RESEARCH IN BRIEF • November 1, 2022

The Role of the Unemployment Insurance (UI) Program in Ensuring Families' and Workers' Economic Security During the COVID-19 Pandemic

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Overview

The expansion of the federal Unemployment Insurance (UI) program between March 2020 and September 2021 represented an enormous mobilization of state and federal funding to protect workers' incomes in the face of unprecedented layoffs and economic dislocations resulting from the COVID-19 pandemic. The emergency changes to the UI program were implemented quickly and included four broad features: (1) expansion of eligibility; (2) increase in generosity; (3) extension of duration of payments; and (4) a relaxation of verification procedures. Along with other economic relief programs such as the Paycheck Protection Program (PPP), direct economic stimulus payments, and - in 2021 - the American Rescue Plan Act, the UI expansion was aimed at providing immediate economic relief to keep the economy afloat and families secure through the COVID crisis.

Since 2020, a rich new literature has emerged examining the impact of these various policies on the economy as a whole, on families, labor supply, inflation, and workers' bargaining power, among other outcomes. This literature is still emerging and, as of September 2022, it is still unclear what long-term effects this suite of policies may prove to have. But we have already learned a lot. This brief outlines findings from some of the key academic and policy analyses that have been conducted to date on the impact of the UI expansion on the labor market and on family economic security.

Features of UI Expansion under COVID-19

- Expanded unemployment insurance eligibility
- Streamlined claim approval
- Federal government supplemented all payments with additional $600/week through July 2020
- Federal government supplemented all payments with additional $300/week through September 2021

Source: Brookings Recession Remedies

We have organized this work to spotlight key lessons on how effective the program was in ensuring economic security in the face of massive layoffs, how it affected labor supply, and how the program may have impacted racial groups differently across the state. We also point to implications for longer-term policy and priority areas for future research.

Features of the UI Expansion under COVID-19

One of the central pillars of the federal government's pandemic economic relief efforts was the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March 2020. Among other features - including direct stimulus payments, support for airlines and small businesses, and additional protections for renters and homeowners - the act expanded UI eligibility, streamlined approval of claims, and supplemented all UI payments with an additional $600 per week in federal funds. These changes were established to get money paid out quickly and to ensure that UI payments would replace 100% of mean US wages (when combined with mean, existing state-level UI benefits). The bulk of these reforms ran through early September, 2021, with the federal supplement reduced from $600 per week to $300 in late 2020.

At its peak in August 2020, according to the Bipartisan Policy Center, Pandemic Unemployment Assistance (PUA) covered 14.6 million people. And in August 2021, just before the expiration of the program, 5 million people were still receiving benefits through the program.[1] In a wide-ranging series on the impacts of federal COVID relief policies, the Hamilton Project at the Brookings Institution provides additional detail on the reach of the expanded UI payments, showing for example that, at its peak, income from UI represented 9% of all labor income in the US (four times the usual amount), and that the COVID-era expansion accounted for 40% of those payments.[2]

KEY FINDING #1

The expansion of Unemployment Insurance accrued substantial benefits to low-income workers.

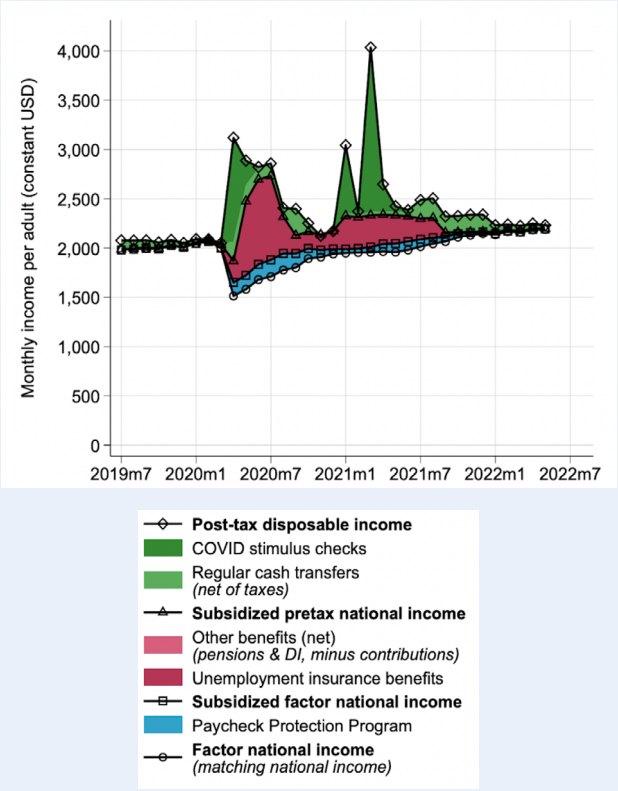
In many cases, supplemental UI replaced more than 100% of wages lost to COVID-related unemployment, driving an increase in disposable income for those in the bottom 50% of the income distribution.

