

# How to boost unemployment insurance as a macroeconomic stabilizer

Lessons from the 2020 pandemic  
programs

**Report** • By [Josh Bivens](#) and [Asha Banerjee](#) • October 7, 2021

**What this report finds:** The U.S. unemployment insurance (UI) system has historically underperformed as a macroeconomic stabilizer. While UI, like other automatic stabilizers, is designed to automatically spur aggregate demand when private spending falls (in UI's case by temporarily replacing some lost wages of jobless workers), the boost is weaker than it could be. The UI system's fuller potential was highlighted by the extraordinarily large but temporary UI expansions enacted by Congress during the COVID-19 pandemic, which made more workers eligible for benefits, raised benefit levels, and lengthened the duration of benefits. With these expansions, UI benefits as a share of wage and salary income provided an economic boost roughly four times as great during the pandemic as during any previous recession.

**Why it matters:** Weak automatic stabilizers mean that recessions last longer and inflict more damage than

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they need to—unless Congress and the president act nimbly and in concert to pass discretionary relief. Even then, the discretionary programs end earlier than they should. Consider for example the UI expansions enacted during the Great Recession that were turned off in 2014— well before a full recovery had taken hold. The less that American families have to rely on ad hoc relief offered only when there is political comity, the better it is for their economic security. As the pandemic UI programs showed, more forceful UI interventions are possible during recessions. If these expansions were set on autopilot, then future recessions would be shorter and less painful, and recoveries would come more quickly.

**What we can do about it:** Make UI a more powerful macroeconomic stabilizer by enacting reforms along three key dimensions or margins: eligibility, duration, and benefit levels. For example, program parameters could be strengthened to ensure that a larger share of unemployed workers are eligible for benefits, that benefits last long enough to bridge a jobless spell, and that benefits replace a high-enough share of previous earnings to minimize hardship.

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The unemployment insurance (UI) system provides critical support during economic downturns, with cash benefits bolstering both the incomes of working people who have lost jobs as well as a flagging macroeconomy (Bivens et al. 2021; Hickey 2021). Signed into law as part of the Social Security Act in 1935 during the Great Depression, the system has historically been one of the first lines of response to a downturn, providing immediate financial relief to households whose spending helps stabilize the economy by boosting economywide consumer spending.

However, weaknesses in the UI system have limited its effectiveness as an automatic stabilizer relative to its potential. Automatic stabilizers are parts of the federal budget—either spending increases or tax cuts—that boost aggregate demand when private spending falls *even with no change in legislation*. Optimal stabilizers trigger on in a timely fashion as private spending begins slowing, provide a larger boost to aggregate demand as private spending falls further, and only begin ramping down as private spending begins recovering. Today’s UI system is not automatic enough.

The UI system also has serious flaws as a social safety net program, including troubling racial disparities in recipiency, stringent work requirements, and more. The focus of this report, however, will be UI’s potential as a macroeconomic stabilizer during downturns. In this paper, we highlight three aspects of the UI system that can be augmented to make the system a more-effective macroeconomic stabilizer. Specifically, these areas where—or margins along which—the UI system’s stabilizing effects can be enhanced are the **duration** of UI benefits (how many weeks benefits last), the **generosity** of UI benefits (the benefit level), and the **eligibility** of UI benefits (which occupations or classes of workers can get benefits). We use evidence from the response to the COVID-19 pandemic—when Congress enacted temporary emergency measures that significantly raised benefit amounts, added additional weeks of benefits, and extended eligibility to a much greater share of workers—to show the macroeconomic benefits of permanent, versus ad hoc, expansions to UI. Our main findings are:

- **The muted UI response to economic downturns before the COVID-19 shock show that it has long underperformed its potential as a macroeconomic stabilizer**, due to short duration, low generosity, and limited eligibility.
- **The emergency extended UI benefits that Congress provided in response to the pandemic provided a far larger boost to personal income during the COVID-19 crisis than any previous recession**—probably ever, but certainly since personal income data began being systematically collected in 1960. This large boost to personal income meant UI had a far larger effect as a macroeconomic stimulus in 2020. It has the potential to do so again in future downturns.
  - UI as a share of personal income was four times as high in the year after the 2020 recession than the year following 2007–2009 Great Recession.
  - UI as a share of total wage and salary income—a different measure than personal income—reached 13% in 2020, compared with just 2.5% in the aftermath of the

Great Recession in 2010.

- **Pandemic UI programs—most notably Pandemic Unemployment Assistance (PUA), extending eligibility to workers who previously could not receive UI, and Pandemic Unemployment Compensation (PUC), providing an additional \$600 per week on top of existing UI benefits—met the urgent need and filled gaps traditional state UI could not meet.**
  - Traditional state UI made up just 20% of all UI by June 2021
  - At its height in the summer of 2020, the PUA program covered nearly 15 million workers who accounted for half of all UI claimants.
  - PUA and other pandemic UI programs were transferring more than \$60 billion into personal incomes per percentage of unemployment within a few months after the March 2020 passage of the CARES Act.
- **A key barrier to structurally reforming UI to make it a more-powerful macroeconomic stabilizer is that the need for reform is most apparent when the reforms look most expensive in terms of how the Congressional Budget Office (CBO) would score them.** In downturns there is more need, which costs more, which makes reforms seem costly if undertaken during recessions. If this skewed cost score prevents policymakers from taking action now, they should consider these reforms when the overall economy begins a strong recovery.

## Background on UI—and potential margins of improvement to UI as a macroeconomic stabilizer

The UI program—funded by states and the federal government and mostly administered by states—serves as both social insurance and a macroeconomic stabilizer. In addition to providing immediate relief to struggling households in the form of cash benefits covering a share of lost income, unemployment insurance stimulates a contracting economy by providing unemployed workers with benefits income they can spend in their communities and the broader economy. However, the macroeconomic stabilization function—in other words, the ability for UI to cushion against recessions and spur faster recoveries—has never lived up to its potential.

Since its inception in 1935, the UI system has had clear shortcomings in its ability to deliver robust macroeconomic stabilization in the face of an economic downturn. These shortcomings, which largely fall under three key margins of UI coverage, are insufficient duration of benefits (too few weeks of benefits), inadequate generosity of benefits (low benefits amounts), and limited eligibility (key worker occupations and classes are excluded from benefits). While the federal government sets some basic parameters for the program, state governments are in charge of the details, such as how long benefits last, the benefit amount, and the kind of work history people must prove to claim benefits. Benefits

duration and generosity have proven inadequate during normal economic times and fail to *automatically* ramp up sufficiently during downturns.

