

20-10 US Unemployment Insurance in the Pandemic and Beyond

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Unemployment insurance has played a critical role in the US economic response to the coronavirus pandemic. It has been greatly expanded, extended to new people, and become available for a longer period. As a result, as of late June 2020, about 36 million people were receiving or had applied for unemployment benefits. Unemployment insurance has been key to the fact that household disposable personal income has risen even as labor compensation has plummeted, protecting both households and the macroeconomy.

The expansion of unemployment insurance ends at the end of July 2020. The need for it remains very high. Eighteen million people are still unemployed, and even though the overall labor market has improved on net, there are still substantial flows into unemployment, with more than 2 million people making initial claims for benefits every week for 16 consecutive weeks ending July 4. At the same time, the economy is evolving from where it was during the lockdown period, and it makes sense for policy to evolve along with economic conditions. The current experience has also highlighted some of the major shortcomings of the unemployment insurance system and the need for permanent reforms to make the system more effective at protecting people and promoting reemployment.

This Policy Brief makes eight points:

- 1 The unemployment crisis is severe.
- 2 Unemployment insurance has played a critical role in both protecting workers who lost their jobs and supporting the economy as a whole.
- 3 Unemployment insurance has both positive and negative effects on labor supply; it can improve matching between employers and employees.
- 4 Jobs are currently constrained primarily by lack of demand by employers, not lack of supply by people interested in and willing to work.
- 5 Expanded unemployment insurance should continue, with adjustments made as the unemployment rate changes.

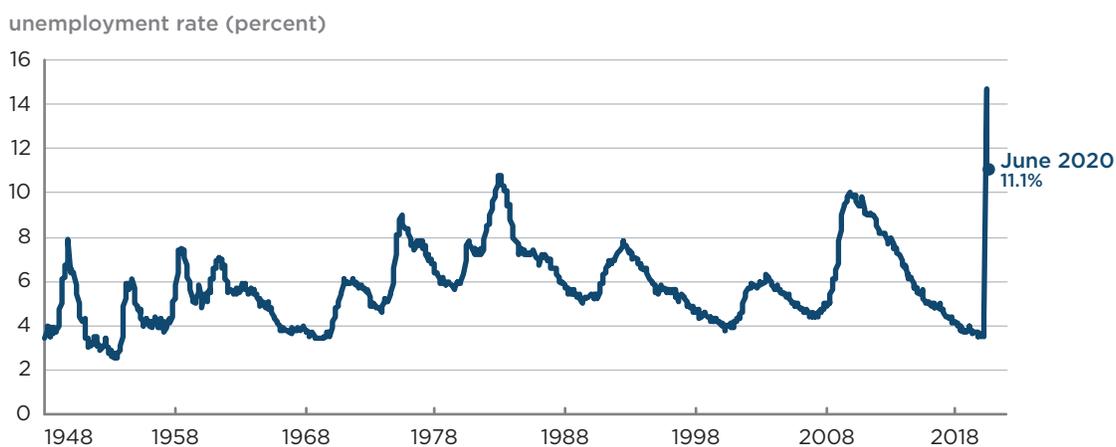
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- 6 The abrupt expiration of any form of expanded unemployment insurance at the end of July would create problems both for the workers directly affected and for the economy as a whole, reducing GDP by about 2.5 percent in the second half of 2020—more than a typical year’s worth of economic growth.
- 7 The unemployment insurance system had major shortcomings before the COVID-19 crisis and should be permanently reformed.
- 8 Much more is needed to protect jobs, create jobs, and foster economic recovery.

1. The unemployment crisis is severe

The official unemployment rate in the United States was 11.1 percent in June 2020, higher than in any month since the modern data series began in 1948 except for the prior two months (figure 1). And the actual extent of unemployment is even higher, for two reasons. First, the data include what the Bureau of Labor Statistics (BLS) has called a “misclassification error,” in that they do not count the additional 2 million workers who reported being “not at work for other reasons” as unemployed. Although the BLS properly adhered to its standard operating procedure of not making ad hoc adjustments, economists generally agree that most of this group should be classified as unemployed. Doing so would raise the unemployment rate to 12.3 percent.

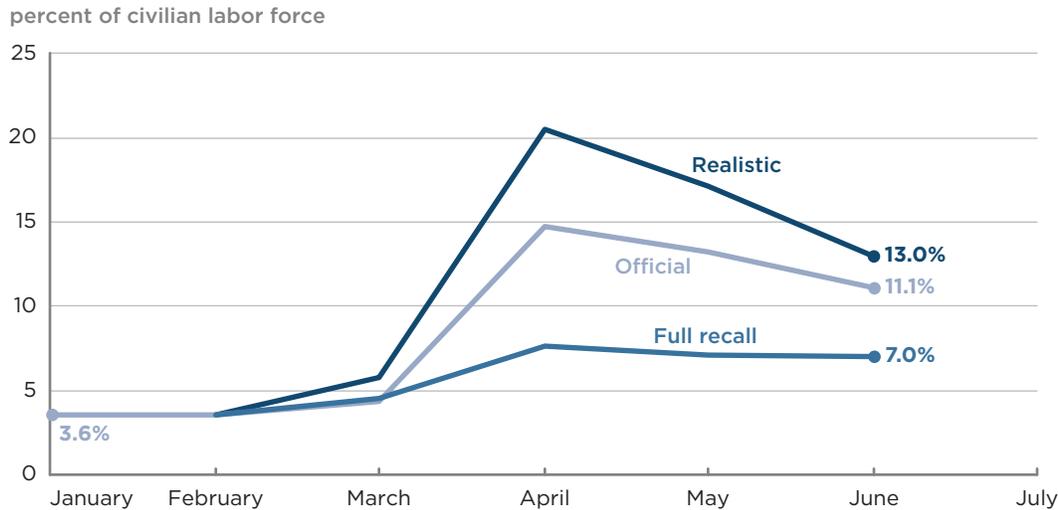
Figure 1
Unemployment rate in the United States, 1948–June 2020



Source: Data from the Bureau of Labor Statistics and Macrobond.

