

Badger Institute: Federal unemployment insurance benefit slowed employment growth

Posted on Wednesday, Nov 10, 2021

>> **WisPolitics is now on the State Affairs network. Get custom keyword notifications, bill tracking and all WisPolitics content. [Get the app or access via desktop.](#)**

Shortly after the advent of the COVID-19 pandemic, Congress passed the [CARES Act](#), a \$2.2 trillion bill designed to alleviate the negative economic consequences of government-mandated shutdowns. Included in the bill was a \$600 weekly federal unemployment bonus payment on top of the [state benefits](#) that unemployed workers already could receive.

Since the combined federal/state unemployment insurance benefit was greater than the weekly wages of many employees, some economists worried that it might depress employment growth. We decided to examine whether the federal bonus payments served as a disincentive to workers returning to jobs once the economy rebounded.

During the throes of the crisis, when many restaurants, retail establishments and other businesses were closed, the boost helped people weather job losses. But to prevent the supplemental benefits from discouraging a return to the workforce, lawmakers set them to expire after six months.

That changed in August 2020 when the Trump administration, via executive order, extended the benefit at half of the original \$600 rate. The American Rescue Plan, which passed in March 2021, extended this \$300 weekly benefit until Sept. 6, 2021 — although states had the discretion to end it earlier, and many did.

Wisconsin, under Gov. Tony Evers, continued paying the federal benefit as long as possible, right up through early September.

The fact that the U.S. economy has been plagued with unfilled jobs in the past six months as the shutdowns were lifted raises the question of whether higher benefits contributed to labor shortages. Most research finds that the more generous the benefits and the longer they last, the longer people tend to remain unemployed.

We obtained monthly unemployment rates for the 50 states and the District of Columbia for the first nine months of 2021 as well as all of 2020, along with other state-level economic data.

We first examined what happened to labor markets when the federal benefit decreased from \$600 to \$300 a week. We find no evidence that this affected the labor markets to a significant degree.

It's likely that a reduced federal benefit served as a disincentive for millions of workers who could still make as much or more by not returning to work. It was difficult to accurately assess the impact, however, because the diminution of benefits occurred before labor market demand began to increase.

In June, a number of governors took steps to end the federal portion of unemployment insurance in their states. Ultimately, 22 states ceased to provide the supplemental benefits.¹ The remaining 28 states and the District of Columbia kept the federal supplement in place after July 1.

The variation between states that extended benefits to September and those that did not gave us a second opportunity to measure the supplement's impact on labor markets.

We compared the two sets of states to see if their labor markets differed during the three months when the unemployment insurance benefits differed.

Our early analysis showed that there is a modicum of evidence that the higher benefits did affect employment levels, at least once labor market demand picked up. We compared the unemployment rate and its changes across the two groups of states and observed that in the three months before the July 1 cutoff, the states that were to continue to provide supplemental benefits saw their unemployment rate fall by 0.26%, while the states that would soon end the benefits saw theirs fall by an average of 0.07%.

In Wisconsin, which maintained the federal bonus until it expired on Sept. 6, the

unemployment rate has remained virtually unchanged for the past six months at 3.9% even as the national unemployment rate fell an entire percentage point, from 6% to 5%.

Overall, in the 22 states that did eliminate the supplemental benefits earlier, the unemployment rate fell by 0.33% over the next three months, compared to a 0.22% drop for the states that continued providing the supplement.

The differences are modest but statistically significant.

The September expiration of the federal benefit, when all states returned to their normal unemployment insurance levels, provides another variation that can help us measure labor impact. In early 2022, armed with three more months of data covering this period, we hope to gain more insights into the extent to which higher benefits may have deterred the unemployed from obtaining a job.

The solution for those who want the UI system to be generous without disincentivizing work is to provide a fixed benefit for those who are permanently laid off from a job so that no benefits will be lost once an unemployed individual finds a new job elsewhere.

In the early 2000s, for example, Congress debated (but didn't act on) creating unemployment insurance accounts where a laid-off worker would accumulate benefits that could be used to cover expenses while he or she is without a job. Once that individual landed a new job, the account would retain unused funds for education, retraining or acquiring tools of the trade.

There is no ideal time to fix an unemployment insurance system: Doing so during a recession is politically fraught, and few see the need for change when the economy is robust. And it's not often that Congress takes an existing system and improves upon it.

But the federal UI supplement may have opened the door to more experimentation in the provision of these benefits. The potential gains from doing so should make it worth attempting.

Ike Brannon is a senior fellow at the Jack Kemp Foundation, president of Capital Policy Analytics and a visiting fellow at the Badger Institute. Samuel Wolf is a research associate at Capital Policy Analytics.