Unemployment Insurance as Social Protection and Stimulus during the Coronavirus Crisis

Gary Burtless
Economic Studies
THE BROOKINGS INSTITUTION
Washington, DC

April 2, 2020

The observations that follow focus on unemployment compensation as social insurance and countercyclical stimulus. I will briefly show how unemployment insurance (UI) has worked in recent recessions, including the worst previous postwar downturn, the Great Recession. Then I will describe some UI provisions of the stimulus package passed by both the House of Representatives and U.S. Senate. The descriptions are based on written accounts available on the morning of March 28. Finally, I will mention some implementation challenges UI administrators will face in the next few months.

How the UI system works. Unemployment compensation has long been the nation's front-line program for providing timely aid to jobless workers and injecting countercyclical stimulus into a declining economy. I will focus on two basic components of the overall system. First are the regular UI programs administered under broad federal guidelines by the 50 states and three other administrative regions. Both the UI benefit formulas and the UI payroll tax schedules are devised by state legislatures with little direct supervision by the federal government. Second is a set of federally designed and funded add-ons to the regular state UI programs. The add-ons have been established by Congress near the beginning of each recession going back to the 1950s. These programs typically differ in every recession, but they always include a temporary extension of the UI benefits available after regular state UI benefits for a worker expire. More rarely, the add-ons include extensions of UI eligibility to some types of unemployed workers who would not ordinarily be entitled to receive benefits. More rarely still, the add-ons may include a federally funded top-up in each state's weekly unemployment benefit.

In most states, workers who have been laid off from their jobs and who have accumulated enough earnings credits in recent UI-covered employment can collect UI benefits for up to 26 weeks. (In recent years, about a dozen states have cut the maximum duration of regular UI benefits, in some cases to as few as 12 benefit weeks. In several states the maximum number of eligible weeks is automatically reduced as the state unemployment rate declines.) Federal add-on UI programs are typically authorized by Congress in the early stages of a recession, though the timing can vary depending on the political party that controls Congress and the White House. The add-on programs are always temporary. Benefits under the add-on programs cease at some point during the recovery from the recession. The most common add-on is an extension in the maximum duration of benefits, ordinarily funded fully by the federal government. The Congress may authorize UI payments to provide jobless workers with, say, 13 weeks in addition to the 26 weeks provided by a state's regular UI program. This kind of benefit liberalization seems reasonable, inasmuch as workers find it much harder to land jobs when the unemployment rate is high than when it is low.

Chart 1 shows the monthly number of workers who file continued UI claims under the two kinds of programs. (An "initial claim" is a fist-time claim for benefits, usually filed by a worker who has just lost a job; a "continued claim" is a weekly claim for benefits by someone who has already begun to receive UI benefits.) The numbers reflect monthly totals of workers who received benefits in successive months from February 1986 to March 2016. That span of years includes our most recent three recessions. The blue area shows the number of unemployed workers claiming UI benefits under regular (26-week) state programs. The light red areas indicate the additional unemployed workers who claim benefits under the federal add-on programs (labeled "extended, supplemental, and emergency UI programs" in the chart). The add-on programs were enacted early in each recession and typically lasted many months after the economy and job market began to recover. The chart shows that regular UI rolls surge at the beginning of recessions. If we count enrollments in the federal government's add-on programs, the UI rolls jump considerably more. At the peak of the UI rolls in 2010, more than 11½ million workers collected benefits under the combination of regular state UI and federal add-on UI programs. In comparison, all UI programs enrolled an average of just 2.6 million workers in 2007, immediately before the Great Recession.

