Early Withdrawal of Pandemic Unemployment Insurance

Effects on Earnings, Employment, and Consumption of Low-Income Unemployed Workers

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Unemployment Insurance in the pandemic: an unprecedented expansion

The CARES Act, passed in March 2020, expanded unemployment benefits

- **Intensive margin:** FPUC provided $600 supplement to UI benefits
  - Raised replacement rates >100% (Ganong, Noel and Vavra 2020)
  - Expired in August 2020, replaced by $300 supplement in January 2021
- **Extensive margin:** expanded UI eligibility and extended benefit length
  - PUA expands eligibility to self-employed, gig workers, low earners
  - PEUC extends eligibility for (up to) additional 59 weeks through September 5, 2021

Early withdrawals of pandemic unemployment insurance

Following a weak jobs report in May 2021 and reports of widespread vacancies, 22 states ended supplemental pandemic UI benefits in June 2021.

Ending June 12

Alaska
Iowa
Missouri
Mississippi

Ending June 19

Alabama
Idaho
~~Indiana~~
North Dakota
Nebraska
New Hampshire
West Virginia
Wyoming

Ending June 26

Arkansas
Florida
Georgia
Montana
Ohio
~~Oklahoma~~
South Carolina
South Dakota
Texas
Utah

20 of 22 states ending pandemic unemployment benefits in June are in our sample.

Retaining Benefits

~~California~~
Colorado
Connecticut
DC
Delaware
Hawaii
Illinois
Kansas
Kentucky
Massachusetts
Maine
Michigan
Minnesota
North Carolina
New Jersey
New Mexico
~~Nevada~~
New York
Oregon
Pennsylvania
Rhode Island
Virginia
Vermont
Washington
Wisconsin

23 of 25 states + DC retaining pandemic unemployment benefits are in our sample.

How did the withdrawal of pandemic unemployment insurance affect workers?

Use anonymized banking data from Earnin, a financial services company.

- This is a sample of low-income workers with low access to credit
- Total of 1.3M active account holders in April 2021

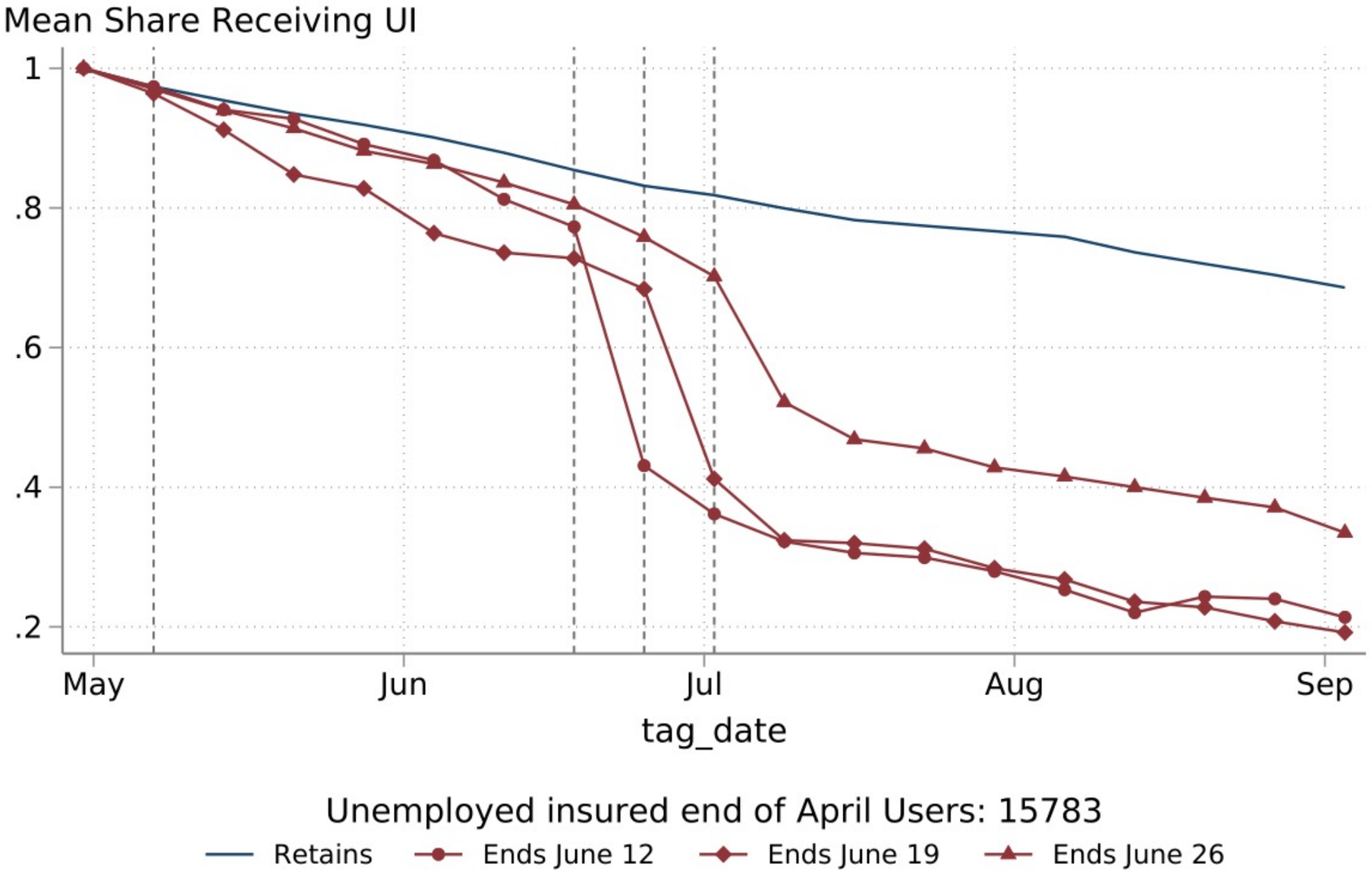
Examine **unemployment benefits, employment, income and spending.**

- Sample: **15,783 workers** receiving UI benefits *and* not employed in the last week of April

Treated: workers in 20 states ending pandemic UI in June

Comparison: workers in 23 states continuing pandemic UI until Sept expiration

Observed unemployment benefit declines in the precise week benefits are withdrawn



Regression Specification: difference in differences

We estimate the following regression equation:

$$y_{it} = \sum_{k \neq April30} \beta_t \left(I_{t=k} \times Withdraw_i \right) + \gamma_i + \nu_t + \epsilon_{it}$$

