

Income Support During COVID: The Role of Enhanced Unemployment Insurance

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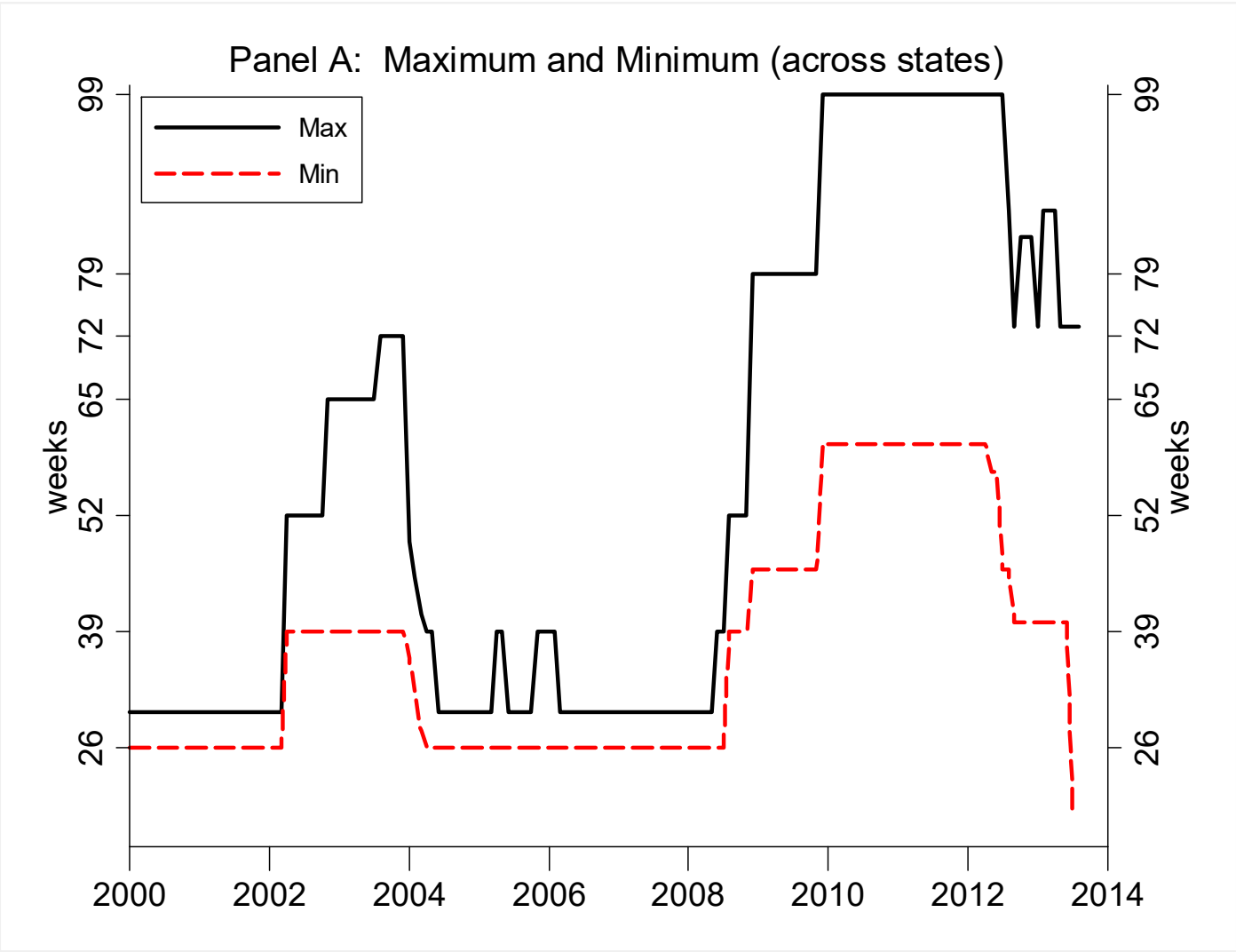
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Unemployment insurance (UI) in practice and theory