Over the decades following its inception, legislative fixes at the federal level tinkered with these gaps in the UI system and offered some improvements. For example, previously excluded workers, most notably agricultural and domestic workers, were finally included. The longtime exclusion of farm and domestic workers, along with the uneven state and local role in administering UI, meant that in practice millions of Black and Hispanic workers were denied and excluded from any UI relief. Also, the duration of benefits got an automatic extension during periods of economic distress with the Extended Unemployment Compensation Act of 1970, which created a mandatory permanent program of extended benefits (EB) (Price 1985). Under the EB program, special EB benefits would be “triggered on” if a certain unemployment rate was reached. Despite this automatic program, Congress still saw a need to address major economic distress among U.S. households after major recessions such as the downturns in 1974, 1982, 1991, 2002, and significantly, 2008, by enacting ad hoc federal temporary programs of supplemented UI, such as the Emergency Unemployment Compensation (EUC08) program (CRS 2014).

However, the most dramatic changes to the UI system came in the wake of the recent 2020 crisis. This sharp downturn, driven by the COVID-19 pandemic, forced millions out of work in mere weeks, and spurred a rapid congressional response to temporarily reinforce and expand existing UI programs. The temporary expanded unemployment insurance programs created in the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 expanded traditional UI on three margins: duration, generosity, and eligibility.

**Duration:** The Pandemic Emergency Unemployment Compensation (PEUC) program provided up to 53 weeks of additional UI payments that laid-off workers could tap into after exhausting traditional UI benefits and EB.

**Generosity:** The Pandemic Unemployment Compensation (PUC) program provided an additional \$600 per week on top of existing UI benefits. This program was allowed to expire in July 2020. The Lost Wages Assistance (LWA) program, which provided six weeks of additional \$300 weekly UI from disaster relief funds, was authorized until September 2020. Congress renewed the PUC at \$300 per week in an appropriations bill in December 2020 and then in the American Rescue Plan (ARP) Act of 2021.

**Eligibility:** The Pandemic Unemployment Assistance (PUA) program extended UI eligibility to workers who previously could not receive UI, such as workers classified as independent contractors, app-based and “gig” workers, part-time workers, and workers with short or irregular work histories. PUA also extended eligibility to workers who voluntarily left jobs in response to public health fears spurred by the pandemic and the closures of schools and day care centers.

This paper focuses on the UI program’s role as a macroeconomic stabilizer and will explore the ways UI could be augmented as an automatic stabilizer. Research from before the 2020 crisis shows the relatively modest boost that the UI system provided at the

outset of past economic downturns. For example, Chodorow-Reich and Coglianesi (2019) estimate that all of the extended UI benefit programs—both standard EB programs and the ad hoc emergency unemployment compensation programs passed in 2008—probably served to lower the overall unemployment rate by only about 0.2% in 2010 (the labor market trough of the Great Recession, when unemployment was 5 percentage points higher than in the pre-recession years of 2006 and 2007).

However, the 2020 UI modifications and improvements were the most significant in history, and they likely provided a much larger potential stabilizing role for the economy.<sup>1</sup> This paper will analyze the extended UI programs enacted in response to the 2020 crisis to compare the counter-cyclical fiscal boost provided by the 2020 UI programs with UI response in previous downturns. Even as policymakers allowed the pandemic UI to cease completely by September 2021, the performance of UI as a potential macroeconomic stabilizer in 2020 ought to be examined carefully as a lesson for future downturns if policymakers return to the issue of long-term reforms of the UI system.

## UI as an income stabilizer during the COVID-19 crisis compared with previous downturns

UI supplements household income after a job loss and provides a buffer to economywide consumption spending in the face of sudden earnings losses. Looking at UI's share of household personal income (which includes wage and salary income as well as government social benefits such as Social Security, Medicare, Medicaid, and UI) before and after recessions can give a rough estimate of the boost provided solely by UI. **Figure A** shows the average boost from UI to personal income across business cycles from 1960.

The first bar in each pair indicates UI income as a share of personal income during the official recession period, relative to the year prior to the recession. The second bar compares the share of personal income accounted for UI during the first year of recovery relative to the year prior to the recession. As can be seen, because in many recessions, employment losses have lagged behind other measures of recession, the boost from UI is often greater in the first year of recovery than during the official recession.

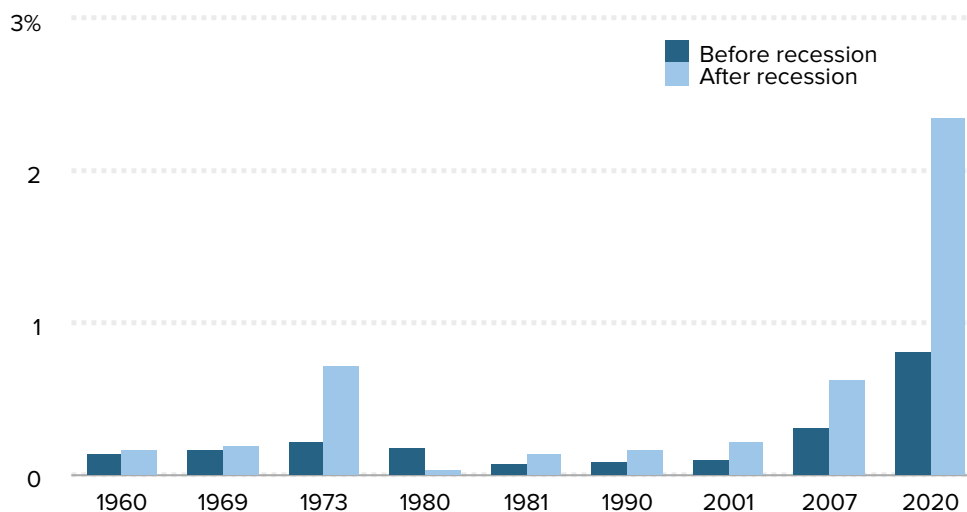
The most striking finding of the figure, however, is that expanded UI produced a dramatically larger boost to personal income both during and after the COVID-19 crisis compared with prior recessions. In past downturns, UI provided only a very modest boost to personal income. For example, even in the Great Recession of 2008–2009, UI boosted personal incomes only by about 0.3% in the depths of the recession, compared with just under 1% in the COVID-19 crisis. Critically, in 2020, UI also boosted personal incomes in the immediate recovery: UI's share of personal income rose 2.3% (in the first year of recovery from the Great Recession, UI's share rose a mere 0.6 percentage points).

In some sense, looking at the UI's boost to overall personal income during the COVID-19

Figure A

## Unemployment insurance benefits boosted incomes far more during the COVID-19 downturn than they did during previous recessions

The increase in the share of household income coming from UI benefits before and after recession, by recession (identified by year of onset)



**NOTE:** This figure graphs the increase in the share of personal income accounted for by UI for the duration of each recession and the first year of recovery in all business cycles since 1960. Using National Bureau of Economic Research (NBER) business cycle dates (NBER 2021) we calculated average UI/PI for one year prior to the recession, the duration of the recession, and one year after.