Difference in Evolution of Withdrawal States

Person Fixed Effects

Week Fixed Effects

Regression Specification: difference in differences

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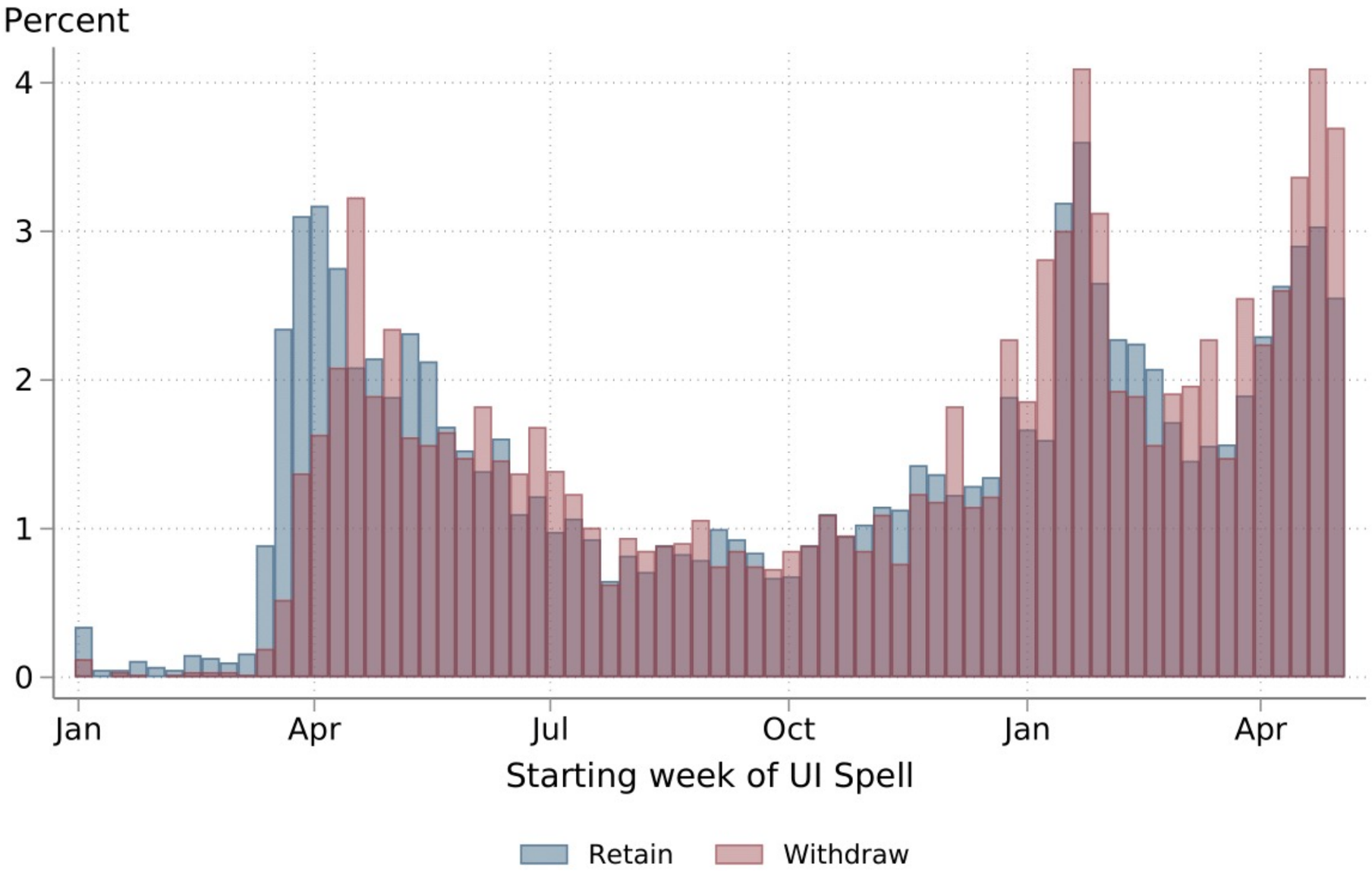
We cluster standard errors at the state level.

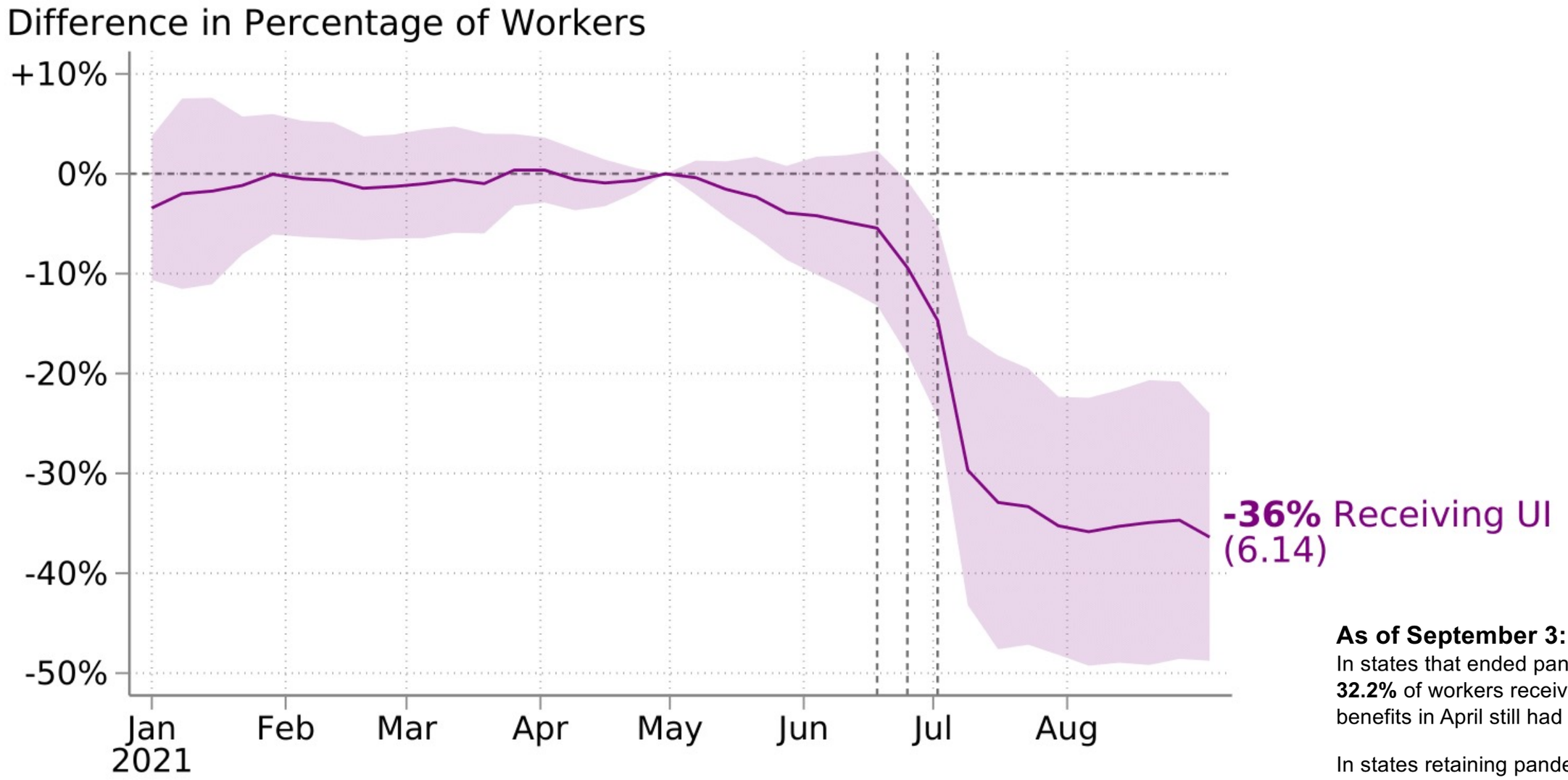
Identifying assumption: outcomes in states that *Withdraw* benefits in June 2021 would have evolved in parallel with states that *Retain* benefits, absent the policy change.

