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THE CURRENT: Congress extended unemployment benefits. What should come next?

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(MUSIC)

PITA: You're listening to The Current, part of the Brookings Podcast Network. I'm your host, Adrianna Pita.

Included in the American Rescue Plan, the $1.9 trillion COVID relief package signed on Thursday by President Biden, is an extension of federal unemployment benefits for workers who lost their jobs during the pandemic. This latest extension comes just in time, as previous unemployment benefits were due to expire this weekend.

Here to talk to us about why unemployment insurance is so important, and how to make the system better is Lauren Bauer, a fellow in Economic Studies and the Hamilton Project here at Brookings. Lauren, thanks for talking to us today.

BAUER: Anytime, happy to talk about it.

PITA: So, I know I said in my intro that this extension did come just in time, but as we know, sometimes the wheels of bureaucracy turn rather more slowly than we'd like. Was this bill in fact passed in time that recipients of unemployment benefits shouldn't see any interruption in what they've been receiving?

BAUER: So some may see interruption, but unlike in December, Congress did get their act together in time. Unemployment insurance benefits, the special programs that were authorized in response to the COVID-19 pandemic were set to start expiring on Sunday, March 14, and now they will not. They'll be extended until the first week of September. So about 20 million workers are currently receiving unemployment insurance benefits, and all of them are going to benefit by what Congress and the Biden administration accomplished this week.

PITA: Well, that's great news. Maybe you can tell us in a little more detail what all is included in this package of unemployment benefits?

BAUER: Sure. There are a couple of different components to what we're calling enhanced unemployment compensation during the pandemic. What we've changed over the course of the past year is who is eligible to receive unemployment insurance, how long they're eligible to be on the program, how much money they're receiving, and as well, the tax status of some of those benefits – because in normal times, it's surprising to people that we give unemployment insurance benefits to people and then we tax them for the money back. All those pieces have changed over the course of the pandemic, and they changed again this week.

What is new, or what is going to be extended from March to September 6 is that many people who normally wouldn't qualify for unemployment insurance – these are people who qualify for pandemic unemployment – are going to be able to receive benefits for up to 79 weeks. As well, in terms of length of time, people who normally receive unemployment insurance will be able to stay on pandemic emergency unemployment compensation for about double the number of weeks, from 24 to 53 weeks.

As well, there are some programs already in EB where economic conditions extend the amount of time that people can be on unemployment insurance – it's called the extended benefit program – and that program is going to be fully federally funded through September 6, which incentivizes states to make it more likely that people are eligible to receive those benefits.

PITA: That's great news. We've been in this situation with the pandemic for a year now. That's a year that many people have been out of work or underemployed. As you mentioned, that's 20 million workers who are receiving benefits. So, now that we have a year's worth of data, of looking at this, what kind of effects have we seen, what have these benefits meant to workers and their families?

BAUER: As I said, about 20 million people are still receiving some form of unemployment insurance right now, but over the course of 2020, about 40 million Americans at some point availed themselves of this system.

I think there are two things we want to know about the effects of this program. One is: is it supporting household income and household finances in such a way that people's ability to sustain their household, buy the things that they need, put food on the table, is happening? We did that not only by targeting to people who lost their jobs but over the course of the pandemic, giving them an extra $600 and then $300 to do so. What a group of researchers at the University of Chicago found was that was the case. That, after losing their job, people actually were spending more after their job loss – about 2 to 2 and a half percent more. That's against economic theory. Economic theory would predict that when you lose your job, you tighten your belt. But because the system was so generous, we actually were not only able to maintain levels of spending, but increase them. And that was a goal of the program, so we think that there's evidence that that works.

The other thing that we want to know is, did people work less because they were getting more generous UI? And here I think during the pandemic, it's a complicated question. My colleague Mallika Thomas wrote a piece about this where she argued in fact that we don't necessarily want people more people to work if they're receiving generous UI, because the ability to not take a job that exposes you to the risk of the virus is actually a goal. And the Biden administration has said this as well, that they want people to be eligible for unemployment insurance if they don't want to take a job that is not safe. So, we have mixed ideas about whether it's a good thing or a bad thing that benefits right now are generous enough to keep otherwise employable people out of the labor force, if it means that it creates this public good where they're safer and they keep other people safer.

