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Center for Labor Research and Education
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Policy Brief

Unemployment Benefits Critical to Jobless Workers and Economic Recovery in California

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April 2011

The Great Recession has presented enormous policy challenges since it began in December 2007. We discuss here the record payout of Unemployment Insurance (UI) benefits. The UI program represents one of the most consequential policy responses to the hardships imposed on workers and communities by high rates and long spells of unemployment.[1]

This policy brief explains why UI benefits provide one of the most effective and efficient means to address economic woes imposed by joblessness. In particular, unemployed workers quickly receive funds to help make ends meet and aggregate UI spending acts as an automatic stabilizer for the larger economy. In California, UI benefits and extensions helped approximately 1.5 million workers and their families afford basic necessities in 2009,[2] kept nearly 500,000 Californians out of poverty, and resulted in spending that supported 161,000 jobs in the state. The severity of the crisis would have been deeper, unemployment would have been greater, state and local tax revenue would have been lower, and the economic hardship faced by families would have been more severe without this vital safety net.

The Economic Crisis

The recent recession was the longest on record since the Great Depression—officially lasting from December 2007 to June 2009. The trough in job losses occurred in December 2009, at which time nearly 8.3 million jobs were shed in the United States—1.4 million in California. At the lowest point, the U.S. had 6.1 percent fewer jobs and California had 9.2 percent fewer jobs compared to the start of the recession.[3] The number and percentage of jobs losses were the worst of any downturn since World War II.

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The unemployment rate increased from 5.0 percent in December 2007 to a high of 10.1 percent in October 2009 in the U.S. In California, the rate soared from 5.8 percent to a high of 12.6 percent in March 2010. The ranks of the unemployed swelled to over 15.5 million in the U.S.—more than one in every seven unemployed workers was from California.[4] Unemployment, as forecast by the California Legislative Analyst's Office, is expected to remain relatively high in California for the next few years—11.9 percent, 10.5 percent, and 9.1 percent for 2011, 2012, and 2013, respectively.[5]

Impact on Participating Families

In this light, the need for and the reliance on UI benefits cannot be overstated. Regular UI benefits, along with extensions that provided continued help to those who exhausted their regular benefits, helped families to make ends meet. In California, nearly seven out of ten unemployed workers receive UI benefits, and UI covers, on average, about one-third of a worker's weekly pay.[6] However, even with the limitations of UI, this insurance safety net is crucial for families to pay for necessities such as rent or mortgage payments, food, staples, and heating bills. UI and the Supplemental Nutrition Assistance Program are the only safety net programs for working or unemployed Californians. Families that experience bouts of unemployment are often in danger of falling into poverty. In 2009, unemployment benefits kept nearly 500,000 Californians out of poverty.[7]

Impact on the Economy

Unemployment Insurance not only helps participating families make ends meet, it also serves as an automatic stabilizer and stimulus for the broader economy. Unemployed workers and their families spend much of their unemployment checks locally,[8] which in turn props up the economy, mitigates job losses, and sustains tax revenues. Spent UI dollars cycle through the economy numerous times, creating a multiplier effect. Moody's Analytics estimates that every additional $1.00 spent on unemployment benefits in California increases state GDP by $1.56.[9] According to Mark McMullen of Moody's Economy.com, UI is an especially efficient stimulus because "people who receive these benefits are hard-pressed and will spend any financial aid they receive very quickly" and "these programs are already operating and can quickly deliver a benefit increase to recipients."[10] UI is also a well-targeted stimulus because more UI dollars are distributed to areas with higher unemployment rates. According to Moody's Analytics, extending unemployment insurance benefits had a greater economic impact than almost any of the major policies that were part of the package of tax cuts and program extensions passed by Congress in December 2010. [11]

We estimate the economic impact of 2009 UI payments in California using IMPLAN 3.0, an industry-standard input-output modeling software package.[12] In 2009, the $20.2 billion paid to California UI recipients[13] (including the extended and expanded benefits[14]) yielded $25.5 billion in economic output in California, due to the multiplier effect. State and local governments received $1.8 billion in tax revenues more than they would have without the UI spending, equivalent to approximately one percent of total state and local tax revenue.[15]

Impact on Jobs

We further estimate that the UI payments resulted in 161,000 more jobs in California than under a scenario without such payments. The majority of these were private service sector jobs as shown in Table 1. Without these 161,000 jobs, the annual unemployment rate would have been nearly one percentage point higher in 2009: 12.3 percent instead of 11.4 percent.[16]

Table 1.
Distribution of Jobs by Sector

	Number of Jobs	Percentage
Service	109,000	68%
Trade	33,000	20%
Transportation, Information and Public Utilities	8,000	5%
Manufacturing	6,000	4%
Government	2,000	1%
Agriculture	2,000	1%
Construction	1,000	1%
Total	161,000	100%

Our estimate of the impact on jobs is conservative relative to federal government estimates. Using national estimates by the Congressional Budget Office and Department of Labor,[17] the number of jobs supported by UI payments could be greater than 200,000 assuming California's share of jobs is proportional to California's share of UI payments.[18] Although it is difficult to pinpoint the exact number of jobs supported by UI payments, this range of estimates demonstrates that UI is instrumental in maintaining jobs.

