The primary objection to the FPUC has been the worry that its generosity would disincentivize workers from searching for jobs or from accepting employment offers. If UI benefits pay more than work, the theory goes, one might expect workers to be more likely to stay on UI. Under normal circumstances, regular state UI generally replaces around 30-50 percent of a worker’s prior wage. Because the FPUC is a flat $600 regardless of the worker, her wages, or her UI benefit amount, it raises the replacement rate significantly. Two-thirds of UI recipients are seeing total wage replacement rates of more than 100 percent of their prior wages thanks to the FPUC.¹

This theory is hitherto untested in actual economic data, since before the FPUC only a tiny share of UI recipients saw wage replacement rates above 100 percent.

Some economic research supports the idea that more generous unemployment insurance can lengthen the time workers spend without a job: a 2002 paper by Alan Krueger & Bruce Meyer for example finds that a 10 percent rise in UI the duration of a worker’s unemployment insurance spell by 5 percent on average.²

However, there is also evidence to suggest that UI generosity doesn’t matter as much during recessions, when other factors are more pressing on the economy. In a 2018 paper, Gabriel Chodorow-Reich, John Coglianese, and Loukas Karabarbounis find that extensions in the maximum number of UI weeks raised the unemployment rate by at most 0.3 percentage points during the Great Recession.³

Other economic data is inconsistent with the FPUC having a binding effect on the labor market right now. While two-thirds of UI recipients are seeing wage replacement rates of 100 percent or greater under the FPUC, two-thirds of workers who left UI for a job in June also made more than their prior jobs. Moreover, if the FPUC were restraining labor supply, we would expect to see signs of wage hikes as employers bid up pay to meet hiring needs. Instead, wage growth has been stable-to-soggy.⁴ And job growth in May and June, while the FPUC was in full force, was stronger than expected.

To help shed light on this debate, I analyzed workers in the Current Population Survey (CPS, also known as “the household survey,” which is the source for the official unemployment rate) who transitioned between employment and nonemployment between April and May or between May and June. I linked this CPS data with simulations of state UI benefits and wage replacement rates from Peter Ganong and coauthors.⁵

My strategy was to look at the cross-sectional relationship between more generous UI wage replacement rates under the FPUC on the one hand, and the likelihood that an individual left or found work in May or June, controlling for a variety of demographic factors. I also tested for whether this relationship was different at wage replacement rates above 100 percent.

If the FPUC were having negative effects on the labor market now, then we would expect individuals with higher UI wage replacement rates to be less likely to have found a job May or June or more likely to have left work.

Instead, I found that there is no evidence that the FPUC had any impact on either job finding or job leaving in the May and June CPS data. The estimated effects on wage replacement rates were not statistically-significant in any of my job finding or job leaving specifications (they were not distinguishable from zero). I added further controls in specifications unreported here, such as for lockdown stringency/social mobility, probability of remote work, and state rather than Census division fixed effects. I also attempted to measure wage replacement rates as categorical percentile bins rather than a continuous linear variable. The wage replacement rate did not approach statistical significance in any of these models.

² [https://www.nber.org/papers/w9014](https://www.nber.org/papers/w9014)
⁵ See methodology in the Appendix.
These results do not mean there are not individual instances where generous UI may sway a worker to wait longer to go back to work. Nor do they rule out the possibility that there may exist specific economic circumstances where wage replacement rates of greater than 100 percent might affect job finding. If the pandemic were completely eliminated, if the economy were close to full employment, and if the FPUC were a permanent rather than a temporary fixture of the UI system, for example, some effect could be more likely. But that is not the economic reality of today.
Instead, the evidence suggests that the FPUC has not been a binding constraint on the recovery. There are plausible explanations for this:

- There is simply not enough demand yet. Despite the strong jobs growth in May and June, there are still five unemployed workers for every job opening, and the unemployment rate itself is still higher than at the peak of the Great Recession.

- UI generosity may be taking a back seat to other worker concerns about returning to jobs, such as public health and childcare. Employers may not always appreciate the breadth of these concerns and simply assume that any hiring difficulty on their part is due to generous UI.

- Workers may recognize that the FPUC – even if extended – is a temporary program, and so even if UI pays more than work now, they are concluding that a job is more stable or more desirable over the longer horizon than the extra UI benefits.

- Since most unemployed workers right now believe their layoffs to be temporary, and because the CARES Act relaxed job search requirements for all UI recipients regardless of the size of their benefit, the FPUC may be making no difference in search intensity.

