CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

December 3, 2013

Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: *How Extending Certain Unemployment Benefits Would Affect Output and Employment in 2014*

Dear Congressman:

This letter responds to your request for an analysis of how extending the emergency unemployment compensation (EUC) program and other related expiring provisions would affect U.S. economic output and employment in 2014. Under current law, the EUC program, certain temporary provisions of the extended benefits program, and other related provisions are scheduled to expire on December 31, 2013. The Congressional Budget Office (CBO) has analyzed a proposal under which those expiring provisions would be extended through December 2014. That proposal has the same specifications as H.R. 3546, the Emergency Unemployment Compensation Act of 2013, as introduced on November 20, 2013.

CBO estimates that the proposal would increase outlays relative to those under current law by nearly $26 billion—by about $19 billion in fiscal year 2014 and by $6.5 billion in fiscal year 2015. The net increase in deficits over the 2014–2023 period would amount to about $25 billion because the proposal would also boost revenues by $0.5 billion over that period.[1]

CBO estimates that extending emergency unemployment benefits would raise gross domestic product (GDP) and employment in 2014 relative to what would occur under current law. Recipients of the additional benefits would increase their spending on consumer goods and services. That increase in aggregate demand would encourage businesses to boost production and hire more workers than they otherwise would, particularly given the expected slack in the capital and labor

[1] See Congressional Budget Office, cost estimate for H.R. 3546, the Emergency Unemployment Compensation Extension Act of 2013 (December 3, 2013), www.cbo.gov/publication/44928.

markets.[2] However, those positive effects on output and employment in 2014 would be partially offset by the effects of an increase in the duration of unemployment for some people. Specifically, in response to the extension of benefits, some unemployed workers who would be eligible for those benefits would reduce the intensity of their job search and remain unemployed longer—which would tend to decrease output and employment.[3] CBO estimates that those negative effects would be modest, though, in 2014 because most of the jobs that would not be taken by some of the people receiving the additional benefits would instead be taken by some of the many people searching for work who would not be eligible for those benefits.

Combining the positive effects on the economy from higher aggregate demand with the negative effects from job searches that would be (on average) less intense, CBO estimates that extending the current EUC program and other related expiring provisions until the end of 2014 would increase inflation-adjusted GDP by 0.2 percent and increase full-time-equivalent employment by 0.2 million in the fourth quarter of 2014. Those figures represent CBO's central estimates, which correspond to the assumption that key parameters of economic behavior (in particular, the extent to which higher federal spending boosts aggregate demand in the short term) equal the midpoints of the ranges that CBO uses. The full ranges that CBO uses for those parameters suggest that, in the fourth quarter of calendar year 2014, GDP could be increased very slightly or by as much as 0.3 percent, and employment could be increased very slightly or by as much as 0.3 million.

Although output would be greater and employment higher in the next year if the EUC program and other related expiring provisions were extended, those policies would lead to greater federal debt, which would eventually reduce the nation's output and income slightly below what would occur under current law (unless other policy changes were made that offset the increase in federal debt from the policies analyzed here).[4]

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[2] The approach that CBO has adopted to estimate the short-term economic impact of the proposal is similar to the method that the agency has used to assess the impact of the American Recovery and Reinvestment Act and the impact of various potential policies designed to increase output and employment. For a discussion of that approach, see Felix Reichling and Charles Whalen, *Assessing the Short-Term Effects on Output of Changes in Federal Fiscal Policies*, Congressional Budget Office Working Paper 2012-08 (May 2012), www.cbo.gov/publication/43278.

[3] For a discussion of the incentive effects of unemployment insurance, see Congressional Budget Office, *Unemployment Insurance in the Wake of the Recent Recession* (November 2012), www.cbo.gov/publication/43734.

[4] For an analysis of the short- and long-run effects of different amounts of deficits and debt, see Congressional Budget Office, *Macroeconomic Effects of Alternative Budgetary Paths* (February 2013), www.cbo.gov/publication/43769.

I hope that you find this information useful. If you have any questions, please feel free to contact me or CBO staff. The primary staff contact for this analysis is Benjamin Page.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Paul Ryan
Chairman

Honorable Dave Camp
Chairman, House Committee on Ways and Means

Honorable Sander Levin
Ranking Member, House Committee on Ways and Means