Research

How Unemployment Insurance Increased Unemployment

BEN GITIS | OCTOBER 18, 2013

During the Great Recession, the unemployment rate in the United States rose dramatically, prompting a number of economic policy responses. One policy adopted by lawmakers was extending unemployment benefits. Benefit duration increased from its standard 26-week maximum to as long as 99 weeks. Although this policy is intended to ease the hardship of losing a job, recent evidence suggests that the value it adds to not having a job puts upward pressure on wages and consequently decreases hiring. As a result, extending unemployment benefit duration actually further elevated national unemployment from 2008 to 2012, increasing the quarterly rate by as much as 1.3 percentage points and keeping almost 2 million people from finding jobs.

This analysis estimates the unemployment rates for each quarter from Q1 2008 to Q4 2012, had unemployment benefits remained available for a maximum of 26 weeks. The data for the seasonally adjusted unemployment rate comes from the Bureau of Labor Statistics' Current Population Survey's Labor Force Statistics. According to the Congressional Research Service (Whittaker and Isaacs 2013), lawmakers extended unemployment benefits six times under the Emergency Unemployment Compensation Act of 2008 allowing states to provide unemployment benefits for up to 59 weeks from July 2008 to November 2008, 79 weeks from November 2008 to November 2009, 99 weeks from November 2009 to February 2012, 99 weeks from February 2012 to May 2012, 99 weeks from June 2012 to August 2012, and 93 weeks from September 2012 to December 2013.

According to Hagedorn, Karahan, Manovskii, and Mitman (2013), in any quarter a 1 percent extension in unemployment benefit duration is associated with a 0.0523 percent increase in the unemployment rate. So, for each quarter the report calculates the percent increase in unemployment benefit duration from the usual 26 weeks. For quarters where the maximum unemployment benefit length changed, the report uses the highest that existed during the time period. Using the percent increase in unemployment benefit duration and the Hagedorn et al coefficient, we calculate in percent how much the benefit extension increased the unemployment rate for each quarter. From there, we derive the unemployment rate in each quarter if unemployment benefits remained available for a maximum of 26 weeks.

Whereas the unemployment rate reached 9.9 percent, these results indicate it would have only peaked at 8.7 percent. The unemployment benefit extensions added as many as 1.3 percentage points to the unemployment rate and prevented as many as 1,950,000 unemployed people from finding jobs.

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