Some of the leading analyses on the scale and effectiveness of the COVID-era UI expansion have been conducted by Peter Ganong and colleagues Pascal Noel and Joseph Vavra at the University of Chicago, as well as by Fiona Greig and Daniel Sulliva at the JP Morgan Chase Institute. In one real-time analysis, published in August 2020, Ganong and colleagues used data from the Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS), along with data on state-level UI rules and eligibility, to estimate the reach of covid-era UI payments. They found that 76% of unemployed workers in the study period were eligible for benefits which exceeded their lost wages (with a median replacement of 145% of lost wages), owing primarily to the federal $600 supplement.[3]

Because the federal supplement was set based on national mean income levels, the program also had powerful distributional effects, and was most beneficial to workers lower on the income distribution; Ganong and colleagues show, for example, that the federal supplemented reversed the patterns that one would expect to see in an economic shock of this scale, with lower-income workers disproportionally benefitting from relief policies relative to their employed counterparts; the researchers give the example here of a laid-off retail worker, for whom UI benefits could replace 166% of lost wages, compared with a similarly paid grocery store worker who remains employed and does not receive any pay increases.[3]

Another rich source of data on the importance of UI payments for those at the bottom of the income distribution comes from new Realtime Inequality measurements developed by Thomas Blanchet, Emmanuel Saez, and Gabriel Zucman. This new tool, combining survey data, quarterly wage and employment data, and administrative records, allows for a detailed view on US income distribution (and sources of income) at a pace similar to that with which macroeconomic indicators are reported. Released in July 2022, their analysis shows that, for those in the bottom 50% of the income distribution,

FIGURE 1:
Income of the Bottom 50% during the COVID-19 Crisis



Source: Blanchet, Saez & Zucman, 2021

disposable income in 2021 was 20% higher than in 2019, and that a substantial portion of this increase was driven by UI benefits.[4] (See Figure 1 above.)

KEY FINDING #2

UI expansion had a smaller impact on labor supply than predicted by theoretical models.

UI expansion had a smaller impact on labor supply than predicted by theoretical models. While findings have been somewhat mixed depending on the methodology employed, the best evidence to date is that the expansion had at most a minimal effect on employment and job-seeking.

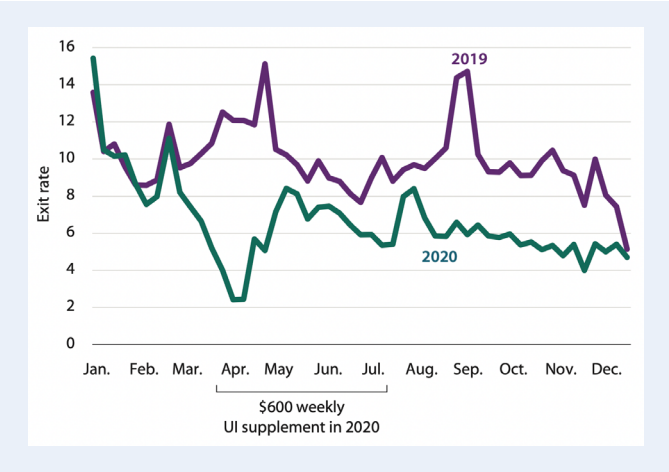
Because of the unprecedented and wide-ranging scale of the COVID crisis, it is somewhat difficult to rely on that experience to extrapolate broadly applicable lessons about how increased generosity of UI payments may impact labor supply; the pandemic affected nearly every sector of the economy, so it is not clear that behavioral responses during that period would apply in the same way during more stable economic periods. However, during spring 2021, there was a pronounced labor shortage as many businesses began to reopen - one aspect of what was described as "the Great

Resignation" - and many observers suggested that this shortage may have been a result of the increased generosity of UI payments.