- UI is a crucial social insurance program
 - Income support for unemployed workers (sustained employment history)
 - Especially important during recessions (massive job losses)
 - Acts as an “automatic stabilizer”—stimulus payments that automatically increase when the economy weakens
 - Typically enhanced/expanded during recessions
- Economists: analyze trade-off between income support and job search disincentives
 - Income support enables “consumption smoothing”—social insurance
 - May come at the expense of less effort on job search (“moral hazard”)—small effect (less important in recessions, when jobs are scarce)?

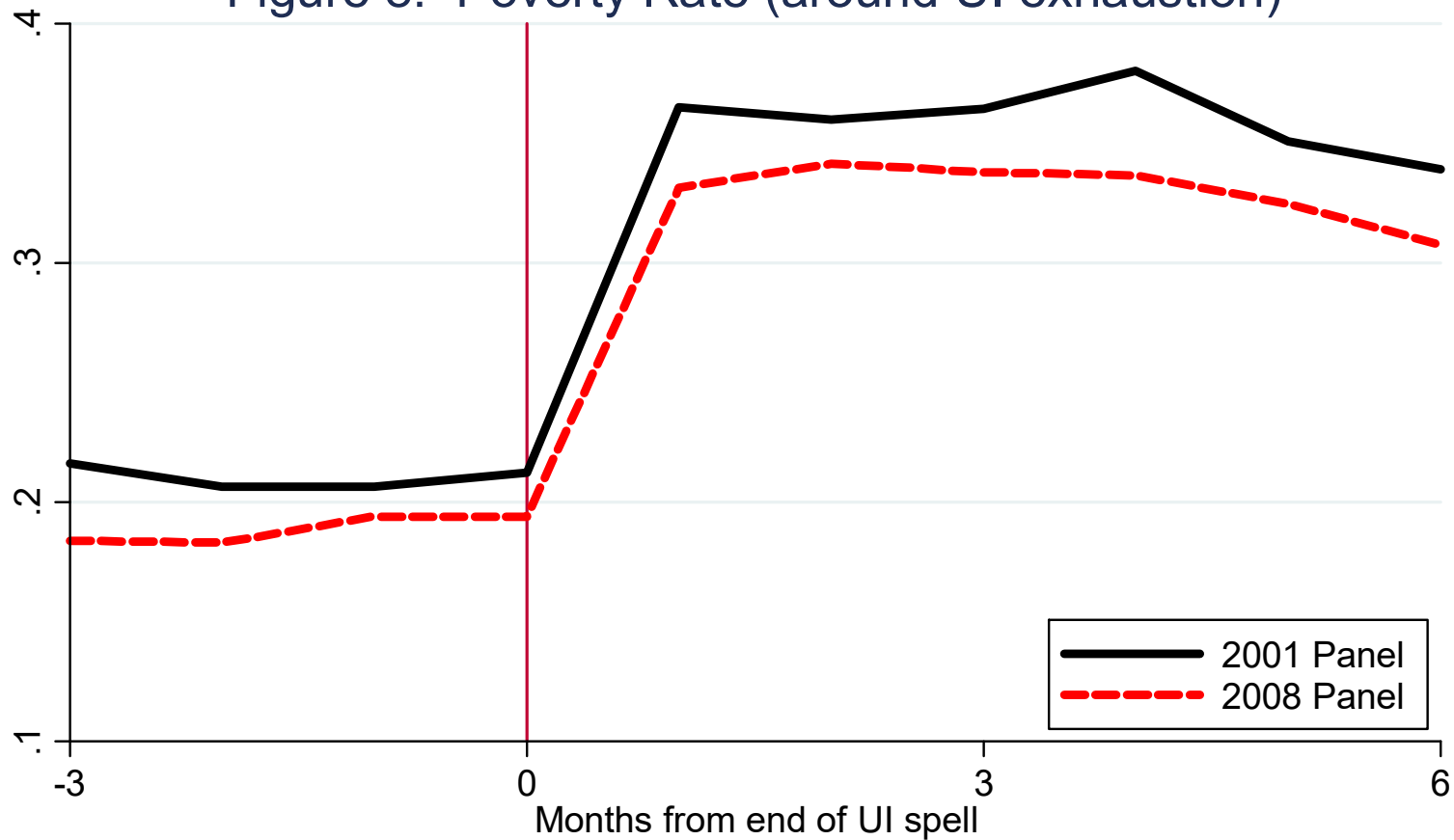
UI availability expanded in prior two recessions