Second, an unusually large number of people stopped looking for work in the past few months. If the reduction in labor supply over the normal reduction in labor supply associated with high unemployment were classified as unemployment and accounting for the “misclassification error,” the unemployment rate would be 13.0 percent in June. Figure 2 plots this measure as the “realistic unemployment rate.”

Figure 2
**Three measures of the unemployment rate in the United States,
 January–June 2020**



Source: Furman and Powell (2020).

In June, 10.6 million workers reported being on temporary layoff—13 times the February figure of 801,000.¹ Historically, about 70 percent of furloughed workers have returned to their jobs (Katz and Meyer 1990), but this historic experience may not be applicable in the current circumstances. Assuming optimistically that all workers newly furloughed returned to their jobs, counting the additional people “not at work for other reasons” as employed, and assuming that people reenter the labor force at rates that are consistent with the historic relationship between the change in the labor force participation rate and the change in the unemployment rate, the “full recall unemployment rate” would have been 7 percent in June. This measure approximates what would happen if the pandemic ended immediately. Even this optimistic figure indicates a mild recession.

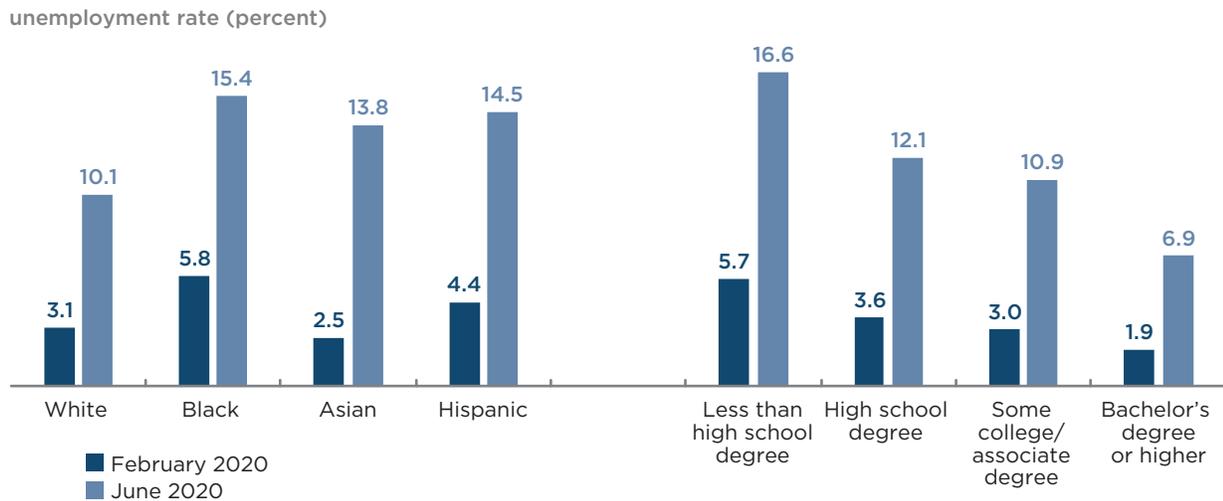
As has typically been the case, the brunt of job losses is borne by households that are in the worst position to bear them—Blacks, Hispanics, and people with low levels of educational attainment (figure 3). Employment rates in June were 50.8 percent for Black Americans, 56 percent for Hispanics, and 55.4 percent for whites.

It is impossible to precisely forecast the unemployment rate given the uncertainty about the virus, the impact of the virus on the economy, and the general uncertainty of all economic forecasts. Three facts, however, are likely to be true:

- 1 *Large numbers of people will continue to find employment every month, but large numbers of people will continue to lose jobs every month as well. Gross flows of jobs always greatly exceed net flows, but the gap seems to*

¹ The BLS changed its procedures beginning in March 2020, adopting a relatively broad definition of temporary layoff. This number may, therefore, include workers who were actually fired rather than furloughed (see BLS 2020).

Figure 3
Unemployment rate in the United States by race/ethnicity and education, February and June 2020



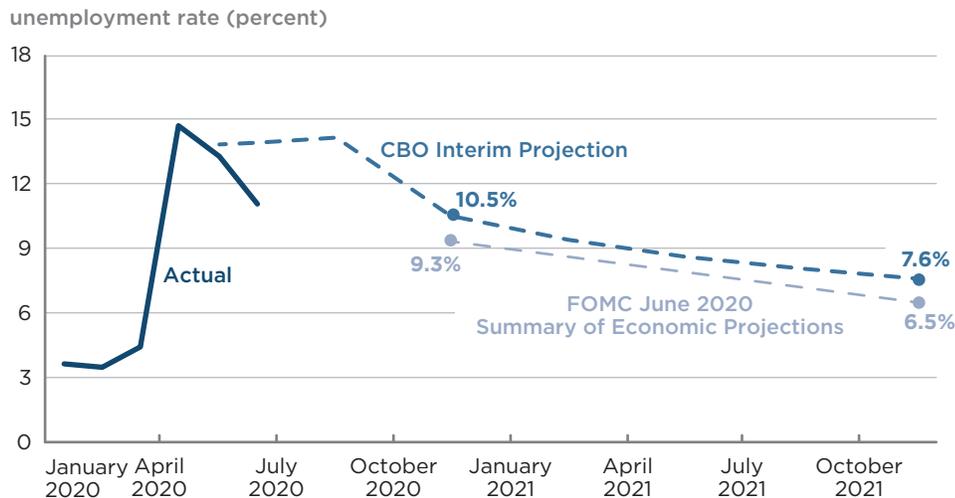
Note: Figures do not include the additional 2 million people who are “not at work for other reasons.” Figures by education level are for people 25 and older. Figures by race/ethnicity are for people 16 and older.

