits are set to expire on November 30.[1] Allowing these benefits to expire at a time when California's unemployment rate remains close to the record-high rate reached only months ago would deliver a sharp blow to the economy and could endanger the fragile recovery. Absent Congressional action, more than 400,000 unemployed Californians will lose access to federally supported UI benefits next month *alone.*[2] Without UI, these jobless workers would be forced to scale back their spending, which means businesses would have fewer customers and weaker sales – and that could ultimately cost jobs. For this reason, Congress should do what it has traditionally done during significant downturns in the economy: Continue federally supported UI benefits until the job market shows strong signs of recovery.

KEY FACTS

- **Allowing federally supported UI benefits to expire would deliver a sharp blow to the economy and could endanger the fragile recovery.**

UI benefits provide a substantial boost to the economy because jobless workers spend their benefits quickly and locally: They pay the mortgage or the rent, buy groceries, pay the heating bill, and put gas in their car.[3] These purchases inject much-needed dollars into local businesses, which helps promote job retention and creation. In fact, a recent study commissioned by the US Department of Labor found that UI benefits kept an average of 1.6 million US workers on the job in *each quarter* of the Great Recession.[4] Discontinuing federally supported UI benefits – before the job market shows strong signs of recovery – would force unemployed workers and their families to significantly cut back on their spending. As a result, businesses would have fewer customers and weaker sales – and that could ultimately cost jobs. Failing to provide federally supported UI benefits for another year could drain as much as $80 billion of purchasing power from the US economy and cost 1 million or more jobs.[5] Additional job losses could further weaken the struggling economy. In the words of Ben Bernanke, chairman of the Board of Governors of the Federal Reserve System, "prolonged high unemployment would pose a risk to consumer spending and hence to the sustainability of the recovery."[6]

- **Allowing federally supported UI benefits to expire just before the holiday shopping season could diminish retail sales and hiring at a critical time by reducing consumers' purchasing power.**

If federally supported UI benefits are allowed to expire at the end of November, the retail sector – which provides jobs to one out of nine California workers – could take a major blow.[7] Retailers, including department stores and electronics chains, count on holiday sales for more than 20 percent of their total annual revenues.[8] In anticipation of significant sales during the holiday season, retailers hire hundreds of thousands of additional workers.[9] Weaker sales due to the expiration of federally supported UI benefits could prompt retailers to scale back on holiday hiring.

- **Providing UI benefits to unemployed workers is one of the most effective ways to boost the economy, and the slowing recovery clearly indicates that it is too early to end this significant source of economic activity.**

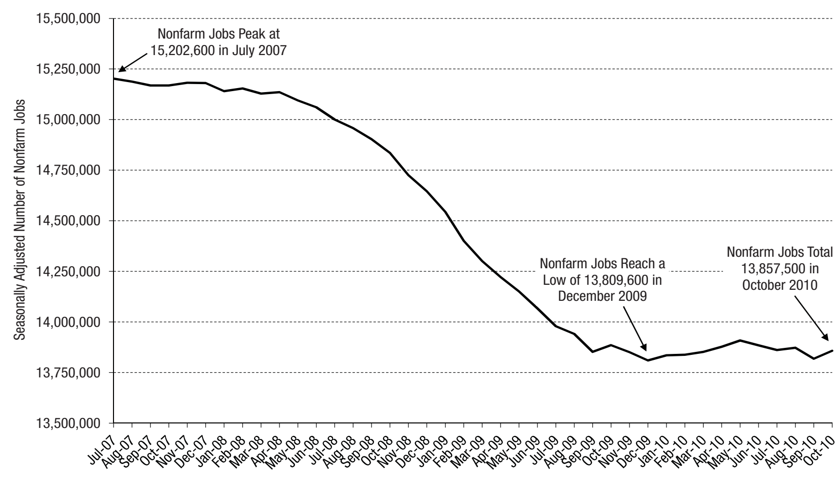
Economic modeling consistently finds that federal spending on UI is one of the most efficient and effective ways to boost the economy. Moody's Analytics estimates that every federal dollar used to provide UI benefits boosts economic activity in California by $1.56, providing one of the biggest "bangs for the buck" of eight measures analyzed.[10] According to Mark Zandi, Moody's chief economist, "No form of the fiscal stimulus has proved more effective during the past two years than emergency UI benefits."[11] In fact, during the first 10 months of 2010 alone, federally supported UI benefits pumped an estimated $225 million *each day* into the nation's economy.[12]

Now is not the time to allow this significant source of economic activity to end. Recovery in California's job market has slowed in recent months, which has prompted economic forecasters to revise their job growth projections downward.[13] The Legislative Analyst's Office (LAO), for example, now projects that California will add just 100,000 jobs in 2011 – "a slower level of job growth for the year than any of our recent forecasts."[14] That projected level of job growth means that next year California would gain back just 7 percent of the 1.4 million jobs the state lost during the recession.[15] National forecasters have also become increasingly pessimistic, and their projections suggest that the US job market will still only be in the early stages of recovery from the Great Recession next year.