Variation in Total Weeks of UI Available



Poverty rates up sharply after UI benefits end

Figure 8: Poverty Rate (around UI exhaustion)



Note: See notes to Figure 6. For months > 0, only ongoing non-employment spells are included.

No “moral hazard”—bolsters LF attachment

TABLE 1—ESTIMATED AVERAGE MARGINAL EFFECTS ON PROBABILITY OF EXIT FROM UNEMPLOYMENT

Model	Specification 1		Specification 2
	2008–2011	2012–2014:6	2012–2014:6
(1) Single risk	–0.034 (0.008)	–0.024 (0.011)	0.018 (0.016)
(2) Exit to employment	–0.000 (0.006)	–0.002 (0.009)	0.018 (0.011)
(3) Exit from labor force	–0.030 (0.005)	–0.020 (0.007)	0.001 (0.011)

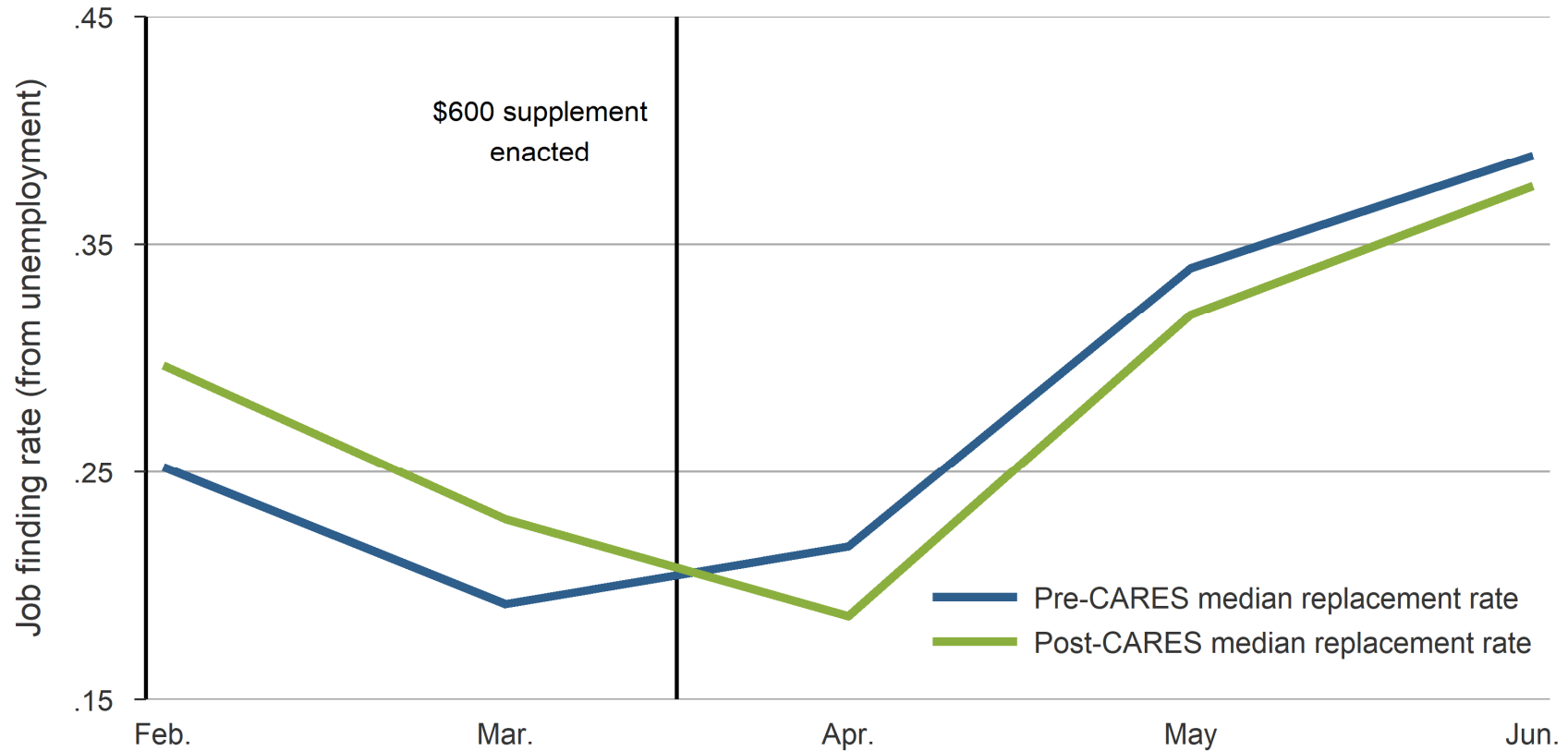
Notes: Columns 1 and 2 present the average marginal effect on the exit probability of an indicator for availability of UI benefits (a transformation of $\hat{\delta}$). Column 3 presents the average marginal effect of an indicator for the *loss* of benefits (a transformation of $\hat{\theta}$), controlling for an indicator for simulated benefit eligibility in the pre-expiration period. See text for a list of other controls included in the models and for spell counts.

