TRAINING AND EMPLOYMENT NOTICE	NO. 16-10
	DATE November 16, 2010

TO: STATE WORKFORCE AGENCIES
STATE WORKFORCE LIAISONS
STATE UNEMPLOYMENT INSURANCE DIRECTORS
STATE AND LOCAL WORKFORCE INVESTMENT BOARDS
STATE ONE-STOP CENTER SYSTEM LEADS

FROM: JANE OATES /s/
Assistant Secretary

SUBJECT: Release and Availability of Employment and Training Administration (ETA) Occasional Paper 2010-10, *The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession*

1. Purpose. To announce the release and availability of ETA Occasional Paper 2010-10, *The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession.*

2. Background. The key objective of this analysis under the Unemployment Insurance (UI) Benefit Study contract was to estimate the impact of the UI program on the economy during recessionary and non-recessionary periods. The report was authored by Wayne Vroman of the Urban Institute, under subcontract with Impaq International, LLC. The foundational analysis also involved a separate subcontract with Moody's Economy.com to take advantage of their proprietary economic simulation models.

3. Publication Description. Specifically, the report presents an analysis of simulations produced by Moody's Economy.com that provide estimates of the impact on employment and change in Gross Domestic Product (GDP) of the UI program. Data collection drew data from various sources, including UI and earnings data obtained from selected states. The Urban Institute provided annual data for each state on UI benefit payments and taxes going back to 1974. This data was converted to a quarterly frequency for input into the Moody's Economy.com state modeling system. Rather than simulating an artificial recessionary scenario, the researchers were able to use the experience of the recent recession (2008-2009) and examine the time path of the economy with and without the UI program.

The report's main findings are the regular UI program closed about one-tenth (0.105) of the real GDP shortfall caused by the recession. Extended benefits closed about one-twelfth (.085) of the real GDP shortfall caused by the recession. Because of lags reflected in experience rating, the response of UI taxes was delayed with little increase in UI taxes occurring in 2009 and 2010. From the third quarter of 2008 through the second quarter of 2010, increased UI taxes had essentially no effect on real GDP (a gap closing proportion of -0.007). Combining all UI tiers (regular and extended) and UI taxes overall, the UI program closed 0.183 of the gap in real GDP caused by the recession.

There is reason to believe that for this particular recession, the UI program provided stronger stabilization of real output than in many past recessions because extended benefits responded strongly. Calculated multiplier effects in real GDP for every $1.00 of UI benefits paid were estimated to average $2.00 for regular UI benefits and also $2.00 for extended benefits. The average net effect of UI benefits (regular and extended) and taxes on employment was estimated to be a positive 1,590,000 jobs.

4. Inquiries. To view an abstract of this publication, as well as to download the executive summary and full report, visit the ETA Occasional Paper Series Web site at: http://wdr.doleta.gov/research/keyword.cfm.