The worst of the Great Recession is behind us. But weakness in the labor market persists amid high unemployment and tepid job growth. UI benefits continue to play a vital role in helping workers bridge the gap between unemployment and re-employment. The spending of UI benefits in local communities continues to assist the economic recovery as we slowly come out of the worst economy in decades.

Endnotes

1 Heidi Shierholz and Lawrence Mishel, "A Good Deal for All," Economic Policy Institute Issue Brief #288, November 4, 2010. Mark Zandi, Chief Economist, Moody's Analytics, "Perspectives on the Economy," Testimony Before the House Budget Committee, July 1, 2010.

2 The California Employment Development Department estimated that 1.4 million to 1.6 million unemployed Californians collected benefits in 2009. This statistic was confirmed via a telephone call to EDD spokesperson Patrick Joyce on March 9, 2011.

3 Sylvia A. Allegretto, "The Severe Crisis of Jobs in the United States and California," Center on Wage and Employment Dynamics Policy Brief, August 2010.

4 ibid.

5 California Legislative Analyst's Office, "The 2011-12 Budget: California's Fiscal Outlook," November 10, 2010.

6 Recipiency rate in Fourth Quarter 2009: Andrea Orr, Economic Policy Institute, "Many jobless can not collect unemployment benefits," May 20, 2010, http://www.epi.org/economic_snapshots/entry/snapshot_20100520/. Replacement rate in 2008: California Legislative Analyst's Office, "California's Other Budget Deficit: The Unemployment Insurance Fund Insolvency," October 20, 2010, http://www.lao.ca.gov/reports/2010/ssrv/unemp_ins/ui_102010.aspx.

7 Unpublished analysis of Current Population Survey data by Center on Budget and Policy Priorities. CBPP estimated that, in 2009, income from unemployment compensation kept 489,000 unemployed workers and family members above the official poverty line in California, with a margin of error (90 percent confidence interval) of plus or minus 93,000.

8 Heather Boushey, Maurice Emsellem, Christine Riordan, and Andrew Stettner, "Keeping a First Line of Defense for the Jobless," Center for American Progress Action Fund and National Employment Law Project, December 7, 2009.

9 Written Testimony of Mark McMullen Director, Moody's Economy.com Before the Senate Human Services Committee, "Maximizing Federal Funds for Human Services," March 9, 2010, http://cbp.org/pdfs/2010/CaliforniaBudgetBites/100310_Mark_McMullen_Testimony.pdf.

10 ibid.

11 Mark Zandi, "U.S. Macro Outlook: Compromise Boosts Stimulus," December 8, 2010, http://www.economy.com/dismal/article_free.asp?cid=195470&src=nytimes.

12 One year change modeled as household income change. The California UI payments were distributed using the percentage of UI payments going to each IMPLAN household income category in 2009. The distribution of UI payments was based on analysis of 2009 March CPS data.

13 California Employment Development Department, "Record Year for Unemployment Claims and Benefits," http://www.edd.ca.gov/unemployment/Record_Year_for_Unemployment_Claims_and_Benefits.htm.

14 Beginning in February 2009, the federal government funded an additional 13 to 20 weeks of benefits beyond the usual 26 weeks of benefits in certain states based on their unemployment rates. Temporary emergency unemployment provided as many as 53 additional weeks of benefits to people who exhausted their benefits prior to November 30, 2010. The federal government also temporarily increased the weekly benefit amount by $25 between February 2009 and June 2010. Source: Congressional Budget Office, "Letter to Representative McDermott," November 17, 2010.

15 State and local revenue from taxes was $186 billion in 2008 (latest year of data available) according to the U.S. Census Bureau.

16 Labor force and number of unemployed from California Employment Development Department, 2009. Estimate assumes that all 161,000 jobs are held by workers with no other jobs.

17 Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in the Short Term," testimony of Douglas W. Elmendorf, February 23, 2010. U.S. Department of Labor, "News Release: US Labor Department study underscores positive impact of unemployment insurance," November 16, 2010, http://www.dol.gov/opa/media/press/ETA/ETA20101615.htm.

18 Californians received 14 percent of national UI payments in 2009, based on Department of Labor data.

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