Source: Data from the Bureau of Labor Statistics and Macrobond.

be larger than usual in the current crisis—as evidenced by the fact that (a) initial unemployment insurance claims in June were still more than twice their pre-pandemic peak, even though jobs were added on net that month and (b) April through June have had the three highest monthly flows from employment to unemployment on record.

- 2 *The unemployment rate, consistently measured, is likely to fall.* Gross job gains have been exceeding gross job losses, so that the unemployment rate corrected for the misclassification error fell farther in June and will probably continue to fall as consumer behavior and government policy support reopening. Recently, however, virus cases in some parts of the country have been rising, some states have taken steps to slow or partially reverse their reopening plans, contributing to uncertainty on this point and highlighting the fact that the decline may not be monotonic but may suffer from months of reversals.
- 3 *The unemployment rate will remain at a recessionary level for some time, very likely through the end of 2020 and likely throughout 2021 as well.* The Congressional Budget Office (CBO) projects that if Congress passes no additional legislation, the unemployment rate will be 10.5 percent at the end of 2020 and 7.6 percent at the end of 2021 (figure 4). The median forecast of members of the Federal Open Market Committee is for unemployment to be elevated through at least the end of 2022, although they are less pessimistic than the CBO, possibly because they assumed some probability of future congressional action.

Figure 4
Projections of unemployment rate in the United States by the Congressional Budget Office (CBO) and the Federal Open Market Committee (FOMC), 2020–21



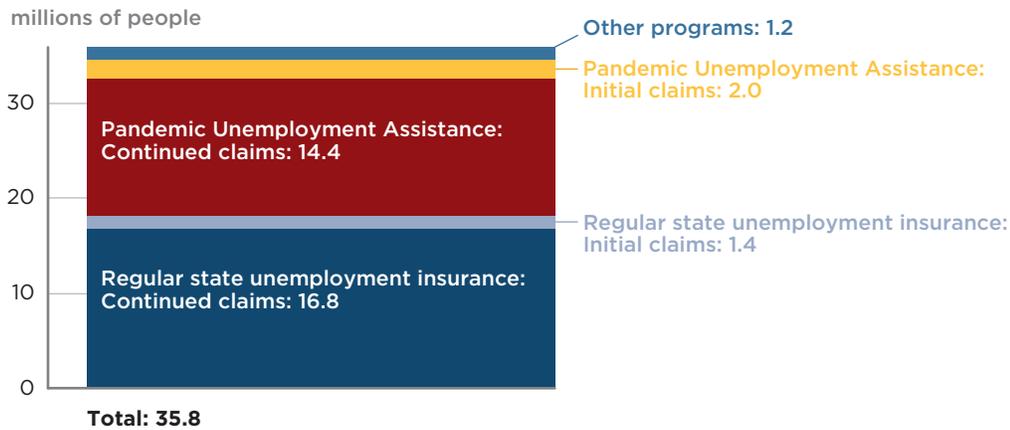
Source: Data from the Bureau of Labor Statistics, Congressional Budget Office (CBO 2020a), Board of Governors of the Federal Reserve System, and Macrobond.

2. Unemployment insurance has played a critical role in supporting workers who lost their jobs and the economy as a whole

Tens of millions of Americans have lost their jobs; the large majority of them have been at least temporarily protected by expanded unemployment insurance. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020, made four changes to unemployment insurance:

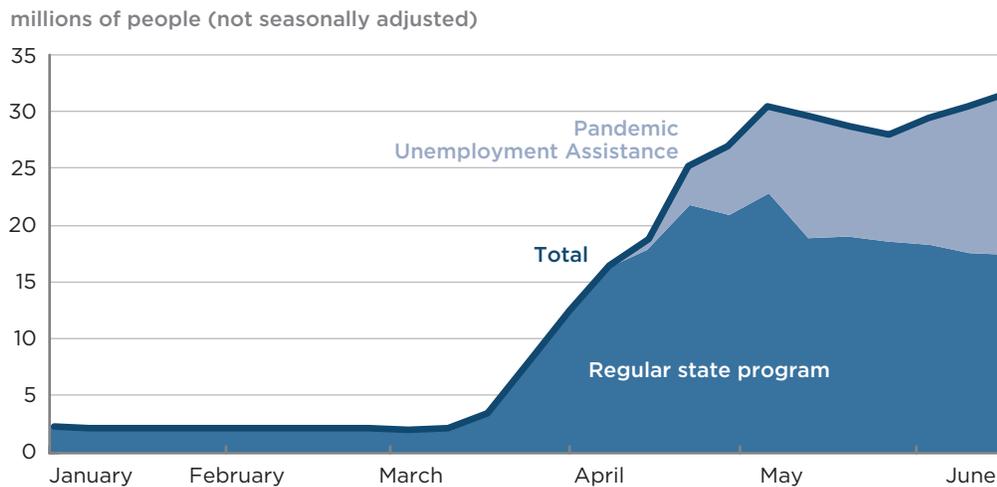
- 1 Pandemic Emergency Unemployment Compensation (PEUC) provides an additional 13 weeks of unemployment compensation through December 31, 2020, for workers who exhaust state unemployment compensation benefits.
- 2 Pandemic Unemployment Assistance (PUA) provides up to 39 weeks of unemployment benefits to individuals who are not eligible for regular unemployment compensation or extended benefits, including the self-employed, independent contractors, workers for certain religious entities, people seeking part-time employment, people who had to leave a job to care for a child whose school or daycare closed as a result of the virus, and people lacking sufficient work history, among others. The PUA program expires by December 31, 2020.
- 3 Federal Pandemic Unemployment Compensation (FPUC), set to expire by July 31, 2020, provides eligible individuals with \$600 a week on top of the weekly benefit received through regular or pandemic unemployment insurance or, in some states, Short-Time Compensation (STC).
- 4 The federal government reimburses states with existing STC programs for the entire cost of those benefits (up to the equivalent of 26 weeks of total unemployment benefits per worker) through the end of 2020. In addition, the act provides federal funding to cover up to half of the cost of new programs implemented by states by December 2020 and additional grants for implementing new programs.