- We reweight workers to adjust for the duration of unemployment benefit receipt

States that withdrew benefits in June 2021 had shorter UI durations



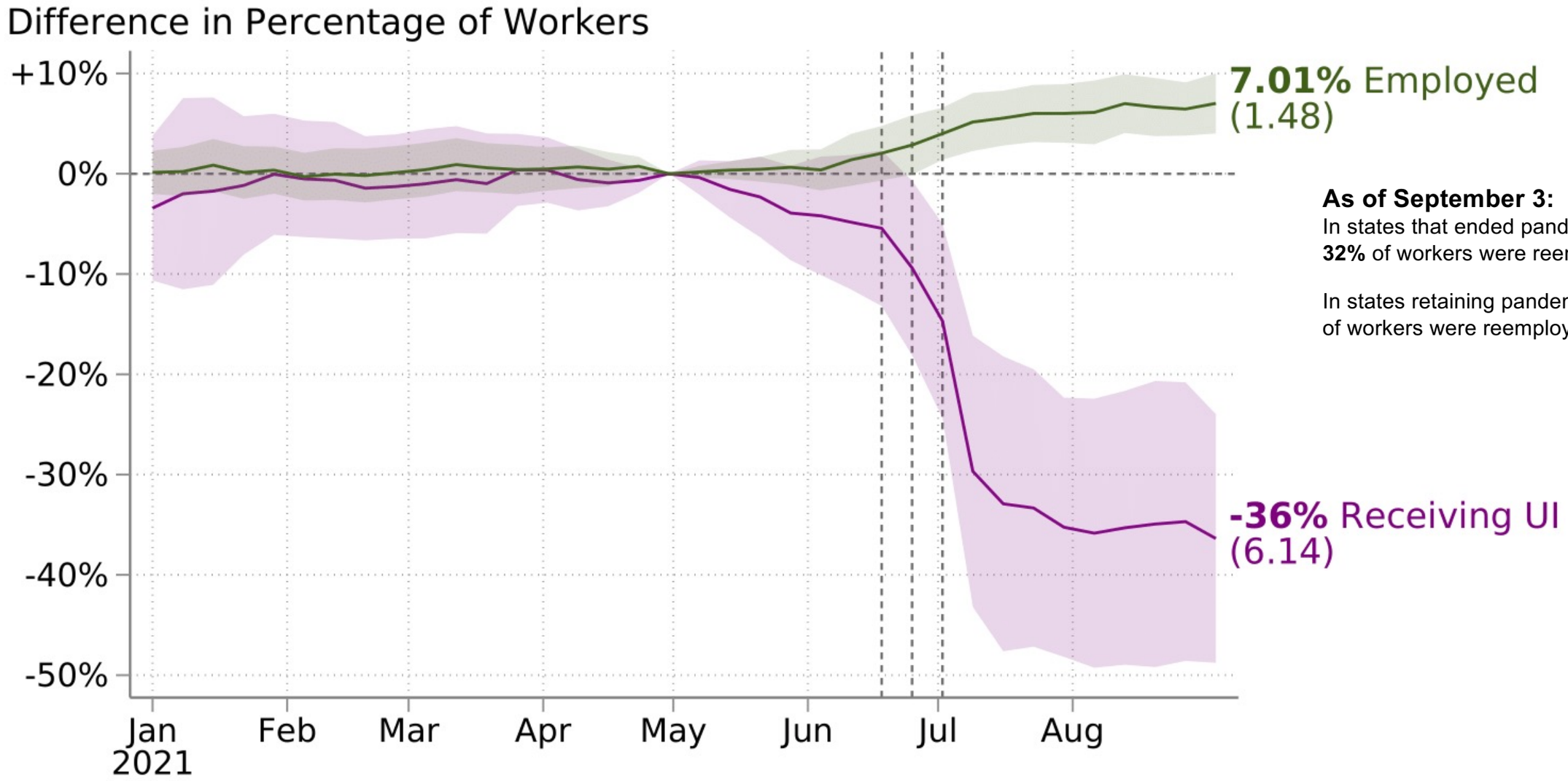
36% of unemployed workers who were receiving UI benefits in April lost those benefits due to the June withdrawal of pandemic unemployment benefits in those states.



As of September 3:
In states that ended pandemic UI, **32.2%** of workers receiving UI benefits in April still had benefits.

In states retaining pandemic UI, **68.6%** of workers receiving UI benefits in April still had benefits.

In states that ended pandemic unemployment insurance in June,
an additional 7.0% of workers who were receiving April UI benefits found jobs.