We can view these numbers from the perspective of workers who are jobless and looking for work. What percentage of them collect benefits under the two types of programs? Chart 2 shows the percentage of unemployed workers who were enrolled in regular state UI programs (indicated in green) and in federal add-on programs (indicated in light red). Except during recessions, between 30% and 40% of jobless workers collect an unemployment check, but the fraction of jobless workers receiving regular UI can approach 50% as the unemployment rate nears a peak. In other words, the percentage of jobless workers claiming a regular UI check tends to increase early in recessions. That is because in recessions a large percentage the jobless entered unemployment as a result of an involuntary layoff. Remember that many of the unemployed are not eligible to collect benefits. Unemployed workers who quit their last jobs or who recently re-entered the job market after a long period of absence are typically ineligible. People who are involuntarily laid off are eligible unless they had very little work experience at the time of their layoff. In the absence of a federal add-on UI program, many laid-off workers would lose access to benefits after their first 6 months of joblessness. However, when an add-on program is in effect, a large percentage of the long-term unemployed will remain entitled to benefits. When we include the workers who are collecting add-on benefits, up to 60% of jobless workers may collect some kind of UI benefit in the worst stages of a recession. In the Great Recession, more than 70% of the unemployed collected UI benefits in a given week during the worst part of the recession. The recipiency rate was very high because the add-on programs established by Congress starting in 2008 were exceptionally generous. Jobless workers in some states with high unemployment rates and liberal state legislatures could draw UI benefits for up to 99 weeks. At no other point in the history of U.S. unemployment insurance were benefit durations this long.

The potential duration of UI benefits is just one gauge of UI generosity. Another is the UI replacement rate, which indicates what percentage of a worker's lost earnings is replaced by the worker's weekly unemployment check. Chart 3 measures the replacement rate in two ways. The results on the left show the ratio of UI recipients' average weekly benefit amount to the same workers' estimated weekly earnings. The panel shows Department of Labor estimates for the period from 1997 through 2018. On average over the period the replacement rate was about 41%, though it has declined a bit in recent years. Bear in mind that this estimate reflects an average for unemployed workers all over the country. Because states establish their own benefit schedules and because each state's formula contains a maximum allowable benefit, UI replacement rates vary across states and will generally be lower for workers who earn well-above-average wages. The right-hand panel shows the ratio of the average weekly benefit check in a given year to the average weekly earnings of production and nonsupervisory workers. This alternative measure shows a sizeable decline over time in the replacement rate, probably because the workers suffering unemployment (and collecting a UI check) have been increasingly drawn from a population which earns below-average pay.

How much countercyclical stimulus does the UI program provide? One way to capture the size of the stimulus is to see how much UI spending varies between the peak of an economic expansion and the low point of the next recession. Chart 4 shows two ways of viewing the swing in spending. On the left I show the ratio of total UI outlays to total employer spending on wages and salaries. Between 2007 and 2010, this ratio swung from 0.5% to over 2.5%, implying that UI benefit payments increased five-fold relative to the wage and salary income received by working families. The spending increase looks more modest when the extra UI spending is measured relative to all sources of U.S. personal income (see the panel on the right). Still, UI benefits accounted for 1.3% of personal income in the first quarter of 2010 versus less than 0.3% of income in 2007.

The latest UI changes. How do the UI changes just passed by Congress compare with actions in the past? A bit earlier, Congress enacted legislation that authorized an additional $1 billion in emergency grants to states to help them pay for UI administration. Those funds are badly needed. The current administrative budget was determined when the unemployment rate and UI applications were both near historically low levels. Consumer caution and the nation's embrace of "social distancing" have sharply reduced demand for many kinds of services, including entertainment, lodging, for restaurants, and for many types of retail services. These developments resulted in an unprecedented surge in new applications for UI in the second half of March. A total of 2.92 million workers filed new unemployment claims in the week ending on March 21, and an additional 5.82 million workers filed new claims in the following week. (Neither figure is seasonally adjusted.) In no previous week in the history of UI have we seen such enormous jumps in new applications. For purposes of comparison, about 2.0 million workers were collecting benefits under state UI programs at the beginning of March.

The stimulus package just passed by Congress contains a number of UI provisions. One adds a federally funded extension of UI benefit eligibility, giving jobless workers an additional 13 weeks of benefits after their regular state UI payments are exhausted. In most states that means workers will be able to collect up to 39 weeks of UI. In Florida and some other states, however, regular benefits were limited to a fewer number of weeks, so the federal benefit extension may provide the unemployed with a total of less than 39 benefit weeks.

