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The effects of unemployment insurance benefits on U.S. employment

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During the Great Recession of 2007–09 and its aftermath, most states extended UI benefits beyond the standard 26 weeks to 99 weeks. In fact, from November 2009 to March 2012, the maximum duration of benefits averaged more than 90 weeks across all states. By contrast, during the 2001 recession, when the benefits period was also extended, the average was only about 40 weeks. Yet, some states did not extend the period of UI benefits during the Great Recession. These contrasting policies among some neighboring states provide a unique opportunity to compare the two approaches and their respective effects on aggregate employment.

Boone and his coauthors analyze county-level employment data from the U.S. Bureau of Labor Statistics from late 2007 to the end of 2014, a period that includes the Great Recession and the 5.5 years that followed it. Their results show that in the states that implemented them, the UI extensions had negligible effects on employment in those states. The authors' findings show that, at worst, the extensions reduced employment slightly and, at best, they increased employment in those localities. More specifically, they found that the change in the employment-to-population ratio in the United States ranged from an increase of less than 0.2 percentage points to a decline of less than 0.3 percentage points, neither of which is a statistically significant change. In other words, the UI extensions had virtually no impact on employment, positive or negative.

Although a large body of scholarly work exists that examines the effects of increasing the length of UI benefits on the labor supply, the authors of this study argue that few studies have focused on employment, per se. Yet, as they explain, the effect that extending UI benefits has on employment is an important public policy issue. If the positive effects of extending UI benefits, in terms of increased demand, outweigh the negative effects on employment, then the policy is warranted. This study persuasively argues that employment is little affected, either positively or negatively, and thus UI benefits extensions make good public policy: aggregate demand increases, employment is largely unaffected, and workers who have lost their jobs are better able to endure the effects of economic downturns without major disruptions to their lives and those of their families.