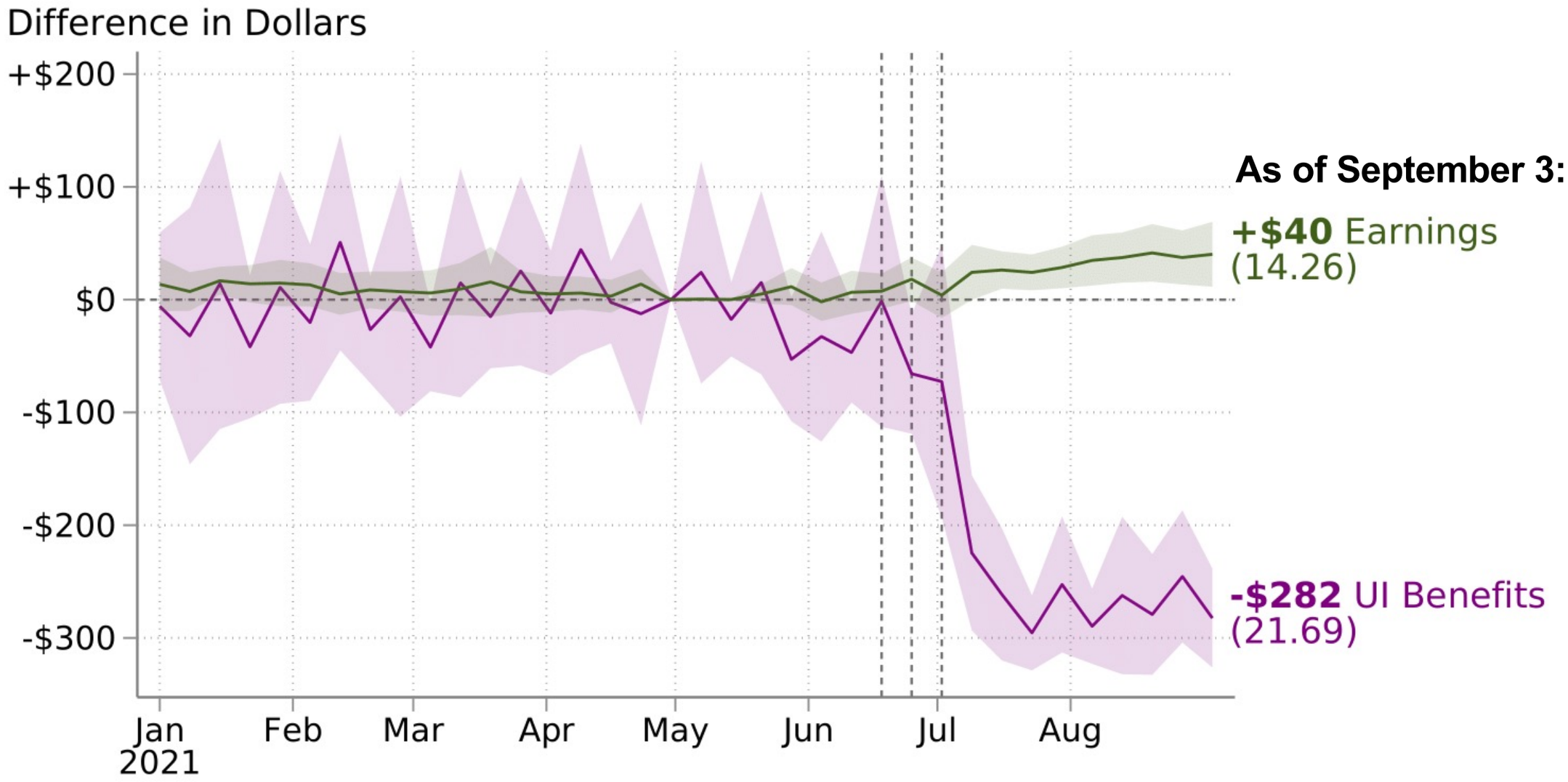


As of September 3:
In states that ended pandemic UI, **32%** of workers were reemployed.

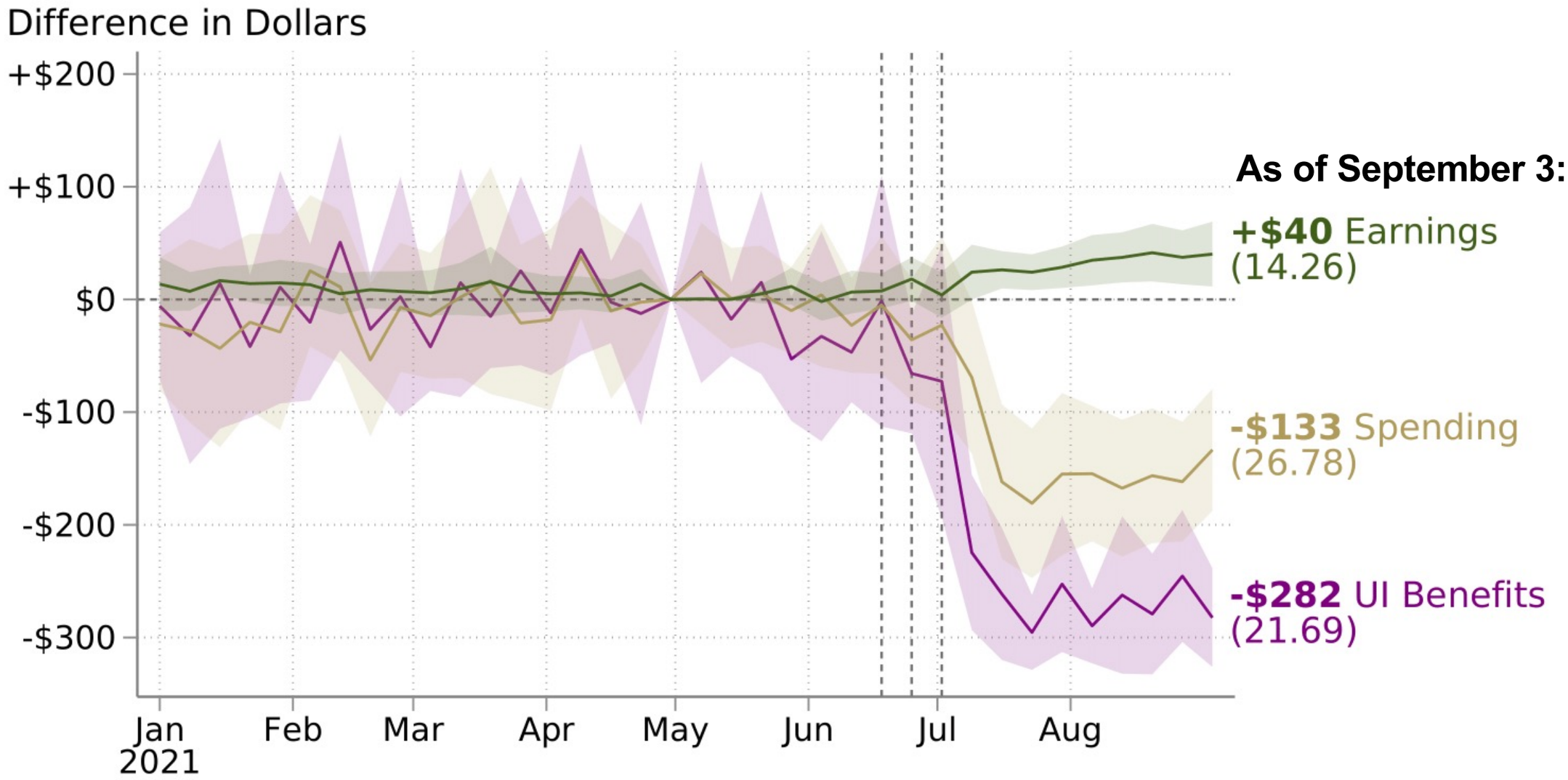
In states retaining pandemic UI, **25%** of workers were reemployed.

10% of lost benefit dollars were replaced by new dollars of earnings

in states that ended pandemic unemployment insurance in June.



For every dollar of reduced unemployment benefits, spending declined by ~56 cents in states that ended pandemic unemployment insurance in June.