A second UI provision provides federal funding for "Pandemic Unemployment Assistance," which will provide benefits to the self-employed and gig-economy workers. State UI programs do not provide coverage to these workers, because they or their employers do not contribute to the program. For that reason, UI administrators do not have any information about these workers' earnings before they lost their jobs. One implication is that it is hard to calculate an unemployment assistance benefit that is proportionate to each worker's earnings loss. The new law authorizes states to pay these workers a flat amount of $600 plus half the average unemployment benefit in the state.

Finally, the relief package contains a massive federally funded increase in UI benefits equal to an additional $600 per week for every UI recipient. By comparison, in the 2009 stimulus package, passed by Congress shortly after President Obama's inauguration, weekly UI benefits were increased by just $25, or about $30 in today's prices. The new law hikes weekly UI benefits by 20 times as much as was done in the 2009 stimulus package. Another comparison may be helpful. In January 2020, the nationwide average UI weekly benefit was $385. Adding $600 to this amount yields an average weekly benefit of $985, an increase of about 155% compared with the average benefit available in January of this year. We can use the information in the left-hand panel of Chart 3 to crudely estimate the impact of this benefit hike on the UI replacement rate. If the typical recipient had 41% of past earnings replaced by a UI check, when the benefit increase in the relief package goes into effect, the typical UI replacement rate will rise to about 105%. This means many unemployed workers, especially those earning below-average wages, will receive weekly benefits that are greater than the weekly earnings they lost. The $600 addition to weekly unemployment checks is authorized for weeks of unemployment ending on or before July 31, 2020.

This is indeed a big bazooka in terms of countercyclical stimulus. It should allow jobless workers to keep up their spending for as long as the benefit hike remains in effect. In addition, for eligible workers it will reduce the urgency of finding another job, aiding efforts to reduce person-to-person contacts and slow the transmission of the novel coronavirus. The UI benefit increase would be in effect for just 4 months. Of course, Congress could authorize an extension of this provision if the economic situation warrants additional stimulus at that time.

Obviously, if the benefit increase remained in effect for a while it could create some unwelcome incentive effects. Many workers in the health sector, nursing homes, and transportation and retail sectors are performing crucial jobs, but they are simultaneously placing their health at risk whenever they report to work. Providing UI benefits that are greater than the wages workers would earn if they remained on the job creates unattractive incentives. Of course, unemployed workers are usually eligible for UI only if they have been dismissed from their jobs through no fault of their own. However, some states allow workers who have quit their jobs to collect benefits under certain circumstances, including unsafe working conditions and caring for an ill family member. To enforce the UI rules related to the circumstances of an employee's dismissal or quit requires resources, and the UI system is unlikely to have abundant administrative resources anytime soon. Some employers facing higher demand for their services might respond to the emergency by boosting wages to employees, especially those employees offered very generous UI replacement rates. Workers performing jobs that are riskier now than in normal times certainly deserve a raise for accepting the extra risk. I suspect, however, that many employers currently playing key roles in the crisis do not have the financial reserves to offer big pay hikes right now.

The new law also creates incentives for "work sharing." In an ideal world, workers and employers would equitably share the burden of reduced hours across the workforce, sparing some workers of the permanent loss of their jobs while spreading out the pain of reduced hours across a much wider percentage of the workforce. The UI system could encourage this kind of "work sharing" by compensating workers for some of their hours reductions through partial UI benefits for the employees placed on a part-time schedule. One big advantage of this arrangement is that it can preserve the employee-employer link (as well as employees' skills) throughout a downturn, allowing the employer to quickly ramp up production when demand for the firm's product recovers. The employer is spared the necessity of recruiting and training new workers because its pre-crisis workforce has continued to work (possibly part time) and remained attached to the firm throughout the downturn. However, devising appropriate incentives to encourage work sharing is not easy. Whether state UI agencies will be able to accomplish this task when there is a tsunami of new UI claims is an open question.