Figure 5
Number of unemployment insurance recipients and applicants in the United States as of late June 2020



Source: Author's calculations based on data from US Department of Labor and Macrobond, following Shierholz (2020).

Figure 6
Continued unemployment insurance claims in the United States, January–June 2020

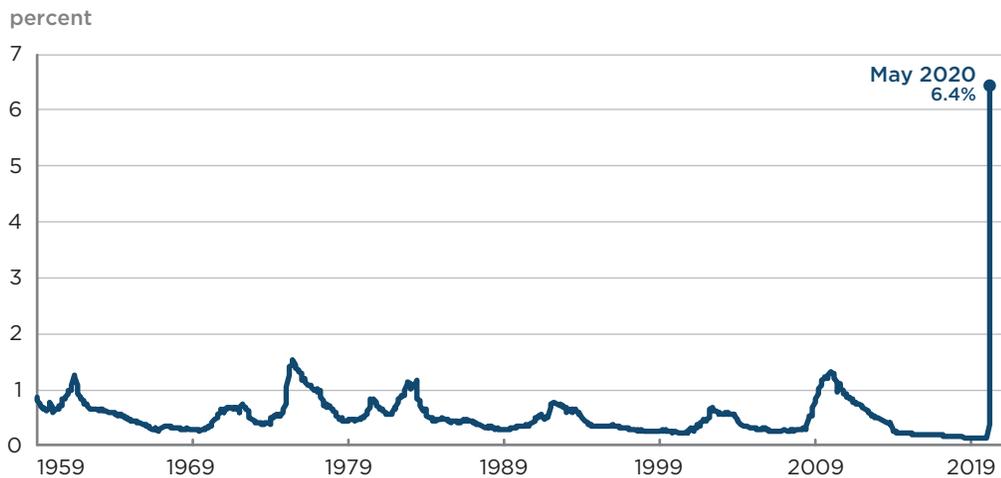


Source: Author's calculations based on data from US Department of Labor and Macrobond.

As a result of these changes, by late June it appears that about 36 million Americans either were receiving or had applied for unemployment benefits, although there may be some double counting in state administrative reports (Shierholz 2020). This figure includes 17 million people on regular state unemployment insurance; 14 million people on PUA; and 5 million people either waiting for their claims to be processed or on other programs, such as PEUC or STC (figure 5). After soaring, the number of claims began to decline in May, as unemployment declined, though they started increasing again in June (figure 6).

Because of FPUC, workers on unemployment insurance generally receive an additional \$600 a week on top of their regular state benefits, an amount that generally replaces at least 100 percent of wages for workers earning up to about

Figure 7
Unemployment insurance as a percent of disposable personal income in the United States, 1959–May 2020



Source: Author's calculations based on data from the Bureau of Economic Analysis and Macrobond.

average wages. Given that unemployment is generally concentrated among lower-paid workers, about 68 percent of workers received more in benefits than they previously earned working (Ganong, Noel, and Vavra 2020).

The unemployment insurance system has effectively protected the majority of workers from large income losses. In its absence, the average family whose head became unemployed typically reduced spending on food by 22 percent rather than by the 7 percent drop generally observed (Gruber 1997). Ganong and Noel (2019) find a marginal propensity to consume for nondurable goods and services of 0.27, and 0.83 for total spending (based on checking account flows).

Unemployment insurance has also had macroeconomic benefits, helping limit the severity of the recession and supporting jobs and incomes for tens of millions of workers and businesses that have not directly received any benefits. The Bureau of Economic Analysis (BEA) reported that disposable personal income in May was up 3.8 percent relative to February. Unemployment insurance represented 6.4 percent of disposable personal income in May, vastly exceeding its pre-pandemic peak of 1.5 percent (figure 7).

Higher incomes helped support a rebound of personal consumption expenditures in May, which were up 8 percent from April. Personal consumption expenditures in May were down 10 percent from the previous May, a surprisingly small reduction given how many stores were still closed. The increase in consumption in May helped businesses and likely supported the 2.7 million jobs that were added that month.

Unemployment insurance can have a very high multiplier, because it gives money to people when their incomes are temporarily low, helping them smooth their consumption and thus boosting total consumption. In its most recent assessment of multipliers, the CBO (2014) assumed a multiplier of 0.4–2.1 for unemployment insurance—among the highest average multipliers it surveyed. No direct work has been done recently on the aggregate multiplier associated with unemployment insurance, leaving researchers to speculate based on some

evidence of the marginal propensity to consume for transfers more generally, which one survey suggests could be as small as 0 or as large as 2 (Chodorow-Reich and Coglianesi 2019).

3. Unemployment insurance has both positive and negative effects on labor supply, and it can improve labor market matches between employers and employees

Unemployment insurance has a large, positive effect on aggregate demand by supporting increased consumption and thus overall economic activity. It also affects the supply side of the economy through labor supply, with both positive and negative effects.