**SOURCE:** Bureau of Economic Analysis National Income and Product Accounts (BEA 2021b) and National Bureau of Economic Research personal income data (NBER 2021).

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crisis can understate how transformational it was for the lives of workers. COVID-19 relief legislation included many large transfers besides UI expansion, such as the stimulus checks and expanded Child Tax Credit (CTC), which boosted personal income as well. Given that UI serves explicitly as a replacement for lost labor earnings, **Figure B** isolates this role by looking at UI as a share of wage and salary income plus UI payments. Examined this way, the UI response to the COVID-19 recession far overshadows any previous downturn since 1979.

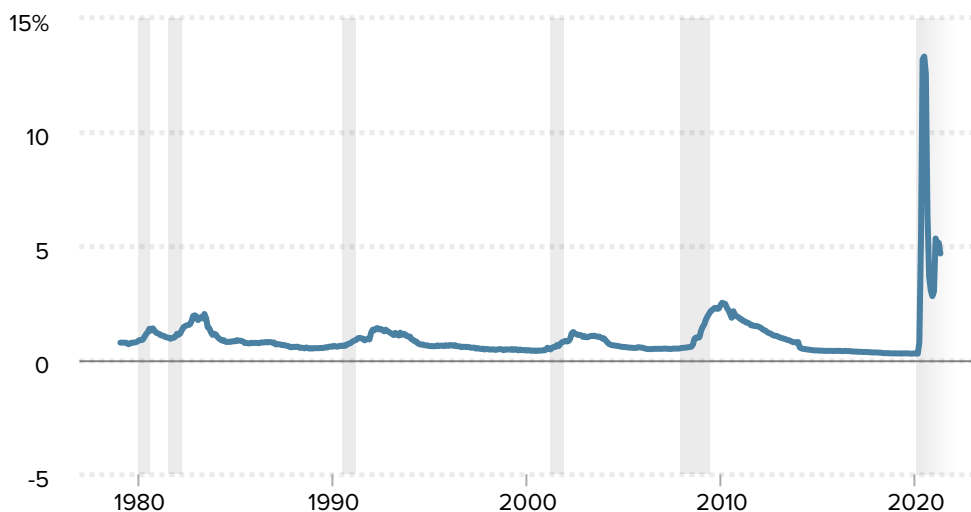
The impact of the expanded UI provisions from the CARES Act passed in late March 2020 is most evident from May to July 2020 when UI reached a staggering 13% of wage and salary income. The sharp fall after July mostly reflects the failure of Congress to extend the supplemental UI programs.<sup>2</sup>

From a macroeconomic point of view, UI boosting personal incomes (and labor earnings) both during a recession and immediately after is supremely valuable. With UI payments, households headed by those who have lost jobs have more funds to cover their rents, living expenses and debts, and hence consumption throughout the economy is buttressed

Figure B

## Unemployment insurance benefits are supplementing wage and salary income to the greatest degree since 1979

UI benefits as a share of labor earnings (wage and salary income plus UI cash benefits as wage replacement), 1979-2021



**Note:** For this analysis, total wage and salary income includes wages, salaries, and income from unemployment insurance. To learn more about the definitions of wages or unemployment insurance, see BEA 2021b and Hickey (2021).

**Source:** Bureau of Economic Analysis National Income and Product Accounts (BEA 2021b).

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even as earnings fall. This dynamic also works in reverse: If UI is cut prematurely when the labor market is still weak, the reductions in household incomes put downward pressure on consumption spending, which then slows economic growth.

What we learn from looking at UI support during and after recessions since 1960 is that policymakers have never used UI as effectively for macroeconomic stabilization as they did for the 2020 COVID-19 crisis. By expanding UI so significantly in duration, generosity, and eligibility during the crisis, federal policymakers greatly augmented UI’s potential role as a macroeconomic stabilizer. Given how the U.S. economy has taken longer and longer to regain pre-recession health after each recession since the early 1980s, any lessons on improving automatic stabilizers and fostering more rapid recoveries should be examined closely (Freeman 2013).

In the next section, we provide some rough quantification of how important changes to each of the three critical elements—duration, generosity, and eligibility—are to UI’s outsized performance in stabilizing incomes during the COVID-19 crisis. We then evaluate how expansions in these three areas could be incorporated into a long-term reform of UI. It is well-known by now that UI generally does not respond automatically enough or at sufficient scale to downturns (Bivens et al. 2021). Even more glaringly, sometimes



recession-driven expansions are pulled back before full economic recovery is reached (Bivens 2016). Enhancing the margins along which UI can effectively stabilize the macroeconomy and having those margins respond automatically to downturns could provide a much better buffer against future recessions and too-slow recoveries.

## How the pandemic UI programs expanded benefit duration, generosity, and eligibility

Historically, the changes to UI duration, generosity, and eligibility have been relatively modest, even in the face of recessions. Regarding eligibility, some states have opted to relax eligibility requirements during recessions (CRS 2020; Congdon and Vroman 2021). The federal “extended benefit” (EB) program operating in all states is meant to trigger on automatically as the unemployment rate rises, but it has serious flaws (Bivens et al. 2021). Largely due to these flaws, UI duration is often extended on an *ad hoc* basis by Congress during national recessions. Finally, benefit levels have traditionally been very modest in standard UI programs (generally replacing substantially less than 50% of workers’ wages) and have been only rarely boosted in response to recessions, and even then, only modestly. For example, the American Recovery and Reinvestment Act of 2009 boosted weekly UI benefits by \$25.

### Gauging the need for expanded eligibility

The large pandemic changes to UI eligibility can be seen clearly in **Figure C**, which shows weekly claimants of UI from 1986, with special programs highlighted.