Administrative bottlenecks. Finally, we should consider the current administrative capacity of the UI system. It is already clear that new UI claims have increased massively compared to applications in 2019 and in the first two months of this year. The administration of the UI system is mostly in the hands of state UI agencies, though it is paid for by the federal government using revenues raised under the Federal Unemployment Tax Act (FUTA). When this year's administrative costs were determined, nearly every economic forecast anticipated another year of steady economic growth and historically low insured unemployment. Congress has appropriated additional funds to cover the surge in applications and UI claims. The extra funds will not translate into an immediate increase in the administrative resources adequate to handle the surge in benefit claims. While it is true that the process of taking UI applications and processing those claims has been automated over time, it is also the case that the unprecedented flood in applications places enormous pressure on the system. Newly jobless workers attempting to file claims through phone lines may face long wait times before they reach an available line or clerk. Those trying to file claims through a state's UI application website may find that the website has crashed or slowed down as a result of heavy demand.

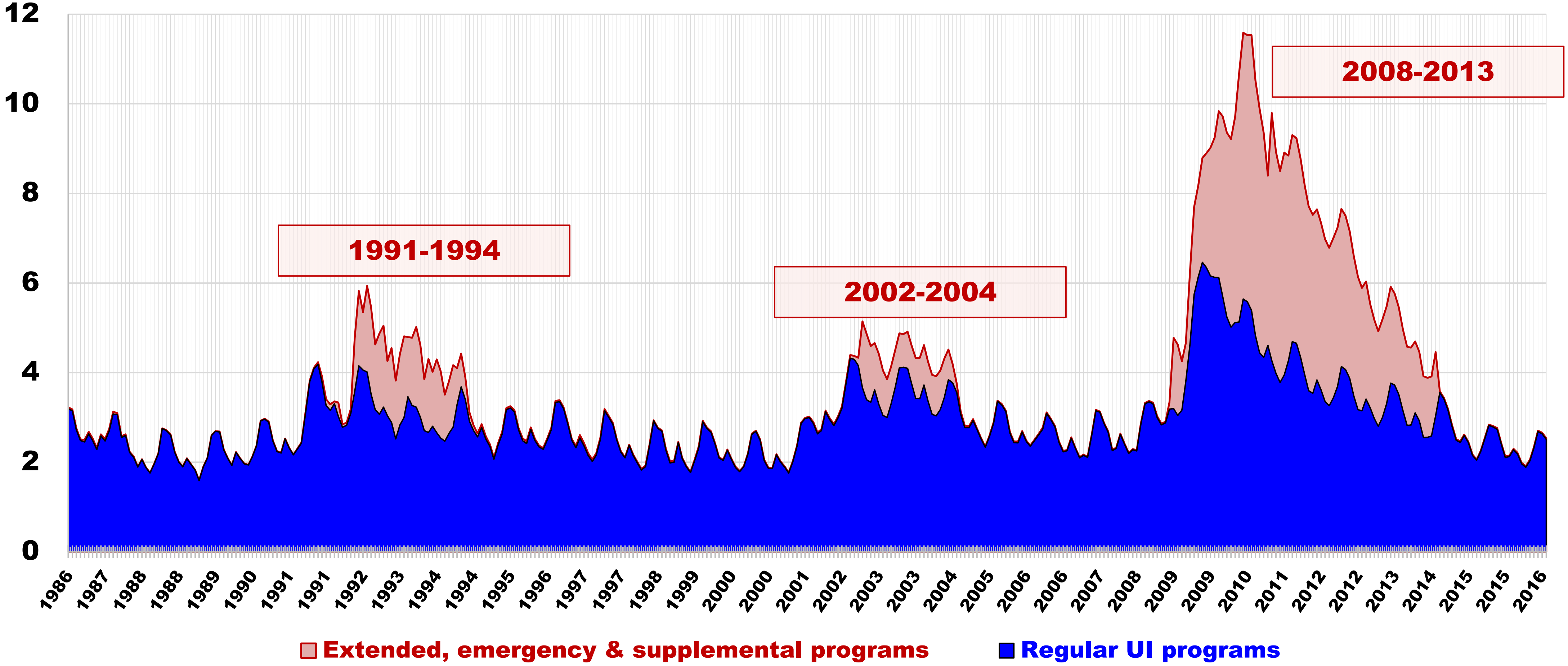
The administrative burdens are made worse by the need for all of us to maintain social distance. In-person interactions among UI administrative staff and between staff and UI applicants must be sharply reduced to protect the health of both staff and applicants. Under these circumstances, it is likely that applicants' wait times for their UI benefits will be much longer than the wait times faced by applicants as recently as a month ago. The administrative resources of the UI system will eventually ramp up to meet the demand for services. But at this point it is unclear whether that will happen within the next month or further down the road.

