

Equity of COVID-19-Induced Job Loss Duration and the Effect of Unemployment Insurance Generosity on Labor Supply

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Motivation

- COVID-19 pandemic caused large job losses.
- To address the economic impacts of the pandemic, unemployment insurance (UI) benefits were increased. For example,
 - Federal Pandemic Unemployment Compensation (FPUC) - increased unemployment benefits by \$600 per week (Apr – Jul 2020)
 - Lost Wages Assistance (LWA) – increased unemployment benefits by \$300 per week for 6 weeks starting the first week of Aug 2020

Two issues received large media attention

- Inequity in job losses by gender and race.
- Generous UI benefits may have encouraged workers to stay unemployed longer.

Research questions

- Equity of job loss duration:** How did the duration of unemployment during the pandemic vary by gender and race?
- Work disincentive (moral hazard) effect of UI:** How did the generous UI benefits during the pandemic affected worker decisions to return to work?
- Labor force participation effect of UI:** Did UI help keep workers in the labor force?
- Firm-worker matching (liquidity effect) of UI:** Did UI affect firm-worker match quality?

Data

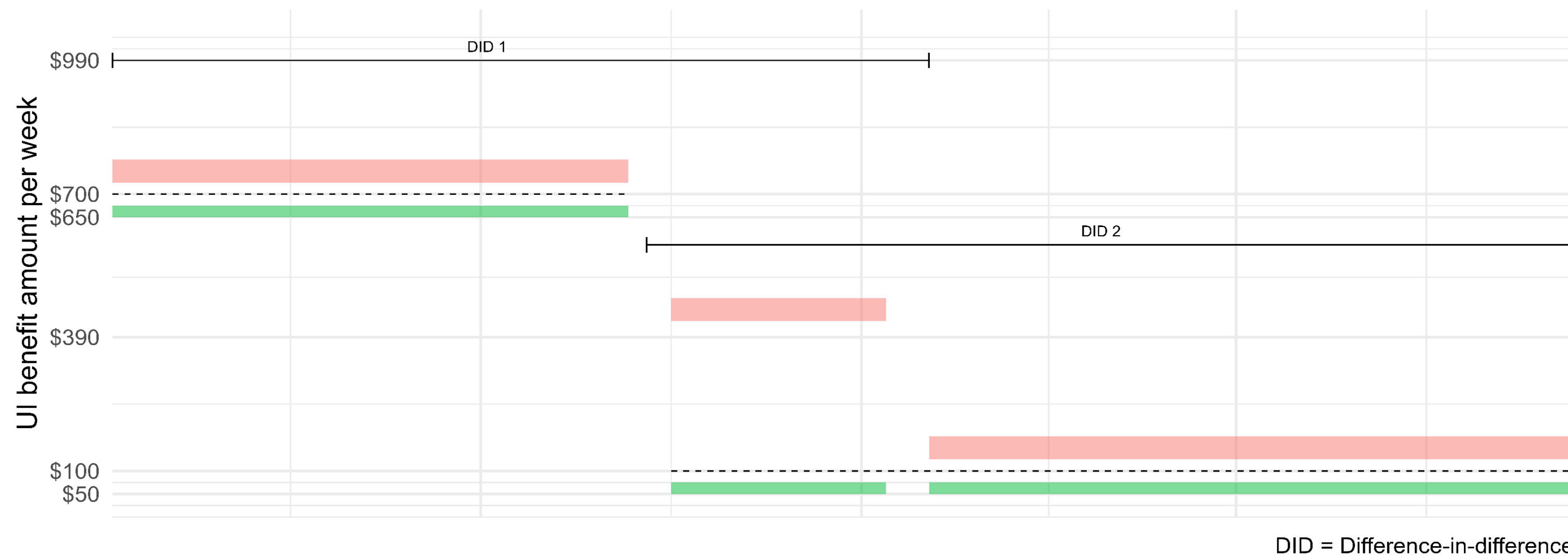
- Administrative data on the universe of UI claims for the state of Indiana.
- Worker-level panel data containing weekly UI payments information for half a million workers in Indiana (16% of Indiana's labor force).
- Worker quarterly earnings and top three employers (by earnings) in each quarter

