EXTENDING THE DURATION OF UNEMPLOYMENT BENEFITS: How a big policy change reduced congestion in the US labour market

Extending unemployment benefits during the recession to help jobless Americans reduced job search but it did not have a negative effect on job creation. That is the main finding of research by **Ioana Marinescu**, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015. Her study ultimately supports the change in unemployment benefits, as fewer applications meant that each application was more likely to succeed.

During the recession, the US unemployment rate rose to 10%. To help unemployed Americans who were struggling with their finances, the time for which they could claim unemployment benefits was extended from six months to almost two years. This study analyses millions of job postings on CareerBuilder.com and compares US states with longer and shorter claiming times.

The research shows that a 10% increase in the length of time someone could claim unemployment benefits caused the number of job applications in that state to fall by 1%, although the number of jobs available did not change. This increased the unemployment rate, but only by 0.6%. The author concludes:

> 'Extending unemployment benefits during the recession in the United States was a good policy. There were too many jobseekers chasing too few jobs, and unemployment insurance reduced the congestion in the labour market.'
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> 'What's more, my research does not even factor in the benefits of unemployment insurance in terms of supporting the consumption of the unemployed at a time where credit had dried up. After taking account of the impact on both the labour market and consumption, there are good reasons to believe that extending unemployment benefits was a good policy choice.'

More...

During the last recession, the United States experienced some of the highest unemployment rates in its history. With a 10% unemployment rate, the American labour market was no longer outperforming European labour markets. To help out the many unemployed Americans who were struggling with their finances, the duration of unemployment benefits was dramatically extended: it more than tripled from six months to almost two years!

Unfortunately, extending unemployment benefits may have further increased unemployment. For one thing, unemployed jobseekers may have searched less hard, given that they could live off unemployment benefits for longer.

Furthermore, economists have claimed that the benefit extensions reduced the number of available jobs. Their argument is that jobseekers who can afford to wait longer before taking on a job will demand higher pay, and firms who cannot afford to pay so much will simply not create jobs.

This paper uses a rich new data source from the leading online job search engine CareerBuilder.com to measure the impact of unemployment benefit extensions on US unemployment. The millions of job postings and job applications in the data allow for a detailed analysis of the impact of benefit extensions for each American state. The study finds that the number of job applications decreases by 1% when benefit duration is increased by 10%. So, as expected, longer benefit duration discourages job search.

Given the fear that unemployment benefit extensions may discourage job creation, the research also looks at the impact of these extensions on the number of jobs. It finds absolutely no impact, contrary to the claims of some other economists. Furthermore, the new study shows that prior research used a flawed technique to reach the conclusion that benefit extensions discourage job creation.

Given that benefit extensions decrease job applications but do not affect the number of available jobs, the author concludes that benefit extensions reduce the competition for jobs. In other words, for each application sent by a jobseeker, this jobseeker has a higher chance of getting hired.

This so-called general equilibrium effect reduces the adverse effect of unemployment insurance on unemployment. The results imply that a 10% increase in unemployment benefit duration increased aggregate unemployment by only 0.6%, an impact that is 40% smaller than that based on previous results.

Despite the fear that more generous unemployment insurance would increase unemployment, this effect is likely to have been very small. The results suggest that extending unemployment benefits during the recession in the United States was a good policy. There were too many jobseekers chasing too few jobs, and unemployment insurance reduced the congestion in the labour market.

This research does not even factor in the benefits of unemployment insurance in terms of supporting the consumption of the unemployed at a time where credit had dried up. After taking into account both the impact on the labour market and on consumption, there are good reasons to believe that extending unemployment benefits was a good policy choice.

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Did unemployment benefits increase unemployment in the United States?
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