- *Gary Burtless*

These notes are based on a presentation I made for the National Association of Business Economists' Webinar on the "Labor Market Consequences of Coronavirus," on March 24, 2020. The information available at that time has been updated with publicly available information through April 2.

Chart 1

Persons filing continued UI claims under regular programs and under extended, supplemental, and emergency UI programs, Feb. 1986 thru Mar. 2016 (Millions)



Source: Gary Burtless tabulations of data prepared by U.S. DOL / ETA.

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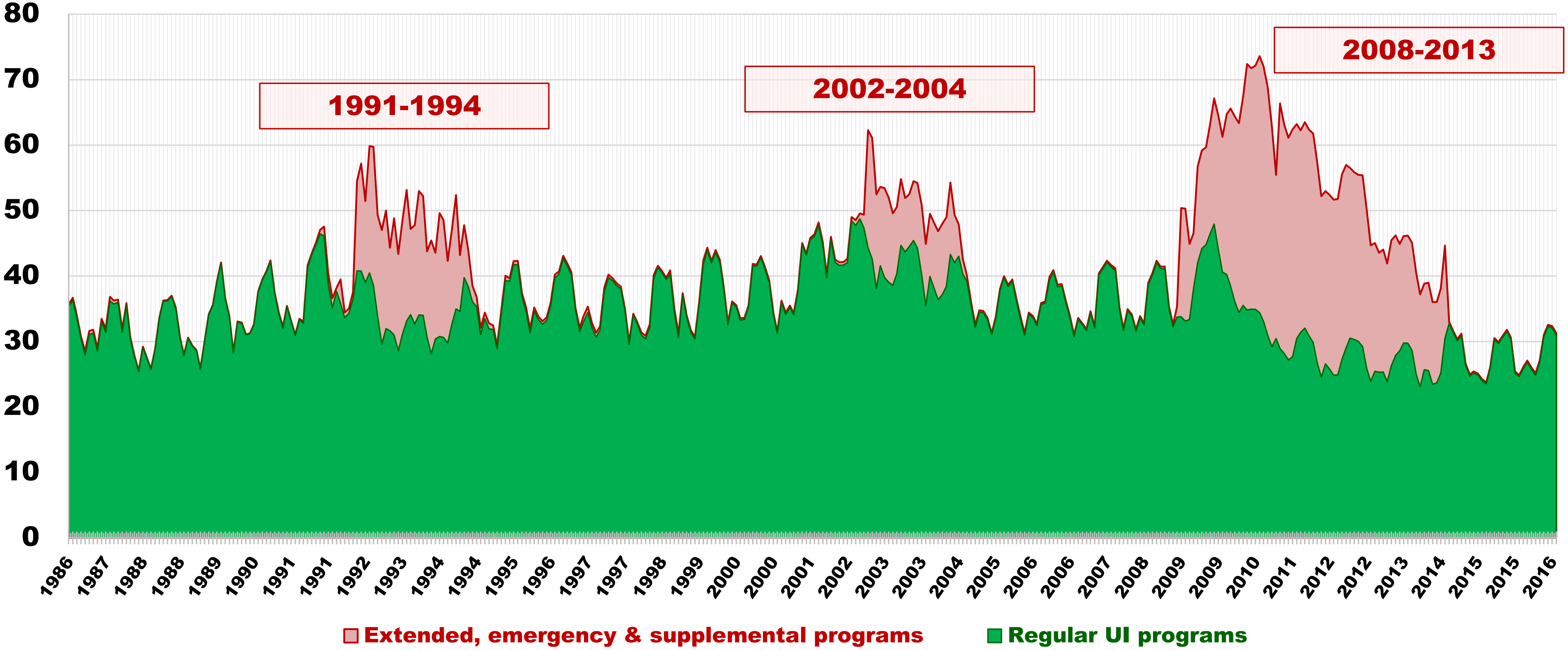
Chart 2