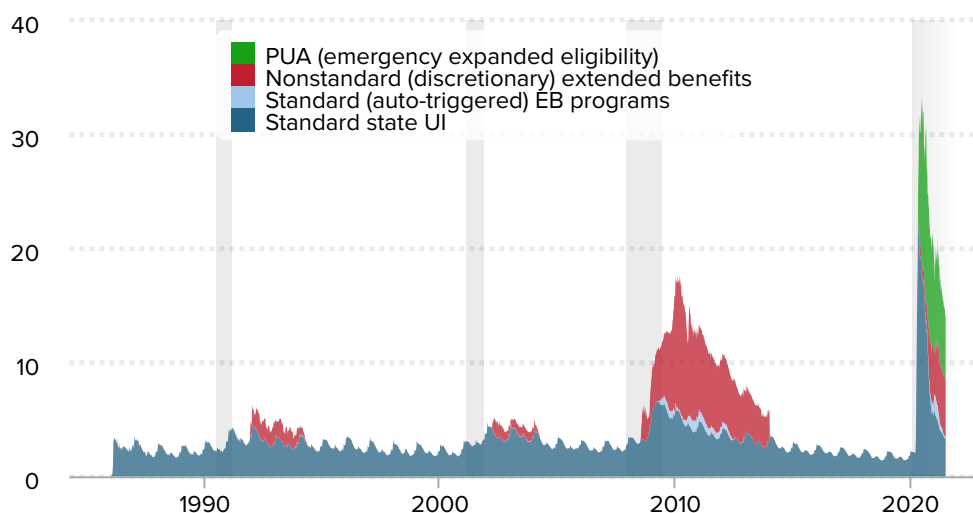
Looking at UI program by claimants tells us a few things, even before we get to issues of eligibility. First, before the 2008–2009 Great Recession, nonstandard UI programs (either EB or EUC) provided only very small shares of total UI coverage. Second, the 2020 COVID-19 recession, in both severity and federal fiscal response, was unprecedented in nature compared with previous downturns since 1986. From 1986 through 2007, weekly claimants never rose above 7 million. While the downturns between 1986 and 2007 were certainly less severe, many potential claimants were likely shut out of UI or undercompensated due to the lack of extended benefits duration and eligibility and lack of expanded benefit amounts.

Crucially for eligibility, the impact of the PUA program (the pandemic program expanding eligibility to workers not traditionally covered by UI) in 2020 and 2021 is striking. With over 30 million claiming unemployment insurance at the height of the downturn, traditional UI declined heavily as a source of UI coverage, falling from 100% of all UI (pre-CARES Act) claims to just 20% by June 2021. At its peak in August 2020, PUA was covering 15 million workers, and made up half of all UI claimants. PUA recipients are generally workers who

Figure C

## The large number of workers getting benefits through temporary pandemic-UI programs shows the weakness of "automatic triggers" in the UI system

Number of weekly UI claims, by program, 1986–2021 (in millions)



**Note:** Emergency programs include the Pandemic Emergency Unemployment Compensation or PEUC program (enacted during the COVID-19 crisis), the Emergency Unemployment Compensation or EUC programs (enacted in the wake of the Great Recession and the recession of the early 1990s), and the Temporary Extended Unemployment Compensation or TEUC programs (enacted in the early 2000s).

**Source:** Authors' analysis of data from U.S. DOL-ETA (2021), updating work from Chodorow-Reich, Coglianesi, and Karabarbounis (2019).

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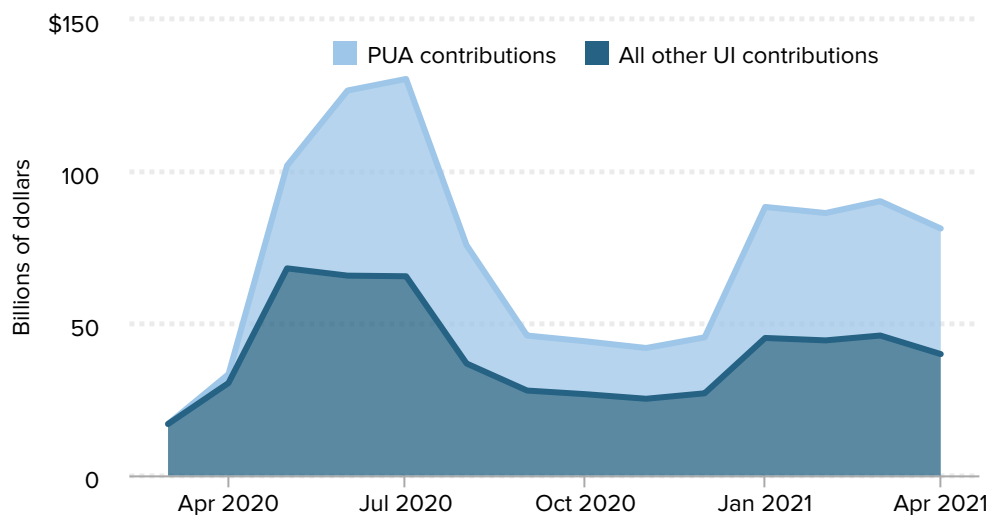
just would not have been covered at all under traditional UI, and who would hence have had no income support to buffer their spending as jobs dried up.

**Figure D** provides another way of highlighting the importance of PUA and the eligibility expansion to macroeconomic stabilization. It shows the total dollar contribution of UI to personal income divided by the unemployment rate. This is a measure of how much UI adds to personal income for each percentage-point increase in the overall unemployment rate.<sup>3</sup> The figure separates out the PUA program contribution from all other UI programs. Within a few months following the CARES Act, non-PUA UI programs were transferring more than \$60 billion into personal incomes per percentage point of measured unemployment, and even as of spring 2021 were transferring more than \$40 billion per percentage point of unemployment. PUA programs, however, were transferring almost exactly as much as non-PUA UI in the summer of 2020 and the winter of 2021, effectively doubling the effectiveness of the entire pandemic UI system. This highlights just how important modernizing the eligibility component could be for boosting the UI system as a macroeconomic stabilizer.<sup>4</sup>

Figure D

## Expanding UI eligibility doubled flows of UI during and after COVID-19 recession

Dollar amount Pandemic Unemployment Assistance (PUA) program and all other UI programs contributed to personal incomes per percentage point of unemployment, March 2020–April 2021



**Note:** We divided the personal income from PUA and non-PUA programs by the monthly unemployment rate from March 2020 to April 2021. We also included in each measure the impact of the PUC program (benefit generosity/extra \$600) as all UI recipients (PUA and non-PUA) would have received this benefit.

**Source:** Bureau of Economic Analysis personal income data (BEA 2021a) and monthly unemployment rate from the Bureau of Labor statistics (BLS 2021a).