Researchers have documented that the impacts of the payments were less dramatic than modeling would have predicted, and that the work disincentive of the relief payments and UI payments were in fact quite small. Ganong and colleagues, for example, find that, when compared to 2019, the "exit rate" from UI (the rate at which people leave the UI system to return to work) did not experience a dramatic spike following the expiration of the federal supplement, as one would expect if people were opting at a large scale to stay on UI instead of returning to work. Likewise, they find that over 50% of those who received the $600 federal supplement exited the UI system prior to the expiration of the benefit.[5] Figure 2, below, shows the exit rate in 2021 compared to the similar rate in 2019.

FIGURE 2:

Weekly Exit Rate from Unemployment Benefits



Source: Brookings Recession Remedies, Chapter 2

Andrajit Dube found similarly small employment effects in the early period of the pandemic (March through July 2020), based on the Census's weekly Household Pulse Survey (HPS). Using state-level variation in the median wage replacement rate, Dube analyzed whether states with higher wage-replacement rates experienced slower return-to-work rates in May 2020 when compared with states where the median wage replacement rate was lower. He found no indication that the higher replacement rate led to lower rates of returning to work.[6]

States with lower wage replacement rates experienced harsher economic declines (with more workers entering the UI system) and slower recovery periods.

Harry Holzer, Glenn Hubbard, and Michael Strain also reviewed the impact of the payments on labor supply, finding slightly different impacts than Ganong and Dube. In their case, rather than comparing state-level variation in UI generosity levels, Holzer and colleagues compared the experiences of workers in states that terminated the federal supplement and eligibility changes early (in June 2021) with those in states that ran the program through its termination in September 2021. They find that, in the 18 states that terminated the federal reforms early, workers returned to work at a slightly higher rate than in states that provided the supplement and expanded access through September; extrapolating from these differences, the researchers construct a counterfactual scenario to estimate what the federal unemployment rate would have been if all states had returned to their pre-COVID UI programs in June, rather than September, finding that national unemployment would have been .3 percentage points lower had all states ended the supplement in June.[7]

Finally, researchers at the California Policy Lab also analyzed state-level variation in the rate at which workers returned to work during the partial economic recovery in spring/summer 2020. Using a mix of household and employer surveys alongside private sector data provided by Homebase, a time clock software utilized by tens of thousands of small businesses, the team finds a strong relationship between the generosity of state UI programs and the rate at which workers entered and exited the UI system, but the relationship is the opposite of what would be expected under theoretical models. In the case of the CPL analysis, the team found that states with lower wage replacement rates experienced harsher economic declines (with more workers entering the UI system) and slower recovery periods. The team notes further that other differences among the states may be responsible in part for this relationship, but it is further evidence that the predicted impact on labor supply does not appear to have been borne out.[8]