Empirical Strategy

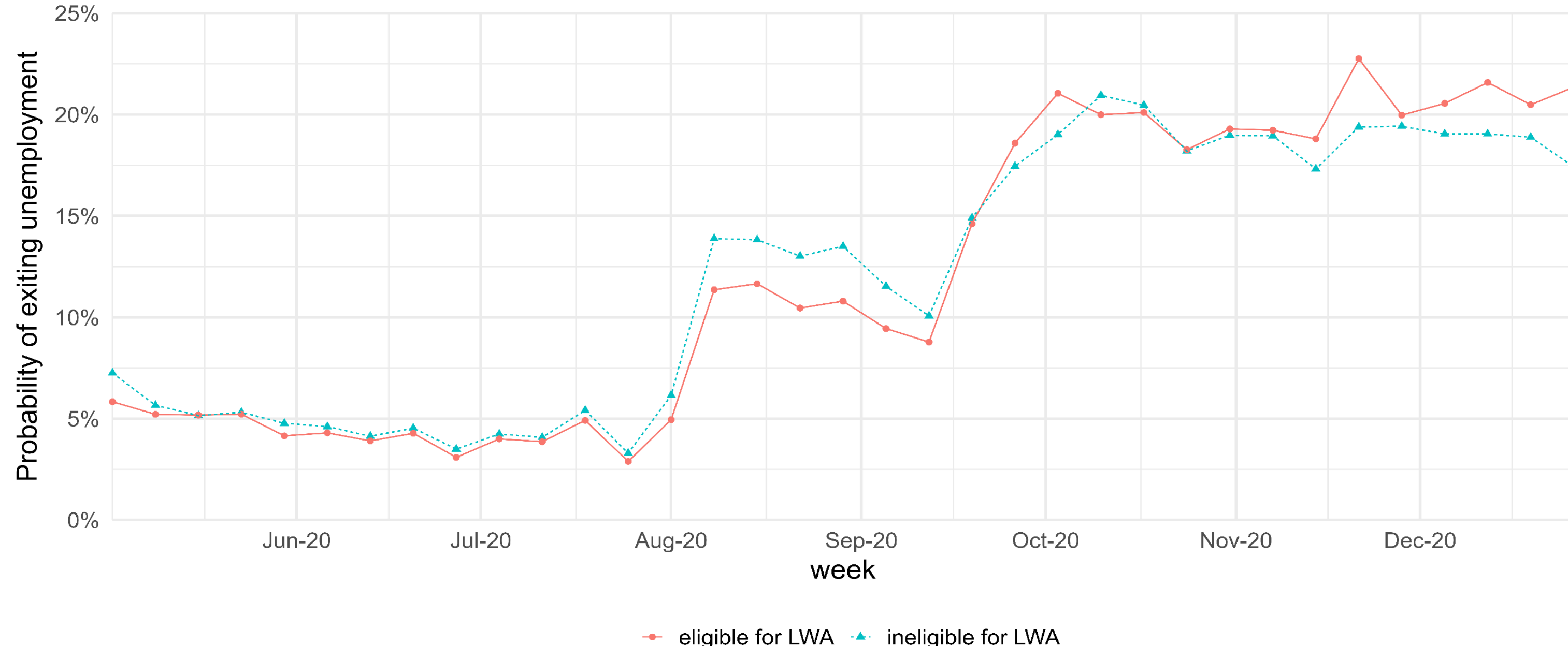
- RQ1: Compare differences in UI receipt duration in 2020 by gender and race
- RQ2, 3, and 4: **Difference-in-difference**
 - LWA program available to only those workers whose regular UI payments [0.47* prior weekly earnings] were at least \$100 per week
 - Pre-Post:** weeks before-after expiration of the FPUC and LWA programs
 - Treatment group:** workers just above the LWA eligibility cutoff.
 - Control group:** workers just below the LWA eligibility cutoff.

Regression model: $Y_{i,t} = \delta_1 * Eligible LWA_i + \delta_2 * Post_t + \beta * Eligible LWA_i * Post_t + \epsilon_{i,t}$
 $Y_{i,t}$ = outcome of interest for worker i in week t , $Eligible LWA$ is indicator for LWA eligibility, $Post$ is indicator for benefit expiration