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## Gauging the need for benefits that last longer

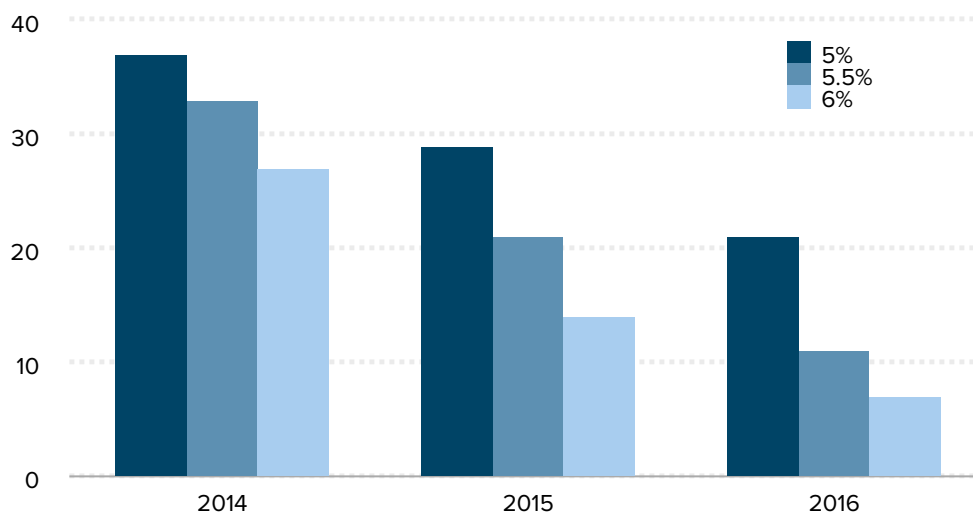
Looking at claimants in the 2008–2009 crisis in Figure C also offers key insights about potential benefit duration (i.e., the maximum number of weeks of UI benefits that applicants meeting the criteria could obtain). First, extended programs have provided some nontrivial expansions of UI coverage in the past. At its peak in 2010, the EUC program enrolled an average of 4.6 million workers (the EUC program is reflected in the Nonstandard (discretionary) federal programs stack in Figure C). However, a sharp cutoff of the EUC program in 2014 is clearly visible as well—this cutoff, which happened due to congressional whim rather than any serious assessment of labor market health—occurred with the unemployment rate still over 7%, a higher level than occurred at any point during the labor market recession of 2001–2003. This 2014 cutoff likely had serious effects on the pace of recovery in subsequent years (Shierholz and Mishel 2013).

One reason why the EUC program was so important was because the automatic state-administered EB programs were so flawed, and many states saw the EB benefits trigger-off even at quite-high unemployment rates. In Figure C, this can be seen in how small EB enrollments were relative to EUC in the pre-2014 years of the recession and recovery.

Figure E

## Congressional decisions after the Great Recession led to cutoffs of UI aid with unemployment still elevated

Number of states that did not but would have offered extended potential benefit durations to unemployed workers whose benefits triggered off only when unemployment fell to 6%, 5.5% and 5% triggers.



**Note:** We examined how many states had unemployment rates higher than potential “trigger-off” thresholds of 5%, 5.5%, and 6% for the extended benefits durations.

**Source:** State unemployment rate data from the Bureau of Labor Statistics (BLS 2021a).

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Despite its importance, the EUC program was cut off too early, depriving workers of benefits they would have gotten were the UI program designed to extend benefits while the labor market is still in serious distress. **Figure E** demonstrates just how premature the 2014 cutoff of EUC was by showing how many states would have allowed workers access to extended potential benefit durations if these extended benefits triggered off only when the state unemployment rate fell to 6%, 5.5%, or 5%.

The results are striking. By January 2014, EB programs had all triggered off and the EUC program had lapsed. In 2014, workers in 37 states would have been able to access extended benefit durations if 5% was the benchmark for triggering-off these provisions, and 27 states would have kept extended benefits available to unemployed workers even with a 6% benchmark. Even in 2016, a 5% benchmark would have allowed 21 states to continue offering extended benefits, with seven states keeping them with a 6% benchmark.

## Gauging the need for higher benefit levels

Perhaps the most well-known changes to UI made during the pandemic concerned the level of benefits. The FPUC program within the CARES Act provided a \$600 boost to

weekly benefits. The \$600 figure was chosen to ensure at least 100% wage replacement for essentially all workers. This high replacement ratio arguably made economic sense in this context. During the peak spread of the virus in 2020, it was essential from a public health standpoint that people *not* work in person; non-employment was actually a policy goal during this brief period and hence any moral hazard concerns regarding the effect of UI reciprocity on incentives to search for jobs were rightly considered insignificant. The original \$600 boost was cut off in August 2020. In January 2021, a \$300 boost provided by congressional appropriators in December 2020 was codified in the American Rescue Plan. In July and August, a number of states chose to end the PUC programs early. By early September all pandemic UI programs had lapsed, and as of early October, prospects for any resuscitation of these programs seem extremely remote.

There is no evidence the original \$600 top-up in additional UI benefits throttled economic recovery, as the extraordinarily rapid bounceback from the first wave of COVID-19 shutdowns began *before* the \$600 benefit expired in summer 2020. Additionally, significant economic research has emerged showing that states that cut off the \$300 boost early, claiming that it dissuaded job search activity, have not seen sustained job growth or hiring either. Knowing that the benefit expansions did not cut off economic recovery can inform UI reforms that incorporate large benefit extensions for future downturns.

## **Parsing out how expanded benefits eligibility, duration, and levels contributed to stabilizing the pandemic economy**

All three pandemic UI programs and the expansions they provided along crucial margins—PEUC (duration), PUC (generosity), and PUA (eligibility)—boosted the income support provided by UI enormously. **Figure F** shows the relative contribution of each pandemic UI program to wage and salary income since March 2020.

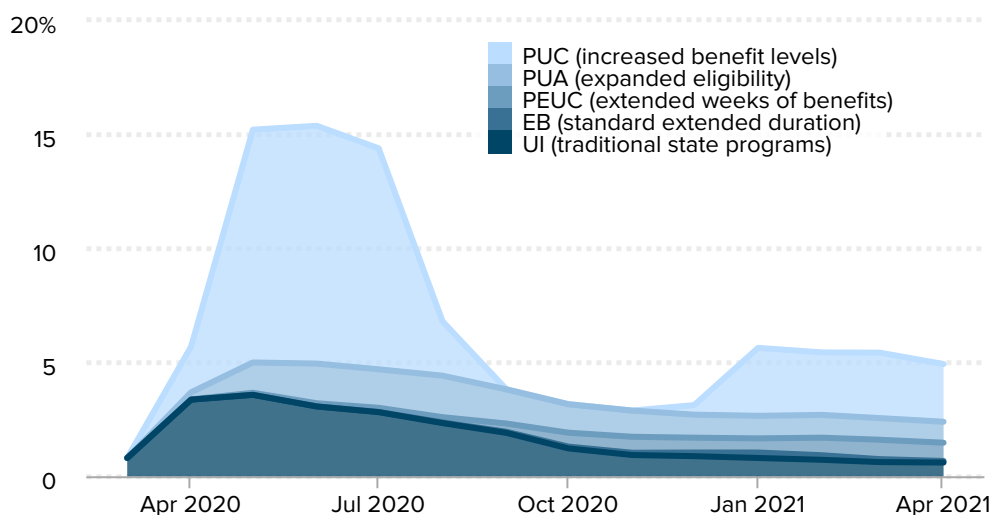
We can see the efficacy of the three programs in tandem as well as the dramatic impact of letting the \$600 weekly PUC program expire in summer 2020 and resume at a lower level in 2021. While the impact of PUA (expanded eligibility) is relatively steady throughout 2020 and 2021, the importance of PEUC (additional weeks) appears only from October 2020 onward as more claimants exhausted other UI options and the number of long-term unemployed persons increased. The extended duration of the PEUC program also made a larger impact than the EB program, which shows a much smaller contribution to income in late 2020 and 2021. As shown before in Figures A and B, the cumulative impact of these programs was huge, and each program provided a crucial role.