- **It would be unprecedented for Congress to discontinue emergency UI benefits before the economy is on a clear path to recovery.**

For more than half a century, Congress has temporarily provided federally supported UI benefits during significant downturns and has always continued providing those benefits until the economy showed strong signs of recovery.[16] Allowing these benefits to expire now, when the job market has barely begun to rebound from the longest and most severe recession in recent history, would be unprecedented. The US unemployment rate stands at 9.6 percent and is projected to remain above 9.0 percent next year.[17] California's jobless rate of 12.4 percent is one of the highest in the nation and is just 0.2 of a percentage point below the record-high peak recorded in the spring.[18] Moreover, California's unemployment

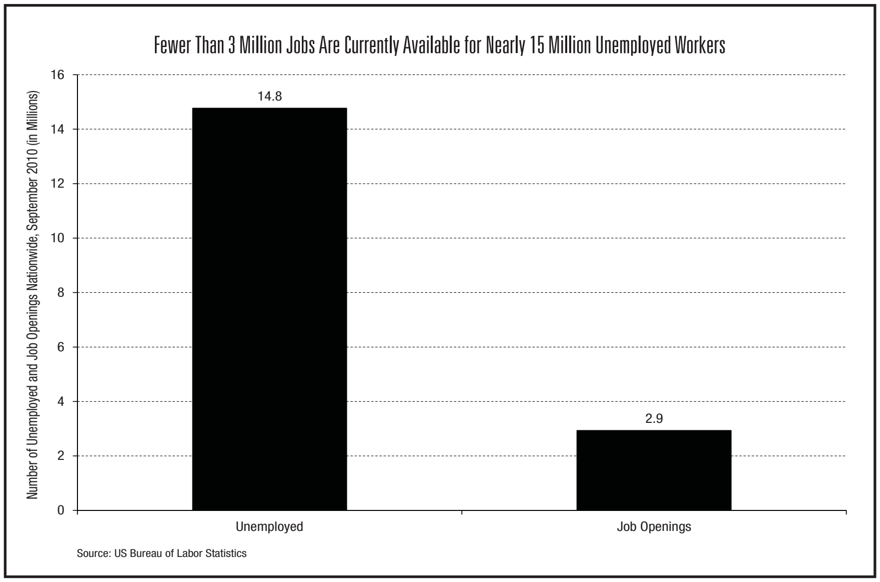
Recovery in California's Job Market Has Slowed in Recent Months



Source: Employment Development Department rate is projected to fall only slightly, to 11.9 percent, in 2011.[19] Congress has never before cut off emergency UI benefits at a time when the unemployment rate was this high.[20]

- **Cutting off federally supported UI benefits would make unemployed workers more desperate to find work, but it would *not* make them more likely to find work, because jobs are scarce.**

In September 2010, the most recent month for which data are available, there were nearly 15 million unemployed workers nationwide, but fewer than 3 million job openings – five unemployed workers for every job available.[21] In other words, for four out of five of the unemployed, there were *literally* no jobs to be found. Cutting off federally funded emergency UI benefits would clearly be counterproductive when unemployed workers face such grim prospects of finding work.



Alissa Anderson prepared this Policy Points *with assistance from Luke Reidenbach. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual donations. Please visit the CBP's website at www.cbp.org.*

ENDNOTES

1 The temporary Emergency Unemployment Compensation (EUC) Program, enacted in 2008 and expanded in 2009 under the American Recovery and Reinvestment Act of 2009 (ARRA), provides up to 53 additional weeks of federally supported UI benefits to unemployed workers who exhaust their 26 weeks of regular state benefits. In addition, the ARRA provided full federal funding of the permanent federal Extended Benefits (EB) program, which provides up to 20 weeks of additional UI benefits. Ordinarily, states are required to share half of the costs of the EB program with the federal government. Both the EUC Program and full federal funding of the EB program will expire on November 30, 2010 unless Congress renews them.

2 Christine Riordan, et al., *Out in the Cold for the Holidays: Federal Jobless Benefits Will Be Cut for Two Million Workers in December – 800,000 Immediately – if Congress Fails To Renew the Emergency Program* (National Employment Law Project: Revised October 27, 2010). This figure includes an estimated 74,000 jobless Californians who will exhaust their regular state benefits and will not have access to any federal benefits, 185,000 unemployed workers who are receiving benefits through full federal funding of the EB program and will immediately lose these benefits, and 151,000 jobless workers who are receiving benefits through the EUC Program and will lose those benefits prematurely.

3 UI benefits are modest, replacing only about one-third of the average worker's weekly wage, which means that unemployed workers tend to spend all of their UI benefits quickly and locally. See Heather Boushey, et al., *Keeping a First Line of Defense for the Jobless: Swift Congressional Reauthorization of American Recovery and Reinvestment Act Unemployment Programs Is Critical* (Center for American Progress Action Fund and National Employment Law Project: December 7, 2009), p.2.

4 Wayne Vroman and Jacob M. Benus, *The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession* (IMPAQ International, LLC and The Urban Institute for the US Department of Labor: July 2010). In addition, the Congressional Budget Office recently concluded that "the extensions of unemployment insurance benefits in the past few years increased both the employment and participation in the labor force over what they would otherwise have been in 2009." Congressional Budget Office, *Unemployment Insurance Benefits and Family Income of the Unemployed* (November 17, 2010).