Unemployed workers filing continued UI claims under regular programs and under extended, supplemental, and emergency UI programs, Feb. 1986 thru Mar. 2016

(Percent of all unemployed)



Source: Gary Burtless tabulations of data prepared by U.S. DOL / ETA and U.S. BLS.

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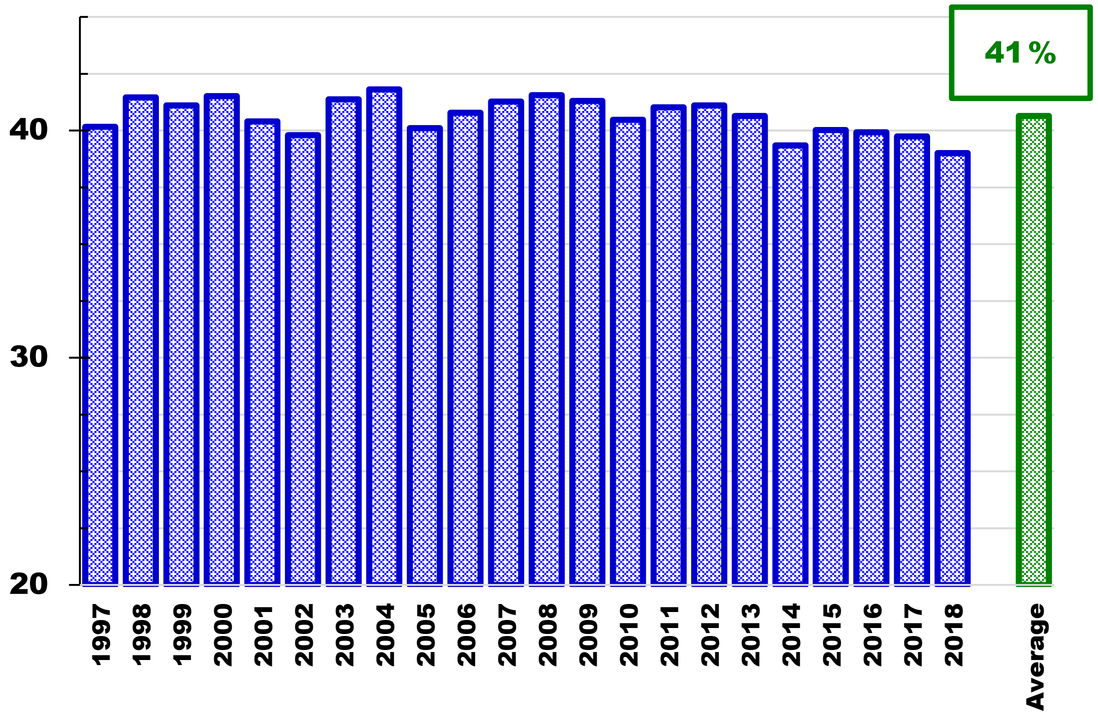
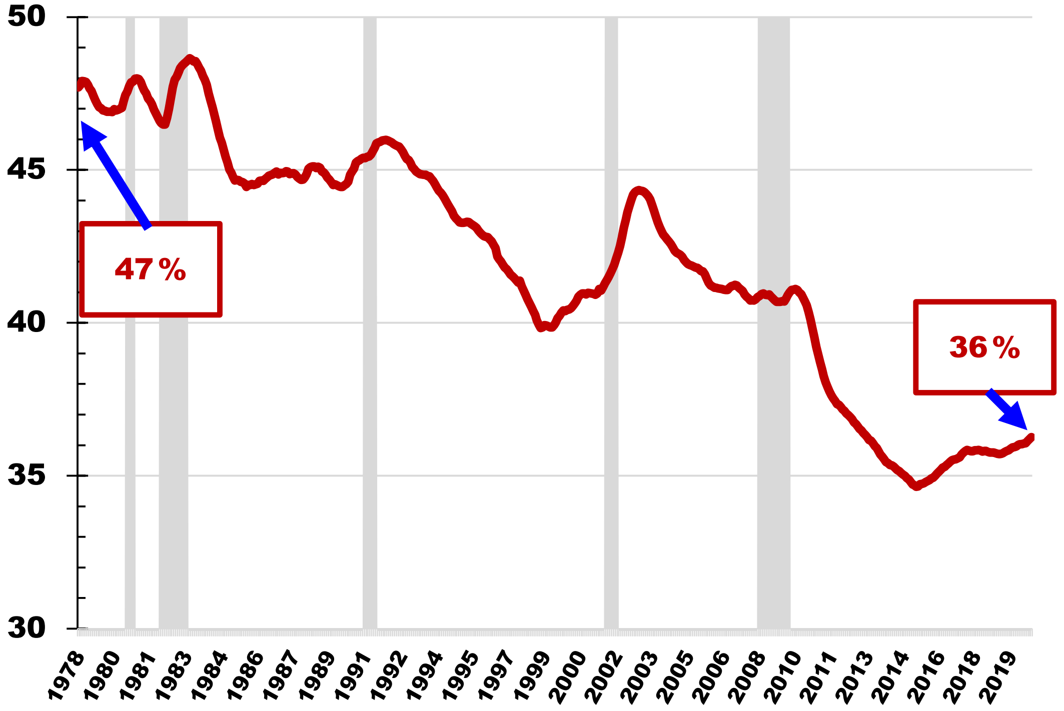
Chart 3