These dramatic expansions and their salutary macroeconomic effect should inform policymakers as they ponder long-term reforms to the nation's UI system.

Figure F

## UI enhancements to eligibility, benefits levels, and duration worked in tandem to boost incomes during the COVID-19 shock

Boost to wage and salary income provided by various pandemic UI programs



**Note:** To capture how much the traditional state UI programs boosted income (darkest shading), we subtract from overall UI the contributions of the EB, PEUC, PUA, and PUC programs. We calculate the proportion of total wage and salary income that comes from income from each program.

**Source:** Overall UI and personal income data from Bureau of Economic Analysis (BEA 2021b). Specific pandemic program data from BEA 2021a.

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## Issues in assessing the likely 10-year fiscal costs of UI reforms

The UI system’s weaknesses as a macroeconomic stabilizer have been known for some time—and were particularly apparent during the long and slow recovery following the Great Recession. There are likely many political reasons why these weaknesses have not been addressed—many not unique to UI and likely related to why the U.S. has such a small fiscal footprint across-the-board. But some oddities in how the fiscal cost of these reforms might be scored add to the difficulties of reform.

Policy efforts to make automatic stabilizers like the UI system more responsive and more effective in supporting aggregate demand during economic downturns suffer greatly from a problem of timing inconsistency—the minds of the public and policymakers are focused on this need most when undertaking a permanent reform will look expensive as scored by the Congressional Budget Office (CBO). As explained below, reform will only look substantially cheaper in CBO scores precisely when the need for reform seems less urgent (during expansionary periods).

House Speaker Nancy Pelosi summarized the issue when asked why Congress had not taken up permanent reform to the UI system as part of efforts to respond to the economic shock caused by COVID-19.

“At a May 14 press conference, House Speaker Nancy Pelosi laid it out. ‘I’m a big supporter of having stabilizers in the bill,’ she said. She blamed their absence on the Congressional Budget Office (CBO), which estimates the costs of legislation, because under CBO’s rules, the likely cost of the stabilizers ‘counts in the bill today.’” (Klein 2020)

The reason for this time-inconsistency issue is straightforward: the CBO essentially assumes the economy moves from its current state of slack (weak economic demand and weak demand for labor) to a state of full employment within a few years, and that developments four years or more out cannot be precisely forecast. In practice, this means if the economy is *currently* experiencing high unemployment and a permanent reform to the UI system was proposed, the CBO would (sensibly) forecast unemployment to be elevated for the next few years before settling down closer to full employment. In these first few years with elevated unemployment, a substantially more-generous UI system would be scored as being quite expensive in the short-run as many unemployed workers would be drawing benefits. Conversely, if the economy were currently experiencing quite low unemployment and a permanent reform of UI was proposed, the CBO would forecast low unemployment over the entire 10-year budget window, having no real capacity to forecast otherwise more than a few years down the road. A low unemployment rate over the entire 10-year budget window would in turn make reforms to UI look significantly cheaper when implemented in this hypothetical low-unemployment year than if implemented during a recession.

Of course, it should be noted that when the national unemployment rate rises during and after recessions, Congress has tended to do something to boost the generosity of the UI system, even with no “automatic” spending that the CBO could reliably put into a budget forecast. Further, these *ad hoc* UI enhancements (longer benefit durations generally, along with an occasional small boost to weekly benefits) have added to federal spending. So the refusal to pass a permanent change to UI during recessions makes little sense in real-world fiscal terms: Automatic or not, UI spending rises during recessions, regardless of what the CBO has previously forecast for such spending. Any reluctance to undertake *structural* reform to automatic triggers during times of labor market distress really seems to be a case where costs *forecast* by the CBO are somehow more daunting to policymakers than costs accompanying the passage of real-time legislation during recessions.

## Would the CBO score UI reform as “free” if undertaken during an expansion?

It is not quite the case that a structural reform to UI that increased UI payments during labor market downturns would be forecast as essentially free by the CBO if scored when

unemployment was low. The CBO has little basis to forecast the *timing* of recessions outside of the next year or two, but it does (sensibly) recognize that recessions are likely to occur in any such 10-year window.

Consider, for example, a scenario in which the unemployment rate is 4.5% in the current year and a UI reform is proposed that only provides higher levels of UI funding (longer durations or more-generous benefits) if the unemployment rate rises above 5.5%. In this situation, the baseline CBO forecast will show essentially constant 4.5% unemployment over the next 10 years. But the CBO will draw on historical experience to estimate a probability that unemployment will rise over 5.5% for a given period of time over that window. In a paper explaining this process, the CBO refers to this as “estimating the costs of one-sided bets.”<sup>5</sup>

In practice, if a UI reform that contained the elements we highlighted above were passed today, the CBO score of its cost over the next 10 years would likely add up its “normal” cost (cost increases during time when the national unemployment rate was below any “trigger”) and then would add on the expected value of recession-driven costs. The rest of this section aims to provide a very rough estimate of how these issues would be estimated in the context of ambitious UI reforms.

## What would UI expansions along all three margins cost?

The rest of this section addresses these questions of a UI reform’s fiscal cost and how a reform package might be scored by the CBO. For an archetype reform, we look at the budgetary cost of a reform that makes the following changes:

- doubles UI reciprocity rates (share of unemployment workers receiving UI benefits) during times of non-elevated unemployment
- increases UI benefit levels by a factor of 1.75
- provides for automatic triggering of extended potential benefit durations during times of high unemployment, with the longest maximum potential benefit duration rising to 95 weeks when unemployment hits 10%
- boosts benefit levels during recessions by an average of \$100 per week (over already-augmented benefit levels in normal economic times). These reforms are very roughly in line with a set of reforms suggested by Dube (2021) and Bivens et al. (2021).

These parameters are slightly more generous than those suggested in a recent policy white paper released by the offices of Sens. Ron Wyden (D-Ore.) and Michael Bennet (D-Colo.).



## Likely budgetary costs of making UI a more effective macroeconomic stabilizer

Rough budgetary costs for the first two margins—expanded eligibility and more-generous normal benefit levels (bullets one and two above)—are relatively straightforward to calculate for periods of low unemployment (i.e., before any recession-driven triggers kick-in). However, assessing the cost of longer potential benefit durations and increases in benefit generosity that rise as labor market conditions deteriorate (bullets three and four) requires drawing on others’ research.