Unemployment insurance can help labor supply by keeping people more attached to the labor force in two ways. First, people on unemployment insurance typically have to be actively looking for jobs and thus in the labor force (this requirement has been temporarily suspended). Absent unemployment insurance, some workers might drop out of the labor force entirely. Rothstein (2011) finds that the majority of the modest increase in measured unemployment caused by the availability of extended unemployment insurance benefits in the Great Recession was attributable to reductions in the number of people who gave up looking for work and left the labor force rather than to a decline in the number of people who became employed. Farber and Valletta (2015) examine benefit extensions in both the early 2000s recession and the 2007–09 recession. They find a small but statistically significant reduction in exits from unemployment to nonparticipation in the labor force. Farber, Rothstein, and Valletta (2015) find that the phaseout of extended benefits after 2012 lowered the unemployment rate by increasing exits from the labor force. This “attachment effect” of unemployment insurance is particularly important given the many negative effects—on everything from future earnings to well-being and even mortality—associated with nonemployment, which is likely easier to exit from unemployment than from being outside the workforce (Council of Economic Advisers 2016).

Second, once they exhaust their unemployment insurance benefits, some people shift to disability insurance benefits to continue to protect their incomes. Unlike unemployment insurance, disability insurance does not have job search requirements; it effectively has the opposite requirement, as people lose their disability insurance if they take jobs. Relatively few people who get on disability insurance ever leave it (Raut 2017), resulting in permanent exit from the labor force. Keeping people on unemployment insurance and off disability insurance—by, for example, extending benefits—can help keep them in the labor force and available for work once they are able to find it.

In the absence of unemployment insurance, workers would be more likely to take one of the first jobs offered to them because they cannot afford to continue searching for a better job. In many cases, this practice results in less efficient matches between employees and employers, leaving workers and the economy worse off in the long run. Empirical research on the existence and magnitude of the effect of unemployment insurance on match quality is limited, in part because

of the difficulty of isolating how much of unemployment duration is caused by workers holding out for a better job match. But Nekoei and Weber (2017) find that unemployment insurance does increase the quality of job matches.

Set against these benefits of unemployment insurance for labor supply is the fact that providing additional assistance effectively acts as a high tax rate on work, which could discourage work. Several studies find a spike in exits from unemployment insurance when benefits are exhausted (Moffit 1985, Katz and Meyer 1990, Feldstein 2005). Part of this spike is the result of people giving up looking for jobs (thus moving from unemployed to out of the labor force) instead of actually getting jobs (Card, Chetty, and Weber 2007). The latest and best evidence from the United States, from Ganong and Noel (2019), is that “the job-finding hazard spikes from 19 percent the month before exhaustion to 26 percent in the last month of benefits.”

Previous research did not study periods in which many workers faced replacement rates (the share of prior earnings that unemployment benefits replace) in excess of 100 percent. To the degree that reductions in labor supply increase as replacement rates rise, one would expect the presently high replacement rates to have more negative effects on labor supply, especially in conjunction with the suspension of work search requirements. However, any such negative effects are mitigated to some degree by the fact that much of the unemployment in the current recession is furloughed workers, who cannot continue to receive these benefits when they are called back to work by their employers.

There are conflicting anecdotes on the impact of the extra \$600 in weekly unemployment benefits on labor supply. Many small businesses report difficulties getting employees to return to work, but a number of large businesses report large numbers of applications for new jobs for relatively lower-paid workers. Bartik et al. (2020) compare the employment response in states with high unemployment insurance replacement rates with states with low unemployment insurance replacement rates. They fail to find any evidence that the extra payment mattered. As the authors themselves stress, however, this comparison is a relatively weak test of the proposition. Moreover, their evidence applies only to the experience during lockdown. It may not be relevant to the economy going forward, especially if workers expect the \$600 weekly increase to last for a sustained period of time.

4. Jobs are currently constrained primarily by lack of demand by employers, not lack of supply by people interested in and willing to work

In May there were 3.9 unemployed people, including workers on furlough, for every job opening, a dramatic reversal from the 0.8 unemployed people per job opening in February (figure 8). As some workers get called back from furloughs and others see their jobs permanently lost, this ratio will become increasingly meaningful. For now, however, the constraint on jobs appears to be more that employers are not hiring than that employees are unwilling to take jobs. Return-to-work rules in unemployment insurance and the fact that many unemployed people are not eligible for unemployment insurance even under the broader eligibility provided in the CARES Act also contribute to the relative importance of a lack of demand by employers. New entrants, recent high school or college

Figure 8
Number of unemployed people per job opening in the United States, 2000–May 2020



Source: Author's calculations based on data from the Bureau of Labor Statistics and Macrobond.

graduates, and people with no prior earnings cannot collect unemployment insurance. Many people are thus ready to work regardless of how generous unemployment insurance is.

Employers were not hiring either because their businesses were closed by stay-at-home orders or because they lacked demand from customers who were either afraid of contracting the virus or concerned about their future incomes. Thus even if some workers may have been less interested in or willing to work, their behavior did not have a meaningful effect on the level of economic activity in April, May, or June.

5. Expanded unemployment insurance should continue, with adjustments made as the unemployment rate changes

An optimal unemployment insurance system balances consumption smoothing for households that are affected by job losses and any work disincentives from high effective marginal tax rates on returning to jobs. The optimal balance between these two considerations depends on the unemployment rate (Baily 1978, Chetty 2008). When unemployment is high, as it is now, the biggest problem is the total number of jobs, not whether people want to take them. As a result, unemployment insurance can and should be generous, in terms of both benefit levels and benefit duration. In contrast, when unemployment rates are low—as they were in February—it is important to place more weight on not discouraging people from taking jobs, so the optimal unemployment insurance benefits and duration should be lower. Research by Kroft and Notowidigdo (2016) and Schmieder, von Wachter, and Bender (2012) confirms this intuition.