Identification: Change in benefit amounts for workers close to LWA eligibility

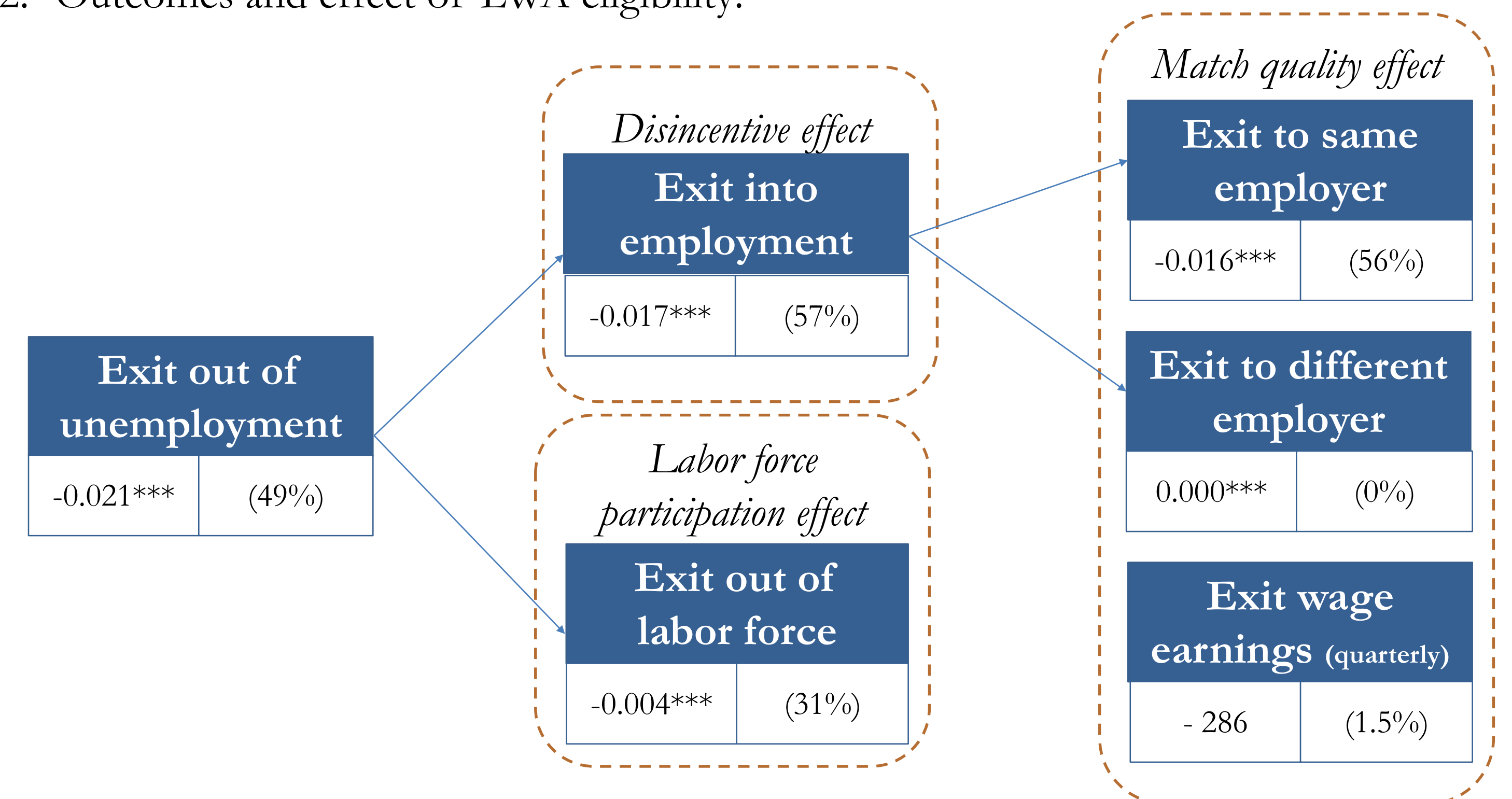


Exit rate by LWA eligibility



Results

- Women and Blacks had higher durations of unemployment - inequity in job loss duration
 - Women were unemployed for an extra 0.76 weeks (7.7% higher) compared to men
 - Blacks were unemployed for an extra 3 weeks (31% higher) compared to whites
 - Not necessarily first fired but last hired
 - Industry and occupation characteristics explain less than 20% of the gap.
- Outcomes and effect of LWA eligibility:



E.g: LWA eligible group had a lower exit rate out of unemployment by 2.1 percentage points when receiving \$300 per week UI benefits

*** p < 0.001

Discussion

Indiana's unemployment rate in Aug 2020 in absence of LWA = 6.6% vs 6.8% (actual)

$$U^*_{aug\ 2020} = U_{aug\ 2020} - 0.017 \times U_{jul\ 2020}; \quad U = \text{number of unemployed}, * = \text{predicted}$$

Heterogeneity

- Women are more responsive and Blacks less responsive to change in benefit.
- Generalizability of the estimates
- The estimates are likely not generalizable to non-pandemic periods because of differences in the labor demand conditions

Contribution to literature

The results add to the literature on

- The unequal effects of labor market recessions
 - Highlights another metric of unequal effects during COVID-19
- Moral hazard, liquidity, and labor force participation effects of UI
 - Evidence during COVID-19 using new data and identification

Policy relevance

- Evidence on job loss duration inequity is useful while designing policies to stabilize labor markets during downturns by targeting policies to reach the most affected populations
- Evidence on the work disincentive effects of UI should help policymakers when considering increasing UI benefits in the future.

Conclusion

- During the pandemic, women and Blacks not only lost more jobs, but also stayed unemployed for longer duration.
 - The adverse effects of the pandemic on these groups was more severe than what is implied by only the job losses.
- The generous UI benefits during the pandemic increased unemployment, but had a modest effect on unemployment rate
 - UI likely not a major reason for difficulties businesses faced in hiring workers in 2021, when workers were receiving similar UI payments.
- UI did not affect firm-worker match quality
 - Could be because of depressed labor demand during the pandemic
- UI prevented workers exiting the labor force
 - Important given large overall labor force exits (In Dec 2020, there were 60k fewer workers in Indiana's labor force compared to Jan 2020)

