

Ending extended unemployment benefits: Four lessons*

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Beginning January 2014 the ‘temporary’ extended (26+ weeks) unemployment benefits ended when Congress could not agree on a method of paying for any further extensions. Other than a few political barbs the reaction from recipients has been if not muted at least drowned out by other high profile events.

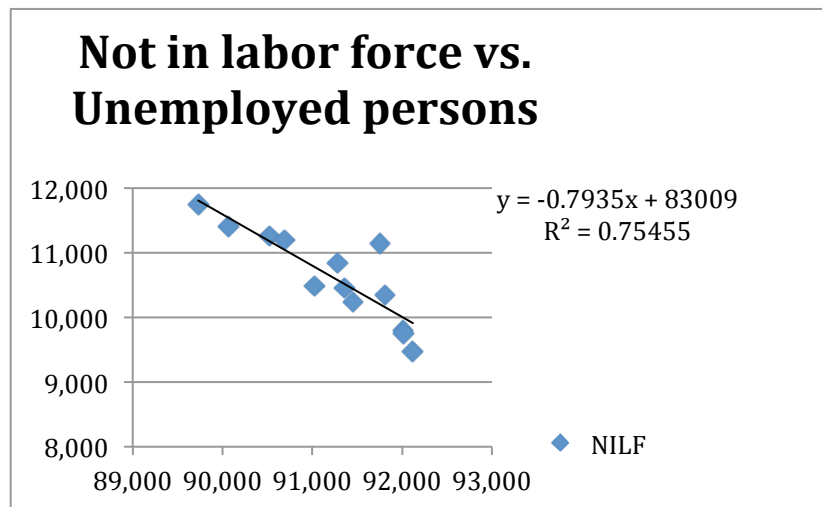
One reason for the muffled outcry is the fact that the average duration of the extended benefits was falling even before January 2014. From June 2013 to December 2013 the number of claims for the extended benefits fell approximately 8.5 percent. However, in the first six months after the benefits ended the number of claims fell by 15 percent. The latter is not unexpected because as the benefits ran out some claimants were no longer able to claim them.

LESSON ONE: MANY BENEFICIARIES LEFT THE LABOR FORCE AFTER THEIR EXTENDED BENEFITS ENDED.

What happened to those who lost their benefits as a result of Congressional inaction is not an unexpected consequence. A simple statistical analysis suggests that when the benefits ran out beneficiaries left the labor force, that is, ceased looking for employment. The current

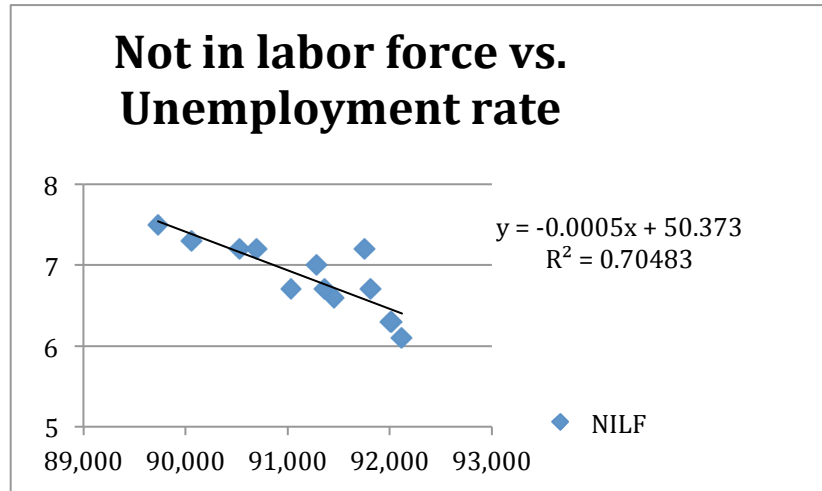
analysis (adjacent chart¹) suggests that 75 percent of the drop in the number of unemployed can be attributed to the decrease in the number of recipients looking for employment. Stated inversely, only 25 percent of the decrease in

the unemployed can be attributed to their re-employment. One is tempted to conclude that many were ‘seeking’ employment just to maintain their unemployment benefits.



LESSON TWO: FORMER CLAIMANTS EXITING THE LABOR FORCE EXPLAINS MOST OF THE DECLINING UNEMPLOYMENT RATE

The adjacent chart¹ indicates that as much as 70 percent of the drop in the unemployment rate can be attributed to the decline in the numbers of individuals looking for employment as opposed to those finding employment. This result confirms the casual empiricism of many informed observers and commentators.

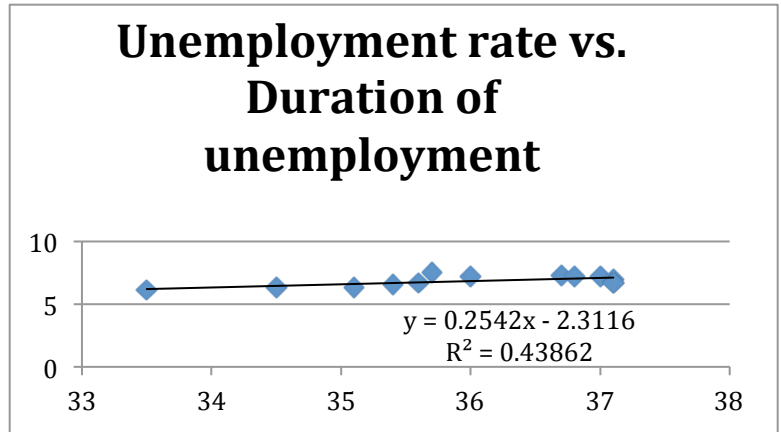


LESSON THREE: REVIVING THE LOST BENEFITS COULD PRODUCE MORE UNEMPLOYMENT AND A HIGHER UNEMPLOYMENT RATE.

It appears that many people drawing unemployment benefits decide to no longer “seek” employment when their benefits run out, a notion long held by economists. Even though the number of employed persons has reached near pre-recession levels, there still exists an employment deficit as the labor force participate rate dropped from a pre recession level of 66 percent to a post recession level 63 percent. A resumption of extended benefits could conceivably result in an increase in the number of unemployed and consequently the unemployment rate.

LESSON FOUR: HIGHER UNEMPLOYMENT RATES PRODUCE ONLY MODEST INCREASES IN UNEMPLOYMENT DURATION

The adjacent chart¹ demonstrates that while positive the relationship between the unemployment rate (Y axis) and the average duration of unemployment (X axis) is weak with less than half the average duration of unemployment explained by the unemployment rate.



The above evidence suggests that extended unemployment benefits encourage the unemployed to seek the benefits for as long as they last and then retreat from the labor force when they run out. As might be expected, the withdrawal from the labor force is greatest for those age 55+ indicating possible early retirement decisions.

* The remarks herein are abstracted from research projects assigned to anonymous graduate students. Any errors of omission or commission are the sole responsibility of the current author.

¹ <http://www.bls.gov/cps/tables.htm>