It is not practical for policymakers to make frequent ad hoc adjustments to the parameters of unemployment insurance, especially when the unemployment rate is rapidly changing by large amounts. Instead, it is preferable for Congress to

legislate an automatic system of triggers that expand and extend unemployment insurance as needed, as proposed by Chodorow-Reich and Coglianesi (2019), O’Leary and Wandner (2018), and others. These triggers would not only ensure that enhanced unemployment insurance is available as long as needed in this downturn but also help combat future downturns.

In June an Economic Strategy Group Taskforce that included Glenn Hubbard (chairman of the Council of Economic Advisers under President Bush), Timothy Geithner (secretary of the Treasury under President Obama), Melissa Kearney (director of the Economic Strategy Group), and myself (Furman et al. 2020) issued a proposal. It calls for shifting from a flat dollar formula to an additional replacement rate as a way to ensure that people are not getting replacement rates in excess of 100 percent. States have administrative constraints that prevented them from adopting such a proposal when the CARES Act was enacted. Given sufficient time, they could shift to such a system. Until then, they could opt to stay on a flat benefit formula.

The proposal would add a federal supplement of up to 40 percent of wages, capped at \$400 a week, when a state’s unemployment rate was particularly high (around 15 percent). This supplemental benefit would scale down with the unemployment rate; it would end when the state’s unemployment rate fell to about 7 percent. The proposal also recommends full federal funding of extended benefits and reform of the triggers, so that additional weeks of unemployment insurance would also be available when a state’s unemployment rate was elevated.

The cost of the proposal would depend on economic circumstances. If the economy is on track for a rapid V-shaped recovery, this approach would cost less than \$100 billion. If the economy faces prolonged high levels of unemployment, it would cost more than \$500 billion.

Representative Don Beyer (D-VA), Senator Michael Bennet (D-CO), and Senator Jack Reed (D-RI) recently proposed legislation that would work toward this goal by linking the duration and magnitude of unemployment insurance benefits to economic conditions. Congress should legislate such automatic triggers for unemployment insurance.

6. The abrupt expiration of any form of expanded unemployment insurance at the end of July would create problems both for the workers directly affected and for the economy as a whole, reducing GDP by about 2.5 percent in the second half of 2020—more than a typical year’s worth of economic growth

There is room for debate over the precise form that additional unemployment insurance benefits should take after the scheduled expiration of FPUC at the end of July. The best option would be for the next round of benefit expansions and extensions to have triggers linked to the unemployment rate, but an extension for a fixed period of time, along the lines of the provisions in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act passed by the House of Representatives, would be a reasonable alternative. Doing nothing and allowing all of the additional federal assistance to lapse after July would be economically harmful.

It is very likely the unemployment rate will still be high at the end of July, probably above its peak in the Great Recession. It will remain high because of both the direct effects of the virus on economic activity and the indirect effects that a weakened economy has on spending and economic activity.

Assume for the sake of illustration that 20 million people are still on unemployment insurance by the end of July. The expiration of federal supplements to unemployment insurance would dramatically reduce these people's income. It would also remove about \$50 billion a month from the economy. Given that the main constraint on employment is the relatively small number of jobs available, it is inconceivable that many of these 20 million people could quickly go out and find work. As a result, they would reduce their spending—hurting other businesses, costing other workers their jobs, and reducing mortgage payments and thus straining the financial system, resulting in lower overall GDP.

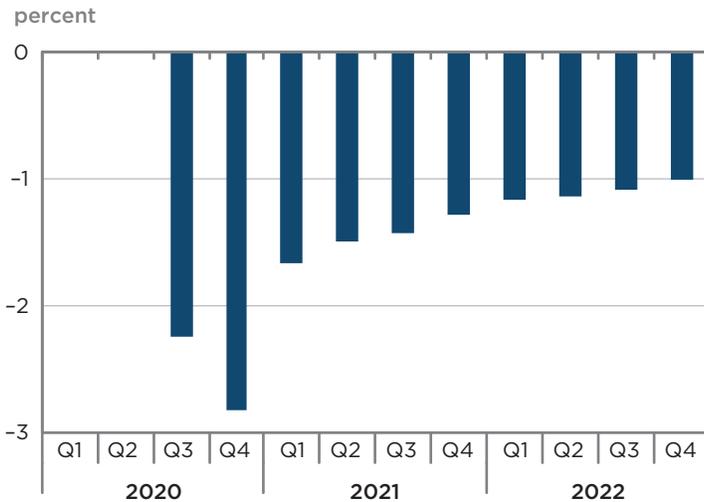
These effects can be quantified using a methodology similar to that used in the past by the CBO (2014) and the Council of Economic Advisers (2009, 2014), which assumes a multiplier of 1.5 for aid to directly affected individuals (roughly the mid-point of the CBO estimates). The estimates for the unemployment rate used are consistent with the May CBO interim projections (2020b). They assume the continuation of the \$600 a week payments (in order to have a neutral baseline). If those payments are scaled down over time, they should be supplemented by additional fiscal measures, as discussed in the next section.

Relative to the full continuation of expanded unemployment insurance, expiration of benefits would reduce GDP by 2.5 percent on average in the second half of 2020, costing an average of 2 million jobs over the next year and raising the unemployment rate by up to 1.2 percentage points (figure 9). These costs would be borne not only by the currently unemployed (who would receive smaller benefits) but also more broadly across the economy.