UI expansion under the CARES Act (March 2020)

- Eligibility expanded to self-employed
 - Broader criteria relaxed (e.g., active job search)
- Maximum UI durations generally doubled from 26 to 52 weeks
 - Compared with 99 weeks in the Great Recession
- All UI recipients entitled to an additional \$600/week on top of their usual weekly benefits
 - Substantial enhancement compared with national average ~\$380/week
 - **Ganong et al.: median replacement rate of 134%, UI benefits > wages for 68% of recipients, wide variation**
- New research (Petrosky-Nadeau and Valletta): moderate job search impact of \$600 supplement
 - Better to take a durable job than stay on temporary UI benefits

Small effect on job finding rates

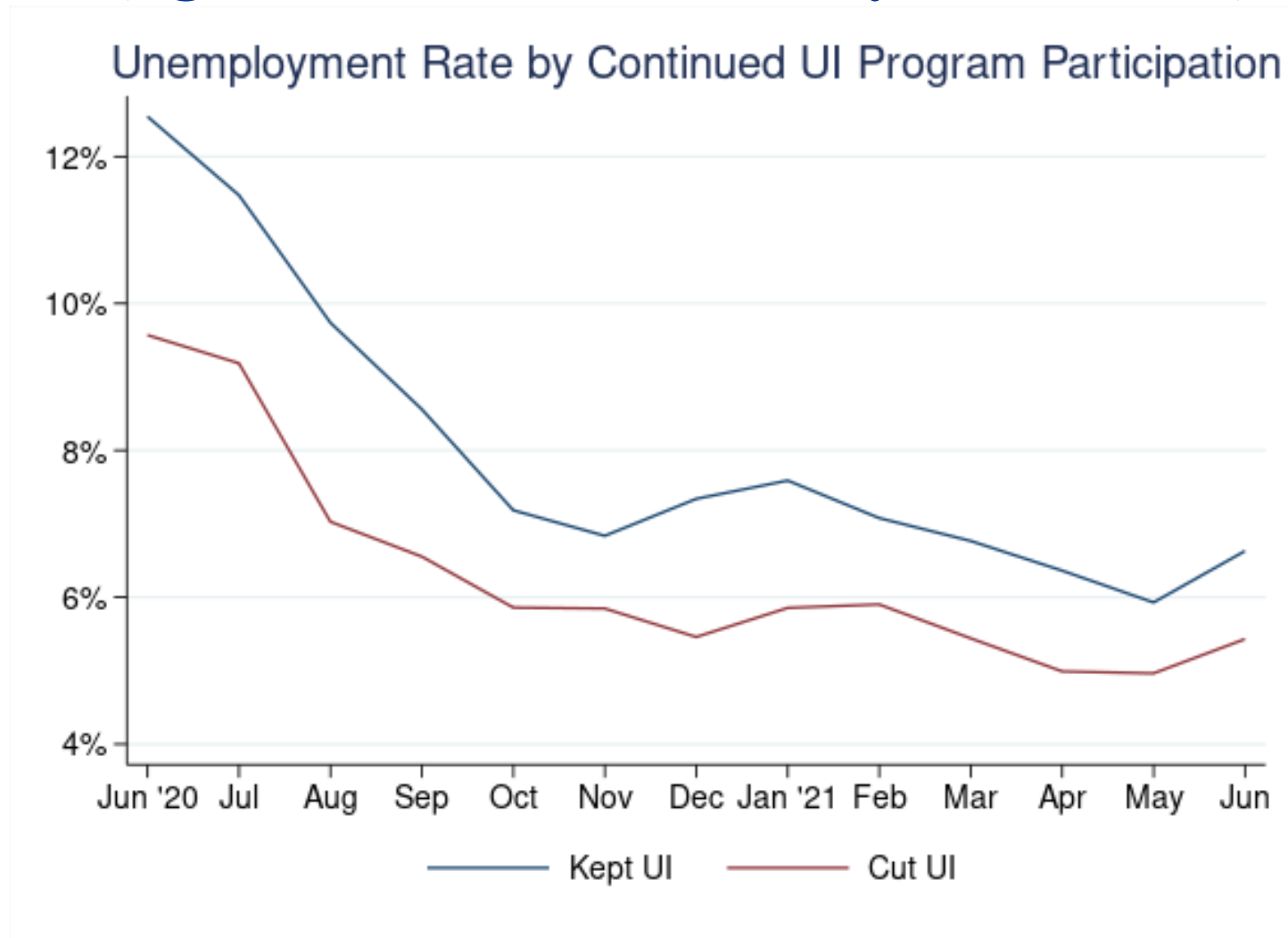
Job finding rates (from unemployment), by UI replacement rates (pre/post CARES Act)



Assessing the impact of enhanced UI

- New findings consistent with prior research; limited effects of expanded UI availability/generosity when jobs are scarce
- Other factors more important during the pandemic
 - Workplace health/safety concerns (it's a *pandemic*)
 - Family and child care commitments (widespread school closures)
- UI enhancements provided bridge across the pandemic, opportunity to wait for acceptable job offer
- In 2021, UI enhancement renewed via a \$300 supplement
 - Our research suggests limited impact of job search/acceptance: about 1 in 7 UI recipients decline job offers each month due to extra \$300
 - Employer concerns about limited worker availability due to other reasons

Some states cutting current \$300 supplement (tighter labor markets; may make sense)



Concluding thoughts (including policy implications)

- Even with enhancements, lots of unemployed individuals did not receive UI benefits during COVID (Eliza Forsythe's findings)
 - UI eligibility relies on stable job histories; tends to be a middle-class support program
 - Other income support available, may not be adequate for low-income groups; expand UI eligibility base?
- Case for permanent legislation for UI expansions
 - Mostly done on an emergency basis, requires Congressional action
- UI generally does not undermine labor force attachment
 - Worry about “moral hazard” more when the labor market is out of the hole, not when it's struggling to dig