How much of a typical earner's lost wages are replaced by UI benefits?

UI Replacement rate: Recipients' Average weekly benefit amount / Recipients' Average weekly earnings, 1997-2018



Average weekly UI check as percent of average weekly earnings of production and nonsupervisory employees, 1978-2020

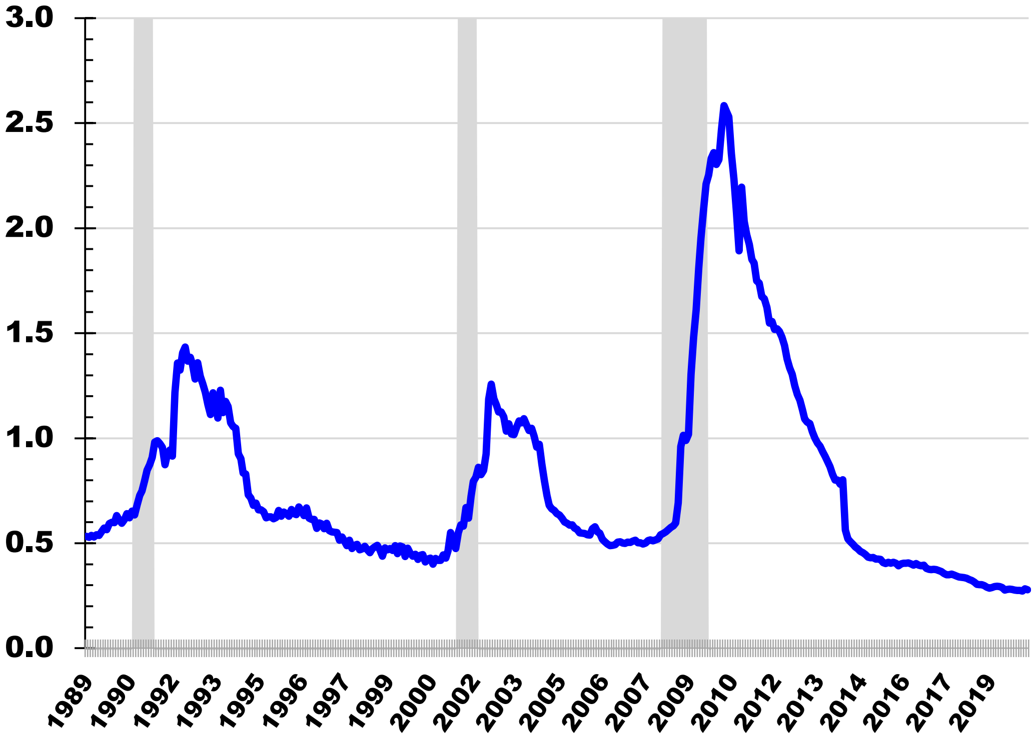


Source: Gary Burtless tabulations of data prepared by U.S. DOL / ETA and U.S. BLS. **Brookings Institution**