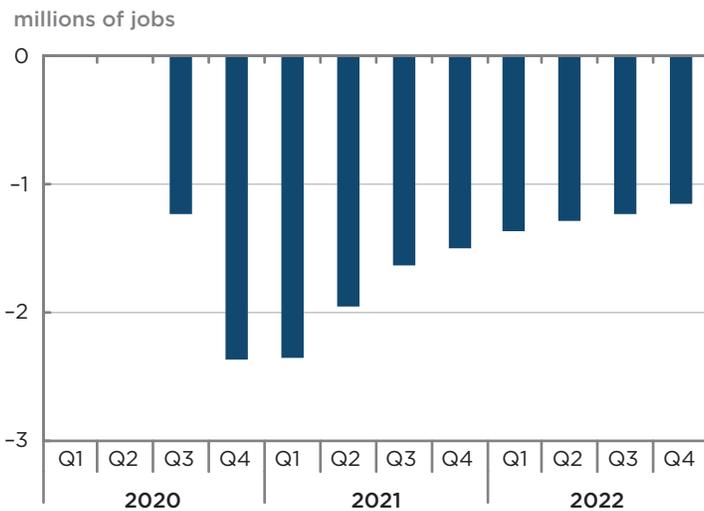
Two caveats for this illustrative analysis are in order. First, it does not include labor supply effects, which can be both positive and negative. These effects have not been very important to date, but they could become more important as the economy recovers. Second, the analysis does not reflect the degree to which some households can at least temporarily smooth their consumption based on what appears to be improved balance sheets for many households following a period of increased transfers and reduced consumption. These caveats notwithstanding, the key message is clear: Expiration of unemployment insurance would not just hurt the people directly relying on it, it would hurt the US economy as a whole.

Figure 9
Projected effect on US GDP and employment of eliminating the \$600 in additional weekly unemployment compensation, 2020-22

a. Decline in GDP



b. Decline in employment



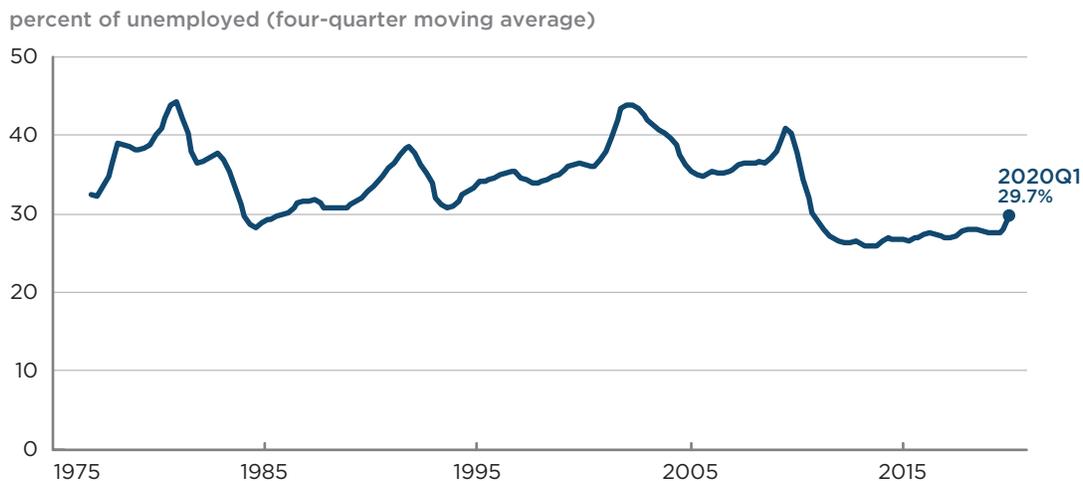
Source: Author's calculations based on data from Council of Economic Advisors (2009, 2014) and Congressional Budget Office (2020b, 2020c).

7. The unemployment insurance system had major shortcomings before the COVID-19 crisis and should be permanently reformed

The unemployment insurance system has played a critical role in the US economy. But the system, designed in the 1930s and administered separately by 50 states and the District of Columbia, has a number of shortcomings, many of which have been exacerbated by economic trends in recent decades. It may be impossible to address all of these issues without federalizing unemployment insurance. Although Congress likely does not have the time to pass a thorough and permanent reform before the expiration of expanded benefits at the end of July, such a reform should be a priority. It should address six issues:

- 1 *Declining coverage.* The fraction of unemployed workers covered by unemployment insurance—the “reciency rate”—fell sharply after the 2007–09 recession and remained near record lows leading up to the pandemic (figure 10). The decline partly reflects the fact that many states cut the maximum benefit duration (six states now cover less than 26 weeks, with Florida and North Carolina covering only 12 weeks); tightened eligibility requirements; have antiquated computer systems and other procedures that can make applying difficult; and do not cover undocumented workers (Center on Budget and Policy Priorities 2020). Changing work patterns have also created challenges for the traditional program. The size of the temporary PUA program is evidence of the necessity of permanent reform.

Figure 10
Unemployment insurance reciency rate for regular state programs in the United States, 1976–2020Q1



Source: Author’s calculations based on data from the US Department of Labor.

- 2 *Insolvency of state programs.* In the Great Recession, 36 states had to borrow from the federal government because they exhausted their unemployment insurance trust funds. The severity of the Great Recession put significant direct strain on state unemployment system finances, but declining solvency had already been a concern. According to a 2010 report from the Government Accountability Office (GAO), from 1938 to 1973, state unemployment insurance trust funds held average year-end reserves, net of loans, equal to 5.1 percent of wages and never dropped below 2 percent. From 1974 to 2008, this average fell to 1.0 percent of wages and was never as high as 2 percent. Unemployment insurance tax contributions as a percentage of unemployment insurance-covered wages have trended downward in recent decades, from an annual national average of 1.15 percent in 1979–88 to 0.65 percent in 1999–2008 (GAO 2010). Insolvency should be addressed in conjunction with the regressivity of the financing of many state programs, which are effectively funded by a per head poll tax, because the cap on taxable wages is as low as \$7,000.