### Costs of expanded eligibility and increased standard benefit levels

A number of UI reform proposals (Dube 2021 and Bivens et al. 2021) include measures both to expand eligibility and to raise benefit levels even during periods of low unemployment. To get a very rough estimate of the budgetary cost of proposals like this, we can look at average UI spending between 2016 and 2019 and then adjust it for a counterfactual where eligibility requirements were expanded such that the reciprocity rate doubled, and where there was an across-the-board increase in benefit levels.

**Table 1** provides most of the information needed for this calculation. It shows that in 2016–2019, the unemployment rate averaged 4.2%, and average spending on UI was \$29.6 billion annually. The reciprocity rate averaged 27.3% and the average replacement rate for benefits was 39.2%. If the reciprocity rate doubled and replacement rates increased by a factor of 1.75 (from 39.2% to 68.6%), then spending would increase an estimated \$36.3 billion in those years (\$65.9 billion minus \$29.6 billion), or, roughly 0.15% of gross domestic product.

### Adding the costs of automatic expansion of potential benefit durations and higher weekly benefits during labor market recessions

Assessing costs for new parameters that depend upon the state of the business cycle is a much more complicated task. Luckily, Chodorow-Reich and Coglianesse (2019) have done extensive work in simulating how the cost of various UI reform proposals would vary depending on the severity and length of potential recessions. **Table 2** uses their findings as a baseline to assess costs of the UI reform outlined in the four bullets earlier, but then shows how the probability of recession affects these costs. A fuller explanation of how we derived costs in this table is provided in the appendix.

The first row of Table 2 simply shows the 10-year cost of current law regarding UI and the 10-year cost of the reform detailed above if no recession occurs over those 10 years. We include two columns for the “current law” estimate because we assess this cost under two assumptions: that Congress passes no emergency boost to UI during recessions, or that Congress provides the same emergency boost that it has typically legislated in past recessions. In the first row, because no recession is assumed, these costs are identical in the two “current law” scenarios. The cost under reform starts from the \$65.9 billion cost estimated in Table 1 for the first year, and then accounts for inflation and labor force

Table 1

## Costs of UI eligibility and standard benefit levels now and under reform

	2016–2019, actual	Archetype reform	Difference between actual and reform
<i>Unemployment rate</i>	4.2%	–	-4.2%
<i>Reciency rate</i>	27.3%	54.5%	27.2%
<i>Replacement rate</i>	39.2%	68.6%	39.4%
<i>Annual UI spending in billions</i>	\$29.6	\$65.9	\$36.3

**Note:** The Department of Labor Employment and Training Administration (U.S. DOL-ETA 2021) defines the UI reciprocity rate as the percentage of total unemployed who are receiving UI (insured unemployed/total unemployed). The replacement rate is the ratio of UI claimants' weekly benefit amount to claimants' average weekly wage.

**Sources:** The unemployment rate is obtained from the Bureau of Labor Statistics (2021b), the reciprocity rate and the replacement are both obtained from the Department of Labor Employment and Training Administration (U.S. DOL-ETA 2021), and annual UI spending is obtained from the Bureau of Economic Analysis (BEA 2021b).

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growth.

The next two rows provide estimates of the incremental 10-year UI costs spurred by either a mild or severe recession. Under current law, assuming no discretionary response from Congress, the incremental cost is driven by the fact that the federal government finances half of the extended benefit (EB) programs that trigger-on at the state level when unemployment rises.

For a severe recession, we assess the costs of current law assuming a discretionary response by applying the incremental boost to UI spending provided between 2008 and 2013—the period of labor market distress caused by the Great Recession. For the mild recession, we mark-down the spending in the severe recession by 45%, a ratio we obtain from the Chodorow-Reich and Coglianesse (2019) estimates of UI costs during recessions of different intensity. Finally, for the incremental cost of recession under reform, we take the Chodorow-Reich and Coglianesse (2019) estimate of their proposed reforms and wedge them up to reflect the increased costs of the archetype 2021 reform relative to their proposals. For example, their reform calls for a \$50 per week increase in benefit levels during recessions, but our enhancements call for an average increase of \$100 during recessions (over already-augmented benefit levels in normal economic times). Accordingly, we double their estimate of the cost of a benefit increase during mild or severe recessions.

Over the next 10 years, assuming no recession, UI spending would be \$330 billion under current law, but would rise to \$690 billion under our reform. In the case of a mild recession

Table 2

## Accounting for potential recessions in the cost of UI reform

Costs under current law and under archetypal reforms (in billions\$)

	Under current law		Under reform
	No emergency response to recession	Emergency response to recession	Archetypal 2021 reforms
<b>Baseline, no recession cost</b>	\$330.0	\$330.0	\$690.0
<b>Additional costs imposed by recession that is:</b>			
<b>Mild</b>	\$43.6	\$217.7	\$234.1
<b>Severe</b>	\$78.5	\$392.0	\$893.2
<b>Total cost</b>			
<b>Annualized, factoring in recession probability</b>	\$37.1	\$53.3	\$106.6

**Note:** See the appendix on how the cost estimates in this table are constructed.

**Sources:** The unemployment rate is obtained from the Bureau of Labor Statistics (2021b), the reciprocity rate and the replacement are both obtained from the Department of Labor Employment and Training Administration (U.S. DOL-ETA 2021), and annual UI spending is obtained from the Bureau of Economic Analysis (BEA 2021b); estimates of costs during recessions are from Chodorow-Reich and Coglianesi 2019.

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at some point during the decade, under current law and with no discretionary action from Congress, UI spending would be \$373.6 billion over the next 10 years (\$330.0 billion plus the incremental cost of recessions of \$43.6 billion shown in Table 2). Under current law but with discretionary actions by Congress similar to past recessions, UI spending would be \$547.7 billion over the next 10 years if there were a mild recession during that period. Under our archetype reforms, spending over the next 10 years would be \$924.1 billion over the next 10 years if there were a mild recession during that period.

The last row translates these scenarios to an average annualized cost over the next decade when factoring in the 1-in-3 chance that the economy experiences no recession, the 1-in-3 chance that it goes through a mild recession, and the 1-in-3 chance it suffers a severe recession over the next 10 years. Under current law but assuming no emergency spending measures enacted by Congress during recessions, average annual costs would be \$37.1 billion for the next decade. Under current law but assuming Congress acts as it has in the (pre-COVID-19) past during recessions, average annual costs would be \$53.3 billion. Under the archetype reforms outlined earlier (doubled UI reciprocity rates and almost doubled benefit levels during times of non-elevated unemployment, maximum potential benefit duration rising to 95 weeks when unemployment hits 10%, and an additional \$100 per week boost to benefit levels during recessions), average annual costs

would be \$106.6 billion.

