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June 24, 2022

How Did COVID-19 Unemployment Insurance Benefits Impact Consumer Spending and Employment?

The COVID-19 pandemic dramatically disrupted the economy with mass layoffs and business closures. The economy was shocked with stay-at-home and shutdown orders designed to limit person-to-person contact. These restrictions on the flow of labor and commerce reduced economic demand. They also increased the number of workers unable to work. Additionally, the increased workplace hazards created by the COVID-19 pandemic further limited certain jobseekers' options for employment, creating unusual shifts in the labor market. Congress recognized the potential threat that such massive earnings losses posed to the national and global economy and responded by augmenting the joint federal-state Unemployment Insurance (UI) system to maintain the economy, among many other measures that provided income support. Recent studies have examined the impact of these UI expansions on consumer spending and employment.

UI Benefits During the Pandemic

Congress enacted key changes in the UI system in response to the high levels of unemployment resulting from the COVID-19 pandemic and recession (February 2020 through March 2020). Typically, the UI system provides income support to unemployed workers through weekly benefit payments. UI payments help (1) provide temporary partial wage replacement to involuntarily unemployed workers and (2) stabilize the economy during recessions. Permanent-law UI programs—Unemployment Compensation (UC) and Extended Benefits (EB)—automatically respond to layoffs and business closures. However, unprecedented job loss during the COVID-19 pandemic prompted Congress to enact a series of extraordinary measures: Federal Pandemic Unemployment Compensation (FPUC), Pandemic Emergency Unemployment Compensation (PEUC), and Pandemic Unemployment Assistance (PUA).

These UI measures helped to maintain consumer spending and stabilize the economy during this period. PEUC was similar to congressional actions taken in previous recessions as it extended the availability of regular UC benefits (available for up to 26 weeks) for up to an additional 49 weeks. However, two of these interventions, FPUC and PUA, were unprecedented when compared to responses during previous recessions.

- FPUC provided a weekly supplement on top of all UI benefits. FPUC provided a $600 weekly supplement between April and July 2020 and was reauthorized at $300 weekly from January 2021 through the beginning of September 2021. FPUC payments from April 2020 through September 6, 2021, totaled $442.3 billion.
- PUA uniquely expanded the population eligible for UI to include the self-employed, gig workers, and others not previously eligible for UI or those unable to work for certain COVID-19-related reasons. PUA payments totaled $131.2 billion.

Research on the COVID-19 UI Benefits

An emerging research literature leverages new and rich sources of data to examine both (1) the role that COVID-19 UI benefits—particularly FPUC and PUA—played in boosting spending and consumption in U.S. households that experienced unemployment and (2) whether the supplemental UI benefits decreased the likelihood that unemployed workers found work.

A strength of recent studies is their use of new sources of data to evaluate UI impacts, particularly on personal consumption patterns. Measuring the personal consumption response to government programs is traditionally challenging. Data on consumption are scarce and often contain significant measurement error, which makes statistical inference difficult and imprecise. The research discussed below, however, benefits from new proprietary data sources that harness anonymized bank account and lending data to provide weekly information on income, spending, and employment. Additionally, the research uses another new source of household level data: the Household Pulse Survey, an experimental weekly survey conducted by the Census Bureau in collaboration with several federal agencies that includes information on individuals' employment status, spending patterns, food security, housing, physical and mental health, access to health care, and application for and receipt of benefits. Some studies of employment effects are also strengthened by the ability to analyze job applications to an online jobs platform.

However, research findings related to the impact of the COVID-19 UI benefits may not be generalizable to other periods or labor market conditions. The COVID-19 recession was created by an abrupt, exogenous shock attributed to public health and safety concerns rather than a series of economic stresses, which are associated with a more typical recession. Additionally, the federal response to the pandemic included several other forms of assistance to employers and employees—such as the Payment Protection Program, the Employee Retention Tax Credit, and Economic Impact Payments to households—that may also have affected personal consumption and the incentives for employment. COVID-19-specific factors, such as the availability (or scarcity) of vaccines, childcare, and in-person school, may have also contributed to unusual patterns in returning to work during this period.

Consumer Spending and COVID-19 UI Payments

One of the primary objectives of UI is to alleviate the hardships that result from loss of wages during unemployment. Typically, UI benefits replace up to 50% of previous earnings, temporarily supporting workers' basic needs, but UI benefit recipients' expenditures are often lower than when they were employed. Without UI, the unemployed are more likely to report that they are experiencing food and housing insecurity and are more likely to exhaust personal savings, sell assets, draw upon retirement savings, and further reduce expenditures. Using a range of data sources, recent studies indicate that COVID-19 UI payments played a key role in supporting consumption and general economic security of households.

Using Household Pulse Survey data, Carey et al. (2021) found that unemployed individuals who did not receive UI benefits were more likely (than those who received UI) to report food insecurity, housing insecurity, and difficulty in meeting household expenses. A working paper by Ganong et al. (2021) using bank account data found that once COVID-19 UI payments were deposited into workers' accounts, spending immediately rebounded at or above pre-unemployment levels (a result that is in contrast to generally suppressed consumption patterns in previous recessions). Holzer et al. (2021) found that, in states that terminated FPUC and PUA early, the unemployed were five percentage points more likely to report difficulty paying for expenses than in states that continued the benefits. Similarly, Coombs et al. (2021) used payday loan data to examine consumption patterns of low-income individuals who were receiving COVID-19 UI benefits immediately before early state terminations of these benefits. These researchers found that the loss of benefits led to an average 20% reduction in consumption.

UI and Disincentives to Work

The timing, generosity, and duration of UI benefits can influence job search behavior of the unemployed. There is existing evidence that higher benefit levels and lower thresholds for benefit eligibility can cause recipients to be less willing to accept a job (and thus increase spells of unemployment). However, previous economic research generally found that the employment disincentive effect of UI during recessionary periods is relatively small, as job openings are limited; thus, UI income is not a particularly large contributor to high unemployment rates.

During the COVID-19 pandemic response, weekly UI benefits often provided significantly higher levels of income replacement compared to previous recessions. Ganong et al. (2020) estimated that from April to July 2020, the combination of the $600 weekly FPUC supplement plus the regular UI payment replaced more than 100% of pre-pandemic earnings for more than 75% of UI beneficiaries. The estimated replacement rate for workers receiving the $600 FPUC varied significantly, with a median replacement rate of 145% and a median replacement rate of over 300% for UI beneficiaries with the lowest 10% of earnings. These changes (if implemented during a typical recession) would have been expected to substantially dampen the incentive for workers to find employment.

While the recent research studies did find that the expanded UI benefits had disincentive effects on working, the impact was smaller than expected when compared to estimates based upon models from prior recessions and non-recessionary periods. Marinescu et al. (2021) reported that although the weekly $600 FPUC substantially decreased applications to an online jobs platform, labor demand was unusually depressed, and thus FPUC had little impact on employment levels. Similarly, Ganong et al. (2021), using bank account data, found a smaller negative impact on employment than expected. They observed that a high level of employees being recalled to work by their former employers helped reduce the disincentive effects of the $600 FPUC payment on employment. Furthermore, they found that after the $600 payments ended, most individuals did not exit unemployment despite a precipitous drop in their weekly income, suggesting that other factors were impeding employment. Coombs et al. (2021) found that it was the termination of the underlying UI benefit rather than the loss of the $300 FPUC payment that increased the likelihood of reemployment. Greig et al. (2021) found that PUA recipients were younger, had lower income, and were more likely to have worked in non-traditional jobs or self-employment but had similar reemployment responses to those receiving regular UC benefits.

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IF12143

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