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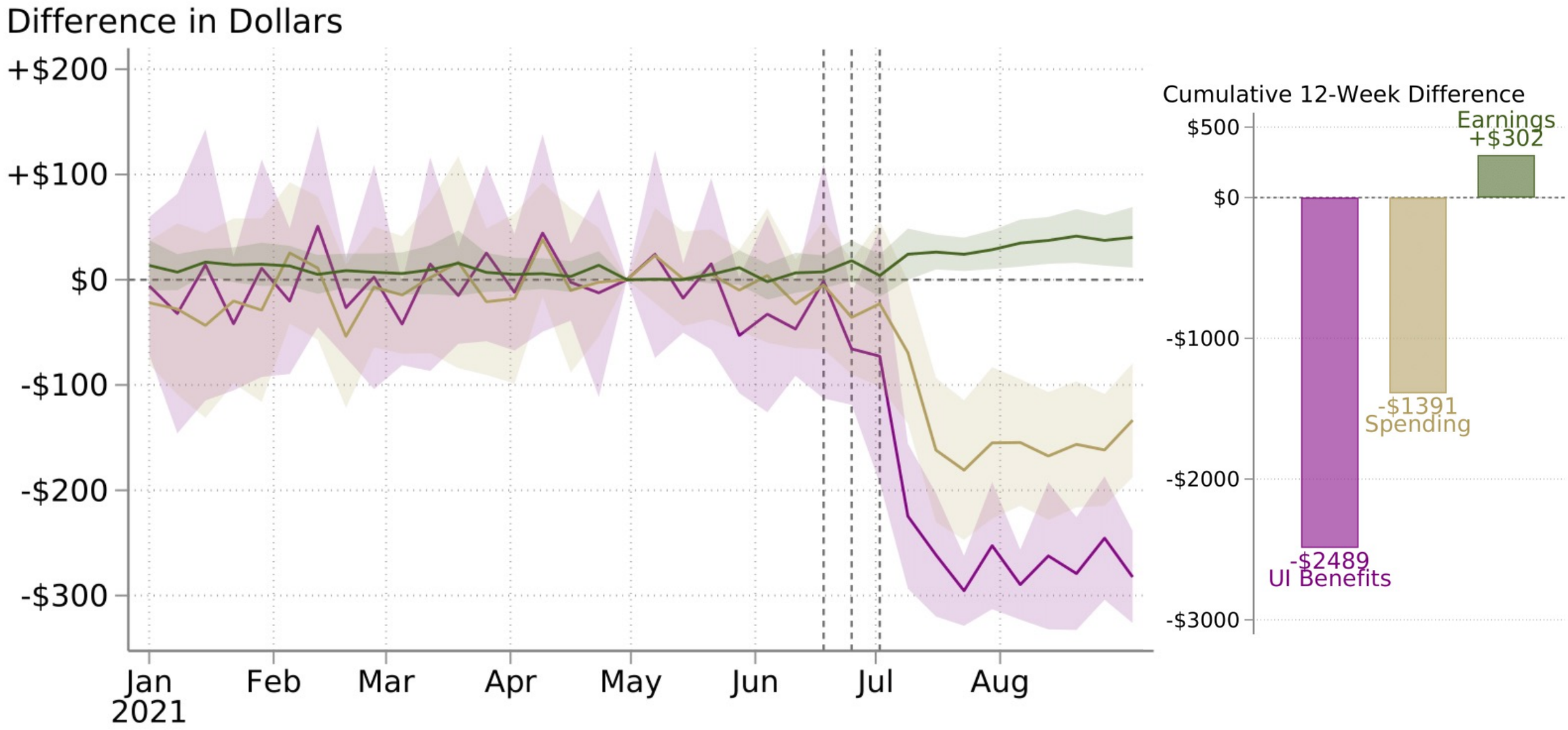
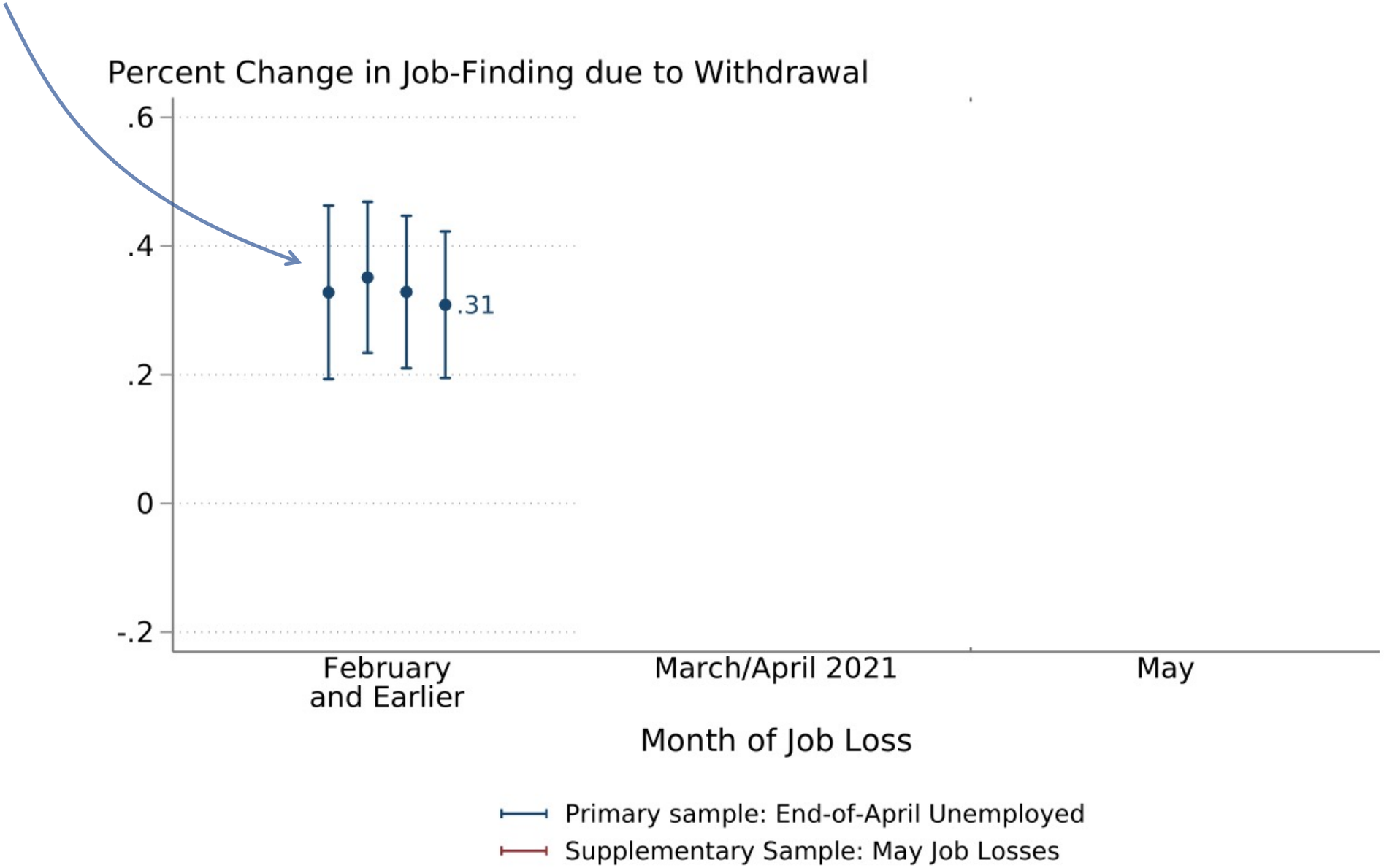
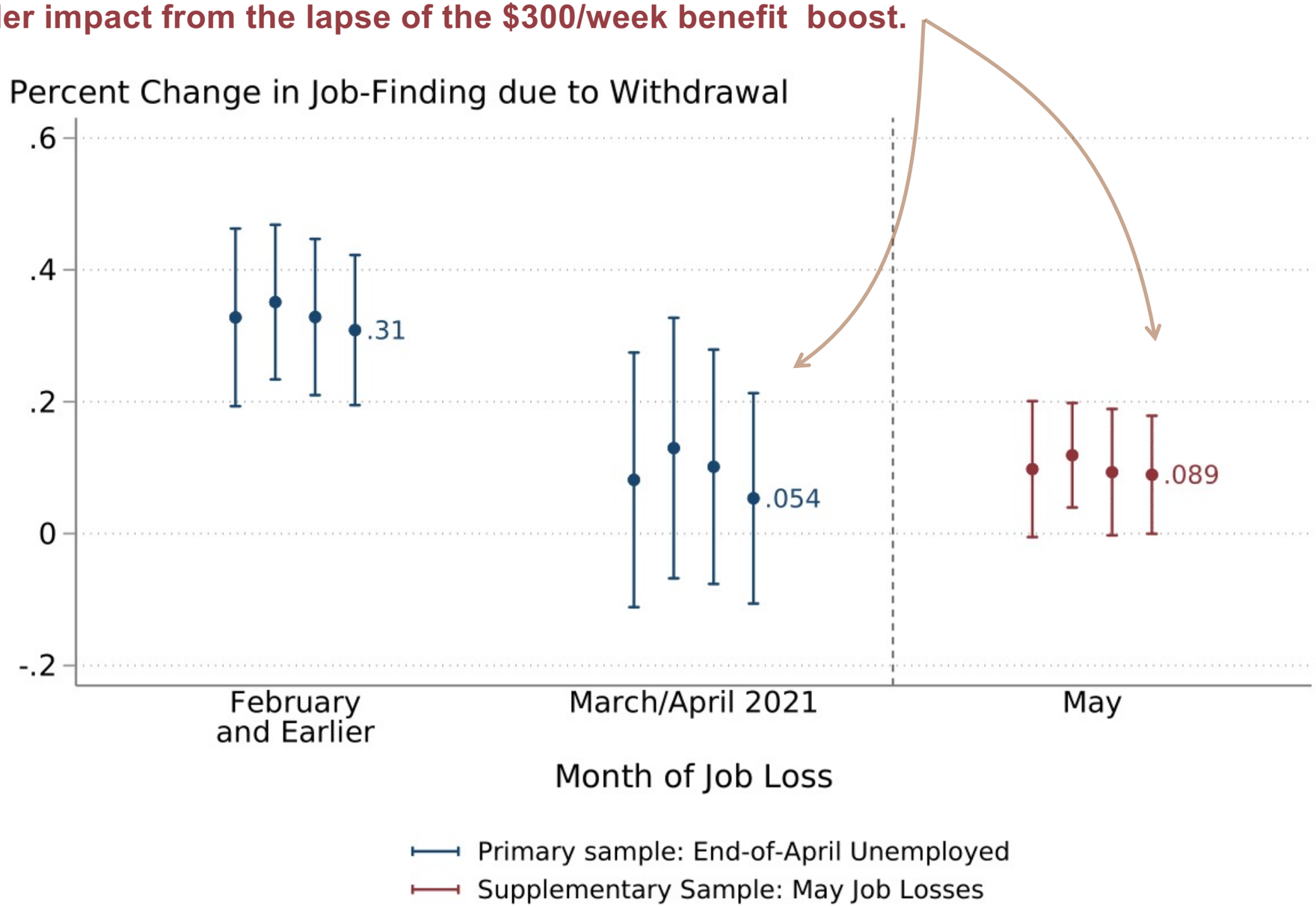


