Unemployment Insurance (UI) During the Pandemic

• Typical unemployment benefits replace a fraction of lost earnings (~30%-50%)

• In response to pandemic/shutdowns, UI benefits increased by $600/week until July 31
  • $600 does not depend on lost earnings (administrative constraints)
  • $600 + regular state benefits roughly replace average wage

• Using micro data, look at distribution of benefits
  • Find most workers have replacement rates well over 100%
• Very progressive, lowest wage workers get biggest boost:
  • Because have low wages relative to $600
Early empirical evidence suggests limited labor supply effects
  - Altonji et al, Bartik et al, Tedeschi, Dube
  - Caveat: aggregate effects harder to measure than micro effects

Surprising?

FPUC was temporary:
  - Short-term benefit > wage doesn’t necessarily imply long-term value of unemployment > value of job (see Petrosky-Nadeau estimates)

Lots of labor market slack
  - Marinescu et al: Some effect on applications, but application-to-vacancy ratios up dramatically even for occupation-states w/ highest replacement rates
  - Argument for tying benefit levels to economic conditions
Of course, UI matters for more than just labor supply

UI can support spending of vulnerable households, in turn prevent e.g. eviction, foreclosure, etc.

Can also potentially raise effective productivity and encourage job creation through this demand channel instead of by decreasing labor cost (e.g. Huo and Rios-Rull)

So how does UI in pandemic affect spending?

Farrell, Ganong, Greig, Liebeskind, Noel and Vavra (2020) use JPMCI administrative account data to measure spending response to benefit receipt in pandemic
Spending Falls at the Start of Unemployment and Rises When Benefit Payments Begin

Notes: This figure shows the change in spending year-over-year around the start of unemployment benefits. The x-axis shows the number of weeks since the first benefit payment. The treatment group receives benefits beginning in April. The control group is employed workers. The y-axis is normalized to one at six weeks prior to the first benefit payment. Source: JPMorgan Chase Institute.
• MPC (of account outflows) of 0.73
• Super simple back-of-the-envelope scaling by total unemployed

Source: calculations based on Farrell, Ganong, Greig, Liebeskind, Noel, and Vavra (2020)
Ongoing status of supplements uncertain: delays are costly

Unemployment Without Benefits Causes Large Spending Declines

Notes: This figure shows an index of the spending of unemployed workers relative to employed workers for three separate cohorts of families who first received their benefits on March 29, April 26, or May 24 and experienced job loss in late March or early April. The y-axis is normalized to one for the week beginning on February 2. Source: JPMorgan Chase Institute.