What the evidence shows, again from a group at UChicago and at Yale is that people who are on UI are not experiencing larger declines in employment when the expansions went into effect and that it's not necessarily limiting them from being recalled to their jobs and to going back to work. It's a complicated story that maybe I'm not telling perfectly well, but we don't think this generosity is keeping people back who want to be working, but it's making sure that people who don't want to take an unsafe job are able to do so in a way that keeps their families whole.

PITA: No, you're making a really good point, that this is such a different situation than a regular recession where, it's market forces made it such – a housing downturn or a stock market crash – that this is in some ways a purposeful recession where we asked people not to go to work in order to keep people alive.

BAUER: That's right, and that's why I think we are generally worried about the employment effects of very generous safety net programs, but you're right that right now the goals are different. The goal is maintaining the life and livelihood of the American people and the economy. UI is supposed to catch people when they fall, when they lose their job through no fault of their own. That's the principle. And there is no doubt that starting in March, tens of millions of Americans have lost their jobs not only through no fault of their own but because of government requests. If you're going to ask people to do that, to ask businesses to close, and ask people to stay home and close schools, then there ought to be something very generous on the other side. And that's certainly how unemployment insurance has functioned over the past year.

PITA: As you mentioned back in December, there were interruptions to the unemployment insurance benefits because Congress didn't pass a new extension in time, and economists have been talking for quite a while about wanting to try and build automatic triggers into this system, rather than passing individual packages on an ad-hoc basis. Tell us a little bit about how would that work and why that's important?

BAUER: In 2019, before the recession, my group at Brookings, the Hamilton Project, in concert with the Washington Center for Equitable Growth, put out a book called "Recession Ready." What we argued in that book and throughout the chapters is there's a variety of safety net programs that could kick in automatically when economic conditions say, "hey, guys, we're in a recession." And in doing so would catch people when they fell, but also make it likely that a recession would be small, short, and it would minimize the economic damage. We were not able to put programs like that in place before the recession. It's been a struggle to put them in place throughout the recession because members of Congress feel the need to not only create calendar-based deadlines but the pressure around those deadlines in order to get a new deal passed. But I think the time and the principle of the thing is still ripe to try again.

What a package around automatic stabilizers would do is say, when these particular economic indicators suggest that times are tough, we are going to increase the value of SNAP benefits; we are going to increase the duration and generosity of unemployment benefits; we are going to provide more money to states and localities through the Medicare and Medicaid system in order to make sure that their balance sheets are good. We could even provide direct checks to households when economic conditions warrant. All of those pieces together would support families and support an economic recovery.

PITA: Your colleague Wendy Edelberg was here and talked to us a couple days ago about that now that the relief package has passed, she talked about some of the longer-term economic reforms that she'd like to see Congress take up. Do you know, if there's any indication whether will be looking at automatic stabilizers or any other reforms to the unemployment insurance system, within the coming months, or next year or so?

BAUER: Certainly. I think the American Rescue Plan is just the first foray of this Congress and the Biden administration into investing in America's future. Wendy talked about, and both the Biden administration and Congress have talked about a jobs bill, an infrastructure bill, to make long-term investments. I think that investing some political capital in getting triggers into this next bill makes a lot of sense. It’s going to be less expensive to do at the end of a recession as opposed to at the beginning. It’s important for the Biden administration and Congress to understand that while it looks like we’re making a turn, the virus is starting to come under control, there’s this July 4 barbecue deadline and all of that’s very hopeful, in the U.S., recessions come, and we want to be better prepared for them.

One of the ways that Congress and the Biden administration can prepare for an economy that’s contracting is to set up triggers to allow safety net programs like unemployment insurance and SNAP to kick in faster and more generously when the economy warrants. It’s just good planning.

So, as we talk about programs that are investing in the future, whether it’s infrastructure, climate resilience, we also want to invest in our people. And automatic stabilizers and triggers to those programs are a complementary way for Congress and the Biden administration to get ready for what’s next.

PITA: All right. Lauren, thanks very much for talking to us today about this.

BAUER: Any time, thanks for having me.