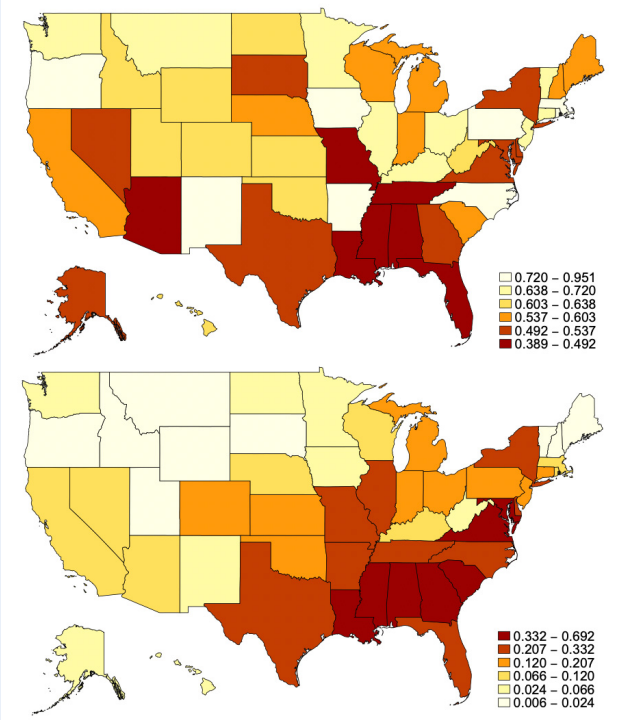
KEY FINDING #3

Long-standing racial disparities in the UI system appear to have persisted in many states. More research is needed to document in detail how the expanded UI program affected households differently by race and ethnicity.

In states with greater Black populations, fewer people received UI, and payments were less generous. In California, fewer people received UI in low-income counties, counties with lower levels of English proficiency, and counties with higher shares of Black and Hispanic residents.

In a 2022 working paper reviewing data from 2002 - 2017, Daphne Skandalis and colleagues document how variation in state-level rules and benefit generosity have created substantial racial disparities in successful UI claims. Among other findings, the researchers show that Black UI claimants, on average, receive an 18% lower wage replacement rate than their White counterparts, and that 8% of this difference is driven by differences in UI rules (largely, lower Weekly Benefit Amounts) in states and counties with higher percentages of Black claimants.[9]

FIGURE 4:
UI Benefit Generosity & Proportion of Black UI Claimants



Source: California Policy Lab. Colors represent the percent of claimants who exhausted their benefits across states for the month of December 2020.

As of late 2022, there is an important body of research emerging on how these kinds of racial disparities played out during the COVID expansion. A 2021 analysis by the California Policy Lab, for example - examining the period of March through December 2020 - reviews California and national data on disparities through the life cycle of an Unemployment claim, from the issuing of the first payment through exhaustion of payments. Their findings corroborate the pattern found by Skandalis and colleagues, showing that recipiency of UI was lower in states with greater Black populations and with lower levels of generosity in terms of duration and amount of payments. Along the same lines, they find that, within California, the recipiency rate was lower in counties with lower incomes, lower levels of English proficiency, and with higher shares of Black and Hispanic residents.[10] The Government Accountability Office (GAO) provided further support for this pattern in June 2022, finding that in some states, the ratio of White to Black claimants receiving payment was as high as 2:1.[11]

Policy Implications & Next Steps for Research

The findings from across the academic and policy literature suggest that the Unemployment Insurance program was a powerful tool for ensuring a level of worker and family economic security in the face of massive layoffs and widespread labor market uncertainty. The mechanism of setting the federal supplement level based on mean income led to strong redistribution of funds toward the lower end of the income distribution - with many workers receiving more through the program than what they were earning prior to exiting the labor market. This highly progressive distribution, however, does not appear to be associated with strong or long-term impacts on labor supply.

Given the early evidence suggesting that Black and Hispanic workers did not receive benefits at the same rate as their White counterparts, more research is needed in this area to document the scale of disparities in uptake, as well as what factors may have driven these disparities.

While there have been a number of analyses of the reach of the UI program, variation in state level experiences, and impacts on labor supply, there has been less robust analysis of the varying impact of the program across areas of the country and in mitigating or exacerbating racial disparities in

earnings. Given the early evidence suggesting that Black and Hispanic workers did not receive benefits at the same rate as their White counterparts,[10, 11] more research is needed in this area to document the scale of disparities in uptake, as well as what factors may have driven these disparities.

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Additional Resources

Increasing Equity and Improving Measurement in the U.S. Unemployment System: 10 Key Insights from the COVID-19 Pandemic — California Policy Lab

Recession Remedies — The Hamilton Project at the Brookings Institution

Track the Recovery — Opportunity Insights

Realtime Inequality — Thomas Blanchet, Emmanuel Saez, + Gabriel Zucman

Unemployment Research — The Century Foundation

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