The positive employment impact mostly from benefit exhaustion.



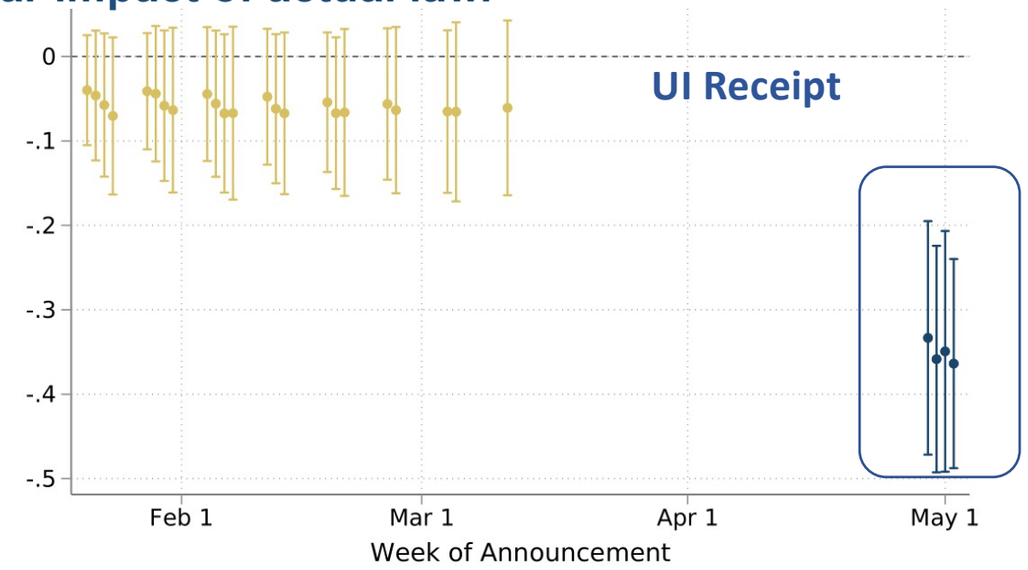
The positive employment impact mostly from benefit exhaustion.

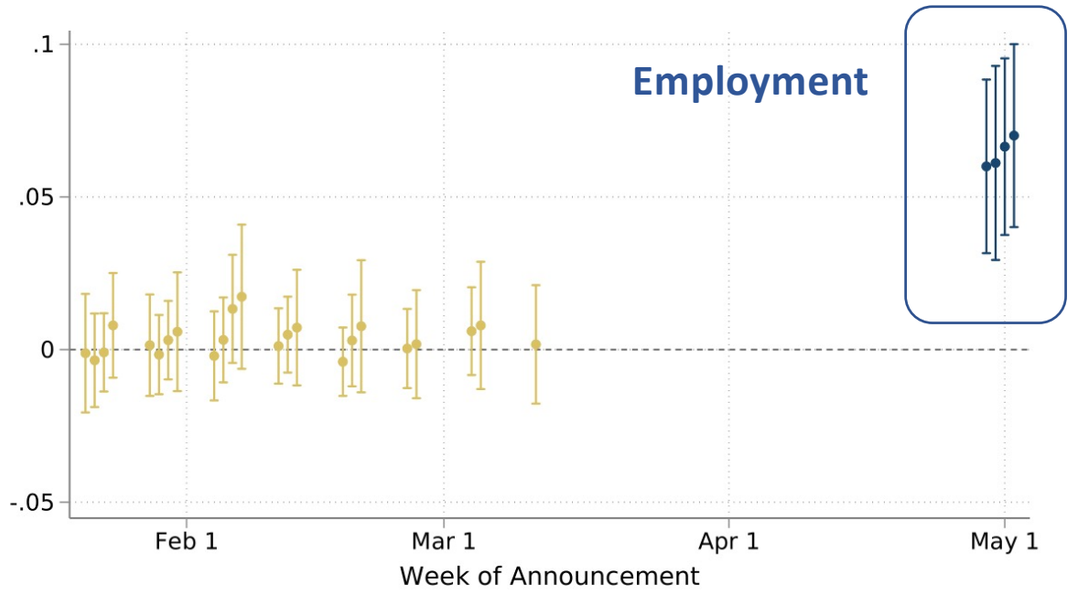
Much smaller impact from the lapse of the $300/week benefit boost.