5 Center on Budget and Policy Priorities analysis of Congressional Budget Office data. See Chad Stone and Hannah Shaw, *Emergency Unemployment Insurance Benefits Remain Critical for the Economy* (Center on Budget and Policy Priorities: November 10, 2010), p. 7.

6 Ben S. Bernanke, *Monetary Policy Objectives and Tools in a Low-Inflation Environment* (October 15, 2010).

[7] Employment Development Department data show that retail trade jobs made up 10.8 percent of California's nonfarm employment in 2009.

[8] Christine Riordan, et al., *Out in the Cold for the Holidays: Federal Jobless Benefits Will Be Cut for Two Million Workers in December – 800,000 Immediately – if Congress Fails To Renew the Emergency Program* (National Employment Law Project: Revised October 27, 2010), p. 8.

[9] Between 2003 and 2007, eight key retail industries added more than 700,000 jobs nationally, on average, in the last three months of the year, which represented an 8.7 percent increase in employment in these industries. US Bureau of Labor Statistics, "Holiday Season Hiring in Retail Trade," *Issues in Labor Statistics* Summary 09-03 (March 2009).

[10] Mark McMullen, *Maximizing Federal Funds for Human Services,* testimony presented to the California Senate Human Services Committee (March 9, 2010). A similar analysis by Moody's shows that federal spending on UI benefits boosts economic activity in the nation as a whole by $1.61. See Mark Zandi, *Using Unemployment Insurance To Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges,* testimony presented to the US Senate Finance Committee (April 14, 2010). Similarly, a Congressional Budget Office analysis shows that providing UI benefits to the unemployed is one of the most effective and efficient ways to boost the economy of 11 measures studied. Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011* (January 2010), p. 18. A recent report commissioned by the US Department of Labor suggests that each dollar used to provide UI benefits during the Great Recession generated as much as two dollars in economic activity. See Wayne Vroman and Jacob M. Benus, *The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession* (IMPAQ International, LLC and The Urban Institute for the US Department of Labor: July 2010).

[11] Mark Zandi, *Using Unemployment Insurance To Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges,* testimony presented to the US Senate Finance Committee (April 14, 2010).

[12] Christine Riordan, et al., *Out in the Cold for the Holidays: Federal Jobless Benefits Will Be Cut for Two Million Workers in December – 800,000 Immediately – if Congress Fails To Renew the Emergency Program* (National Employment Law Project: Revised October 27, 2010), p. 2.

[13] Employment Development Department data show that California lost an average of 10,000 jobs per month between May and October, after having gained an average of nearly 20,000 jobs per month during the first five months of the year. California gained 39,000 jobs in October, after having lost 53,600 jobs in September. Even if the substantial gain in jobs recorded in October were to continue, it would take nearly three years to gain back the 1.4 million jobs California lost during the recession. Recovery in the nation's job market has also waned recently. US Bureau of Labor Statistics data show that the US lost an average of 26,000 jobs per month between May and October, after having gained an average of 200,000 jobs per month during the first five months of the year.

[14] Legislative Analyst's Office, *The 2010-11 Budget: California's Fiscal Outlook* (November 2010), pp. 14-15.

[15] CBP analysis of Employment Development Department and Legislative Analyst's Office data.

[16] Chad Stone and Hannah Shaw, *Emergency Unemployment Insurance Benefits Remain Critical for the Economy* (Center on Budget and Policy Priorities: November 10, 2010).

[17] US Bureau of Labor Statistics. The latest "Blue Chip consensus" forecast, which represents an average of projections by dozens of private economic forecasters, projects that the US jobless rate will remain above 9 percent through 2011. See Chad Stone and Hannah Shaw, *Emergency Unemployment Insurance Benefits Remain Critical for the Economy* (Center on Budget and Policy Priorities: November 10, 2010), pp. 8-9. In addition, a recent survey of professional forecasters by the Federal Reserve Bank of Philadelphia projects that the nation's unemployment rate will average 9.3 percent in 2011. Federal Reserve Bank of Philadelphia, *Fourth Quarter 2010 Survey of Professional Forecasters: Forecasters Predict Further Slowdown in Economic Recovery* (November 15, 2010).

[18] Employment Development Department. At the time of publication, September 2010 was the most recent month for which unemployment data were available for all states. US Bureau of Labor Statistics data show that 14 other states have jobless rates above the national rate – 10 of which have double-digit unemployment rates.

[19] The LAO projects that California's unemployment rate will average 11.9 percent in 2011 – just half a percentage point lower than the current rate. Legislative Analyst's Office, *The 2010-11 Budget: California's Fiscal Outlook* (November 2010), p. 14.

[20] The highest the national unemployment rate has ever been when any previous federal emergency UI benefits program ended was 7.2 percent in 1985. Chad Stone and Hannah Shaw, *Emergency Unemployment Insurance Benefits Remain Critical for the Economy* (Center on Budget and Policy Priorities: November 10, 2010), p. 4.

[21] US Bureau of Labor Statistics.