- 3 *Ineffective countercyclical triggers.* Countercyclical triggers are essential in unemployment insurance. On paper, the extended benefits program serves this purpose, with additional weeks of benefits triggered by a rapid increase in the unemployment rate. This program is highly ineffective, however, because it covers only half of the cost and disappears with prolonged high unemployment.
- 4 *Incentives for reductions in employment over reductions in hours.* If an employer needs to reduce its total labor input, unemployment insurance creates an incentive to fire or furlough some workers rather than reduce hours for a larger number of workers. At a minimum, public policy should create a level playing field between reduced employment and reduced hours. Arguably, it should have a thumb on the scale to try to maintain employment relationships by encouraging reductions in hours instead of layoffs, as Germany did in the financial crisis. Twenty-six states covering about two-thirds of all workers have operational Short-Time Compensation programs, but most of these programs are so little known and/or difficult to participate in that take-up has been extremely low (US Department of Labor n.d.).
- 5 *Insufficient support for job search.* The United States spends only 0.1 percent of GDP on active labor market policies, such as job search and training. This spending is below its historic level and the lowest among advanced economies in the Organization for Economic Cooperation and Development, which spend 0.5 percent of GDP on average (OECD 2019). Other countries provide more help to the unemployed in finding jobs by providing more support during unemployment (when individuals must also search for work), making reemployment more likely through skill-building, and facilitating job-matching. A reformed unemployment insurance system should provide better support for jobseekers, including potentially a jobseeker allowance (Economic Policy Institute 2020), as well as for other people who want to retool and retrain to take advantage of new opportunities in the job market. These changes would help increase the chance that unemployment insurance recipients remain attached to the workforce.
- 6 *Insufficient insurance against adverse reemployment prospects.* Unemployment insurance protects workers against the risk of not being able to find a job. In some cases, workers—especially older workers—will be able to find jobs but at lower wages than their previous employment. This risk should be covered with a program of “wage insurance” that partially protects older workers, who are less able to get new training and increase their wages, against lost wages and helps speed their return to the labor market (Kletzer and Rosen 2006).

Proposals that address some or all of these shortcomings include one by the Center for American Progress, Georgetown Center on Poverty and Inequality, and National Employment Law Project (West et al. 2016); one by President Obama (White House 2016); and one by the Economic Strategy Group Taskforce (Furman et al. 2020).

8. By itself, unemployment insurance is insufficient for what could be a long-lasting jobs recession

A full economic plan to protect households and speed the economic recovery will take more than just expanding and extending unemployment insurance. Other policies will be needed as well.

More important than any economic policy is getting the health response right. Policies are needed to prevent the increased spread of the virus, by testing, tracing, and isolating infected people; ensuring adequate medical supplies and capacity; improving treatments; and ultimately developing, producing, and administering a vaccine. No economic policy can make up for failure in these dimensions. Congress should be willing to spend as much as necessary to achieve these goals.

The best step for economic policy is to prevent further job losses. The largest sector of the economy that experienced substantial continued job losses in May was state and local government, which shed 1.5 million jobs in April and May, including 937,000 jobs in education. Additional job losses will follow if states and localities have to make large budget cuts to satisfy their balanced budget requirements in the face of rapid declines in tax revenues. The Center for Budget and Policy Priorities estimates that state revenues will decline by 10 percent in fiscal year 2020 alone, which ended June 30 in most states, and by as much as 25 percent in fiscal year 2021 (McNichol and Leachman 2020). It estimates the total shortfall for states alone—not counting local governments—of \$615 billion over fiscal years 2020, 2021, and 2022. This estimate is consistent with CBO and Federal Reserve Board projections for unemployment given the historic relationship between unemployment and state revenue reductions (Fiedler, Furman, and Powell 2019). The HEROES Act passed by the House of Representatives would provide substantial additional assistance to states and localities. Doing so is widely supported by economists, as evidenced by its inclusion in the recommendations of the Economic Strategy Group Taskforce. Such assistance should be tied to triggers based on economic conditions, as Fiedler, Furman, and Powell (2019) propose.

The second-best step is to speed the rehiring of people and ensure that it can be done safely. Doing so will require more effectively managing the spread of the virus with testing, tracing, treatment, and, eventually, a vaccine, as well as ensuring that regulations protect workers (by, for example, setting and enforcing new temporary Occupational Health and Safety Administration [OSHA] standards). It will also require sufficient demand, so that people can afford to shop, go to restaurants, and support the economy more generally.

Unemployment insurance is one important part of supporting demand, but other transfers, like Supplemental Nutrition Assistance Program (SNAP), play an important role as well. Increased SNAP benefits are essential for the increasing number of families facing food insecurity and have high macroeconomic multipliers as well. Hoynes and Schanzenbach (2019) propose tying expanded SNAP benefits to economic conditions—something motivated not just by macroeconomic considerations but by the fact that as many as 38 percent of households with children are currently experiencing food insecurity (Schanzenbach and Pitts 2020). Increasing pay would speed the reentry of people into the workforce. For this reason, the Economic Strategy Group

Taskforce proposed a temporary pandemic earned income tax credit, which it believes is the most efficient and equitable approach (a hiring bonus, one alternative, would unfairly result in different employees being paid different amounts). Given the importance of working, subsidies for employment should be considered, as Blanchard, Philippon, and Pisani-Ferry (2020) propose, although the benefits should be weighed against the downside of inframarginal subsidies for employment that would have happened anyway.

Many people will not be rehired by their old employers, because of the substantial amount of reallocation that appears to be taking place (Barrero, Bloom, and Davis 2020). Policy will need to help create new jobs and help better prepare workers for these jobs, through, for example, increased infrastructure and training programs and permanent efforts to make work pay.

CONCLUSION

American workers faced significant challenges even before the pandemic. The pandemic has caused an unemployment crisis that is likely to have lingering effects for a long time. Unemployment insurance is essential to both protect workers from the consequences of this crisis and speed the economic recovery.

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