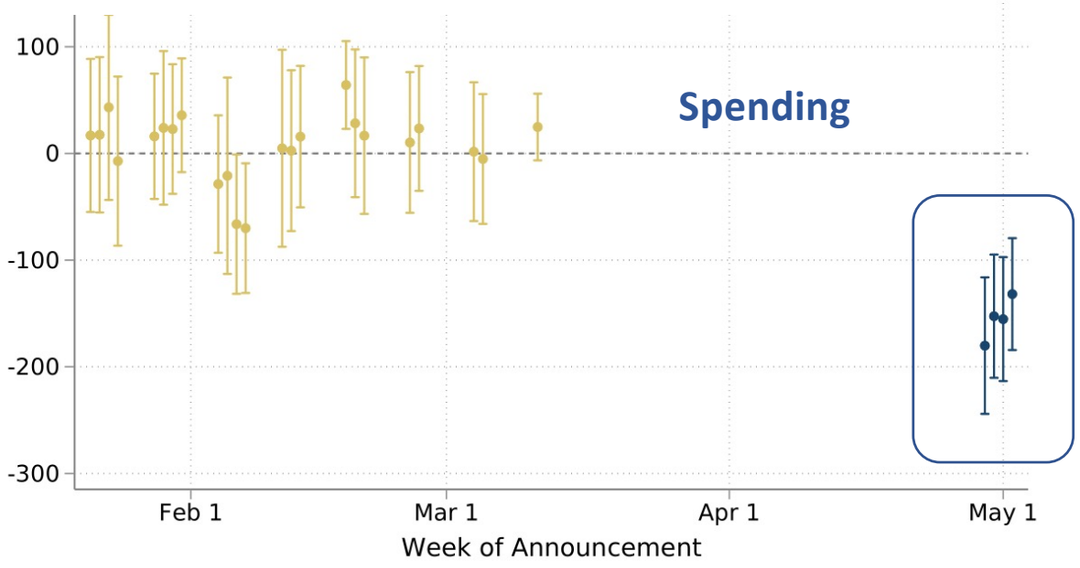


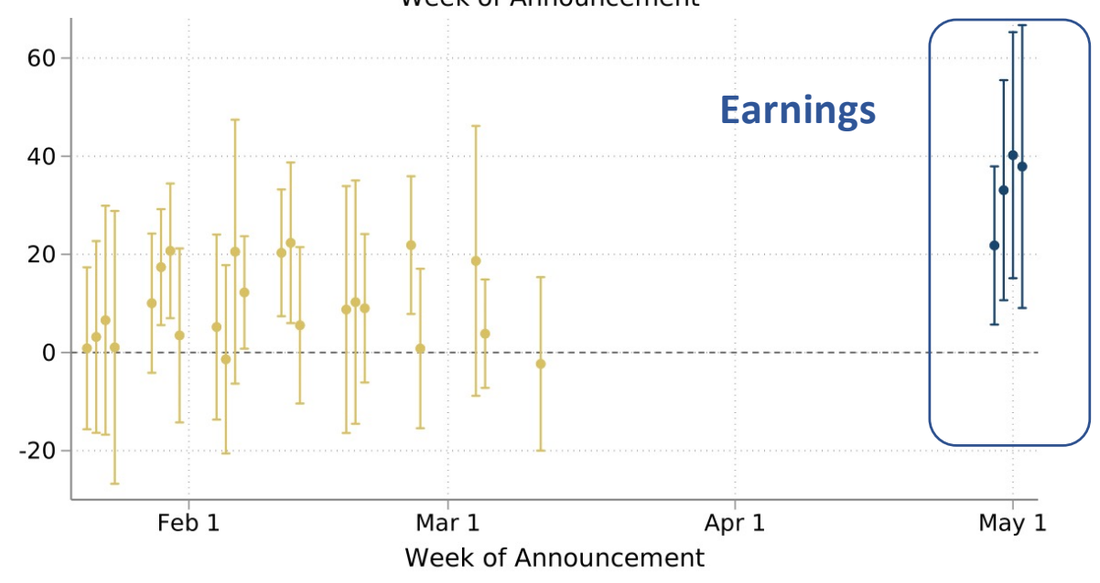
Expiring and non-expiring states' job finding rates were following parallel trends conditional on unemployment duration

Clear impact of actual law.