## Conclusion

In previous economic downturns, benefits paid out under the current unemployment insurance system provided only modest boosts to aggregate demand, and thus has had a limited role as an automatic stabilizer. However, the pandemic UI programs greatly boosted the contribution that UI benefits made to personal income. These programs enhanced the UI system's effectiveness in boosting personal income along three crucial margins: expanding eligibility to more workers, extending the potential number of weeks that eligible workers could claim benefits, and increased benefit levels. Policymakers going forward should examine this episode closely to see how eligibility, benefit levels and duration enhancements could be part of a structural reform of the UI system to make UI a more effective macroeconomic stabilizer.

## Appendix: Table 1 and 2 methodology

The first column of Table 1 reports the average values over 2016–2019 for the unemployment rate, the share of unemployed workers receiving UI benefits (the reciprocity rate), the average share of wages replaced by UI benefits (the replacement rate), and annual UI spending (in billions of dollars). Between 2016 and 2019, overall unemployment was low by historical standards, so the annual UI spending can be interpreted as what could be expected in years when the labor market is not seriously damaged by current or recent recessions.

The next column shows what the reciprocity rate, the replacement rate, and average annual spending would have been in those years if the broad reforms described in the paper were made. Note that in practice this means what the rates and spending would be under implementation of the two of the four broad reforms that have to do with eligibility and benefits levels during standard times. The table assumes reforms that would boost reciprocity during nonrecessionary times by 100% (pushing the reciprocity rate to 54.5%) and would boost the replacement rate of UI benefits by 75% (boosting the replacement rate to 68.6%). Given more people collecting higher benefits, annual UI spending would more than double, rising from just under \$30 billion to almost \$66 billion.

We use these numbers as inputs for the calculations made in Table 2, which shows in very broad strokes how the CBO might be likely to score large reforms to UI. The first row of Table 2 shows the likely 10-year cost of UI spending under current law and under the reform if no recession occurs over the 10-year window. The current law trajectory includes two different scenarios: one where Congress provides no emergency response to a recession with discretionary spending measures, and one in which Congress provides a discretionary response that is similar to the congressional response to past recessions. This second scenario is necessary for a realistic assessment of the incremental cost of UI

reform that strengthens the system’s automatic response to recessions. In the absence of automatic change in UI parameters, the realistic alternative is not no change at all to UI during recessions—Congress routinely steps in and provides some extra boost to UI during recession (even if this discretionary boost is often insufficient and too short-lived).

The next two rows in Table 2 show the incremental cost over and above the “no recession” scenario that would be imposed by a severe or mild recession. Under this scenario, the two additional reform measures outlined in our report (maximum potential benefit duration rising to 95 weeks when unemployment hits 10%, and an additional \$100 per week boost to benefit levels during recessions) would kick in. To assess the costs of these reforms, we draw on calculations in Table 2 of Chodorow-Reich and Coglianesse (2019), who assess the incremental costs of current UI law under a range of recessionary scenarios. They then assume three UI reforms which are largely in line with our reforms. We use the ratio of their reform costs to current law costs in recessionary scenarios as a “multiplier” to apply to our own reform costs during recessions. Further, when our reforms are more expensive than the Chodorow-Reich and Coglianesse reforms, we inflate estimates of our reforms appropriately. For example, Chodorow-Reich and Coglianesse (2019) call for a \$50 weekly supplement to UI during recessions, while under our reform the boost would be \$100 a week. Similarly, because our reforms call for modestly longer potential benefit durations during recessions than do Chodorow-Reich and Coglianesse, we boost the estimated costs of these by 20% relative to their estimates.<sup>6</sup>

Finally, the last row calculates the annualized cost of each of the three policy regimes: current law with no emergency or discretionary response, current law with emergency response during recessions, and the archetypal reform outlined in our report. To calculate these annualized costs we assume there is a one-third probability each of: no recession during the next 10 years, a mild recession during that time, or a severe recession. Under the current-law no-emergency response policy scenario, annualized UI costs would average \$37.1 billion each year over the next decade. Under the current-law, emergency response scenario, these costs would rise to \$53.3 billion annually. Finally, under the enhancements outlined in this report, the costs of UI would average just under \$107 billion annually.

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## Endnotes

1. We say “potential” stabilizing role because the large UI expansions in the CARES Act were not entirely meant to stabilize macroeconomic measures like GDP. In most recessions, a prime goal of expanding UI would be precisely to stimulate economic activity. But in a pandemic-driven

recession where much economic activity was shut down due to public health concerns, the primary role of UI was social insurance and redistribution. That said, the very rapid bounceback of economic activity after the first wave of pandemic shutdowns was certainly aided by the income boost provided by the CARES Act UI expansions—and that is true for the rapid bounceback of activity so far in 2021, following the UI expansions in the American Rescue Plan (ARP).

2. A small share of the drop-off after July is due to improving labor market conditions.
3. This measure allows us to get a measure of UI generosity by controlling for the fact that UI mechanically rises as the unemployment rate rises.
4. Alongside independent contractors and gig workers, the PUA program also expanded eligibility to those who were unemployed or unable to work due to COVID-19, including caring for someone with the virus, providing care to a child or family member whose school or care facility was closed, or refusing to work in an unsafe work environment. This array of eligibility extensions meant that a not-insignificant share of PUA recipients were those who quit their jobs due to fear of the virus, contagion, and unsafe work conditions or who left the workforce due to school closures and lack of affordable and safe child care. These eligibility criteria were specifically included due to the particular nature of the public health crisis directly impacting employment. Future UI reform programs expanding eligibility will very likely not contain such broad eligibility conditions. Therefore, we would not expect structural UI reform at the federal level to boost eligibility as much as the 2020 PUA program. Unfortunately, specific recipient and eligibility breakdowns within the pandemic UI programs are not available. While the U.S. Department of Labor compiles the aggregate PUA figures, more specific tracking within programs has not been possible, partially due to state administering of UI and variance of reporting requirements, as well as the state administrative burden of implementing the pandemic programs.
5. The “natural rate” of unemployment is the rate below which further increases in economywide spending will mostly lead to accelerating inflation rather than greater output. In a well-managed macroeconomy, any time spent 1% over the economy’s natural unemployment rate should be matched by an equivalent amount of time spent 1% below the economy’s natural unemployment rate. But, because in most proposed reforms UI benefits do not get cheaper or less expansive as the unemployment rate falls beneath the natural rate, this does not provide one-for-one countervailing savings that cancel out the fiscal effect of UI benefit expansions that kick in as unemployment rises.
6. This 20% is likely an overestimate. Chodorow-Reich and Coglianesse (2019) show that potential benefit durations of over 46 weeks did very little to boost overall UI spending during the Great Recession.

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