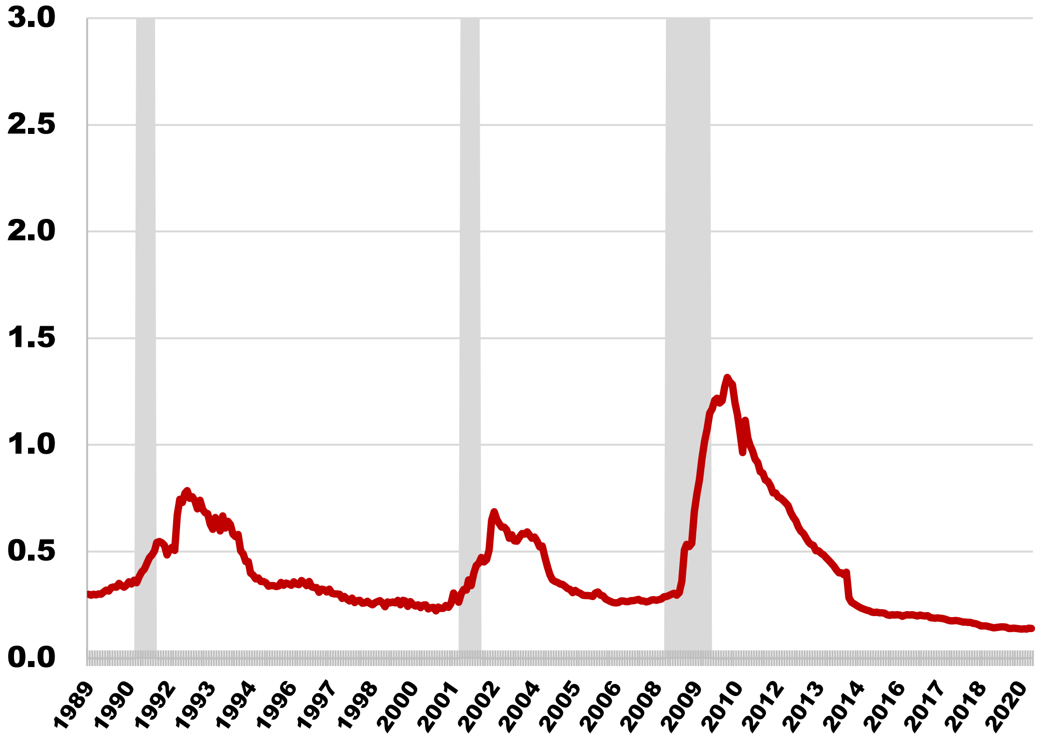
Chart 4

Unemployment compensation outlays over the business cycle

Unemployment compensation payments as percent of current month's wage and salary income, 1989-2020



Unemployment compensation payments as percent of current month's personal income, 1989-2020



Source: Gary Burtless tabulations of NIPA data published by BEA.

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