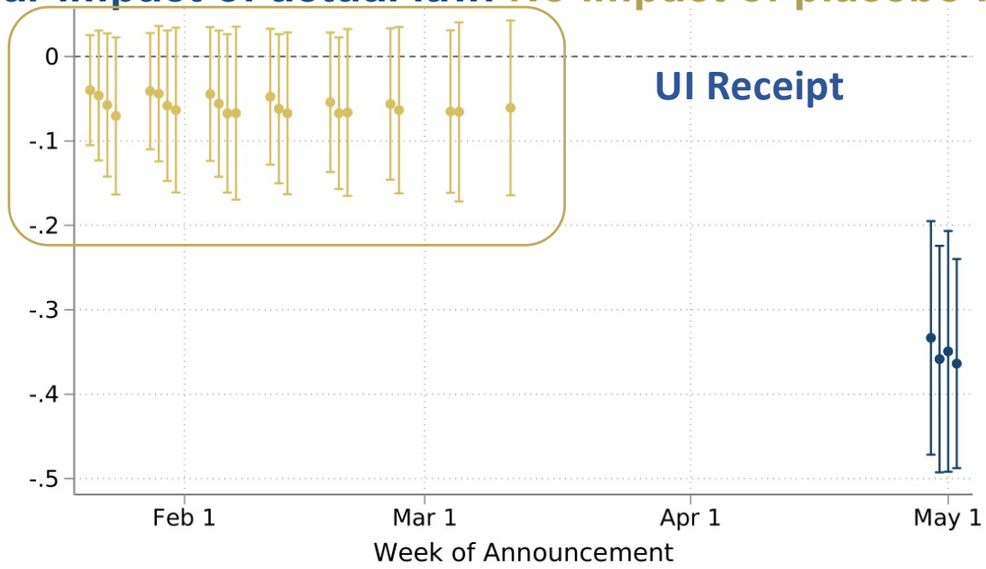


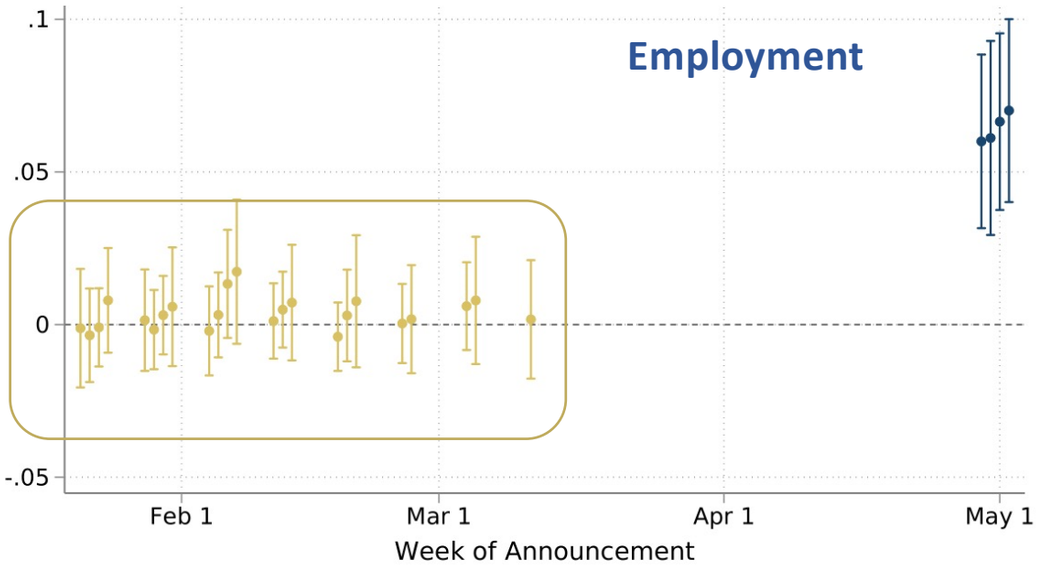


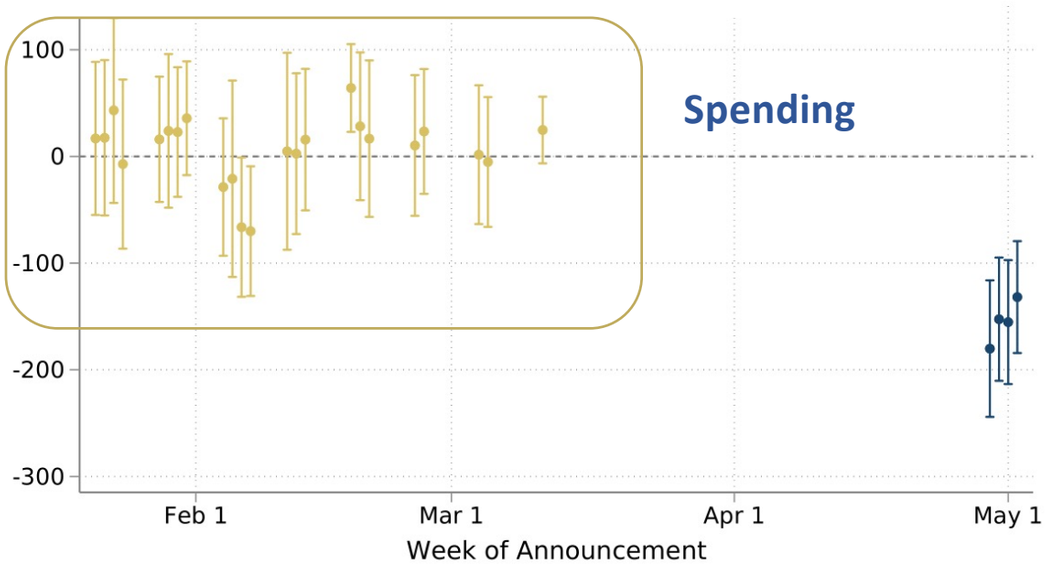
Actual announcement Placebo Announcement

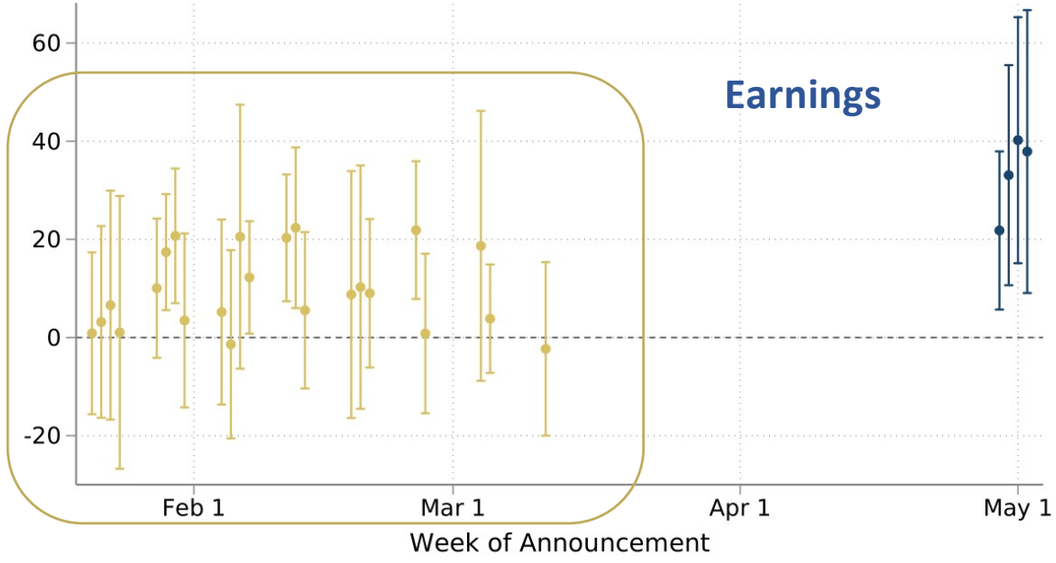
Expiring and non-expiring states' job finding rates were following parallel trends conditional on unemployment duration

Clear impact of actual law. No impact of placebo laws earlier in 2021.









Actual announcement Placebo Announcement

Extrapolations: what do the estimates in our sample imply for the aggregate economy?

In the 20 states in our sample ending pandemic unemployment benefits in June:

- 3 million unemployed workers had their benefits reduced
  - 2 million lost their benefits entirely
  - 1 million lost the $300 supplement
- Total of $7 billion in unemployment benefits paid by federal transfers were eliminated as of September 5

Assume that ***all UI recipients*** in these states responded in the same way as our sample:

→ 200,000 of those 3 million people got new jobs due to end of pandemic UI benefits

→ The August unemployment rate in these states was reduced from 4.6% to 4.3%

→ Cumulative spending fell by $4 billion: ~ 60% of the $6 billion in lost benefits

→ Cumulative earnings rose by $870 million: ~ 12% of the $7 billion in lost benefits

The causal effect on job creation was likely less than 200,000

There are **three reasons** why "200,000" overestimates of the number of new jobs created:

1. **Sample composition:** our sample is entirely low-income and credit-constrained workers, who may respond more strongly to a loss of benefits than higher-income workers affected by the same policy.

2. **Congestion:** people who lost their UI benefits are applying to the same job postings as others in the labor market, and some of those other people (e.g. teenagers) were passed over for jobs they would have taken.

3. **Aggregate demand:** spending by people who lost pandemic unemployment benefits fell substantially, which will lower business revenue and job creation.

Our extrapolation also overestimates the $4 billion decline in aggregate spending (for reason #1) and the $380 million increase in earnings (for reasons #1, #2 and #3).