- Employers still have leverage in the hiring process, since a worker who refuses a job offer can lose her UI benefits.

**FPUC Expiration Would Cost 1.7 Million Jobs and a Whole Normal Year’s Worth of Economic Growth**

Unemployment insurance provides macroeconomic stimulus through several channels. The most intuitive is through direct consumption support. Hsu, Matsa, & Melzer (2018) also find that greater UI generosity translates to lower mortgage delinquency and fewer foreclosure starts. Kekre (2016) and McKay & Reis (2017) posit that UI can also increase consumption by reducing the need for precautionary savings among job keepers. Engen & Gruber (2001) estimate that halving the replacement rate increases the savings rate by 0.8 per cent.

To gauge the macro effects of FPUC expiration in the short-term, I model how the economy would react to full or partial FPUC expiration, against a neutral current policy baseline where the next fiscal package entirely extends the full $600 per week of FPUC. I use the Federal Reserve’s workhorse FRB/US macro model to calculate the impacts on real GDP, employment, and the unemployment rate of two different scenarios for the next fiscal package: first, one in which full FPUC expiration happens as scheduled on July 31; and second, one with a partial extension of the FPUC of $300 per week until December 31 with full expiration thereafter.

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7 [https://dash.harvard.edu/bitstream/handle/1/33493378/KEKRE-DISSERTATION-2016.pdf?sequence=4](https://dash.harvard.edu/bitstream/handle/1/33493378/KEKRE-DISSERTATION-2016.pdf?sequence=4)
9 Note that this effect is potentially asymmetric. Workers at high risk of layoff already generally have low savings, so increased UI generosity such as through FPUC will at some point drive savings to an effective lower bound.
10 See further methodological details in the Appendix. I calibrate a current policy projection of future FPUC spending assuming full extension using CBO’s July 2020 economic baseline.

I modify FRB/US to accept different fiscal multipliers for UI and run the model using the bookends of CBO’s multiplier assumptions for personal transfers (0.4 and 2.1) as well as the midpoint of 1.25. In a deep recession with a highly-accommodative central bank, multipliers are likelier to be on the upper-end rather than lower-end of CBO’s range.
I assume as part of this exercise that but for the FPUC provisions, the next fiscal package is otherwise identical in our current policy as well as in our two alternative scenarios.

Under the first scenario, if the FPUC expires in full on July 31 the US economy suffers a palpable hit in the second half of the year. Full expiration lowers the level of real GDP by -2 percent by the end of 2020 against current policy, with a range of from -0.6 to -3.4 using low and high CBO multipliers respectively. GDP growth in Q3 alone comes in more than 6 percent SAAR slower than otherwise. There would be 1.7 million fewer jobs by the end of 2020 as well, implying that monthly payroll growth would be around -340,000 slower. And the unemployment rate ends 2020 0.8 percentage points higher than otherwise.

The second scenario is an illustration of a simple but plausible political compromise wherein Congress extends the FPUC through the end of 2020, but only at half-strength: $300 per week. It then expires entirely in January 2021.

As a rule of thumb, then, it’s little surprise that the second scenario shows about half of the impact of the first scenario in 2020: GDP is 1 per cent smaller in Q4, jobs growth runs around -170,000 lower per month to over -800,000 fewer jobs by year’s end, and an unemployment rate that is 0.4 percentage points higher. This half-strength FPUC obviously leads to better economic performance than full expiration. But even under this compromise, the US still suffers a self-inflicted wound against current policy.

FULL FPUC EXPIRATION CUTS THE DEEPEST IN ARIZONA, MICHIGAN, AND NEVADA

FPUC expiration would be have widely different implications across states, depending on the depth of the regional downturn and the contours of the state’s UI system.

One way to measure the impact of expiration is to calculate the expected cut in benefits for a typical UI recipient. We estimate that the median cut in benefits from full FPUC expiration would range from 52 to 72 percent, with Mississippi, Arizona, and Louisiana seeing the deepest cuts. Partial FPUC expiration would imply a smaller impact: a $300 per week compromise leads to a median cut of between -26 and -36 percent, though the relative rank ordering of states remains the same. Even under this compromise, workers receiving UI still lose a quarter to a third of their benefits overnight.
A different approach is to look at the aggregate impact of possible FPUC cuts. This would account for not only the severity of cuts for each beneficiary, but also how many unemployed workers each state has and their overall state income.

Looked at this way, while Arizona, Mississippi, and Louisiana are still worse off than the average state, Nevada is the most-deeply hit in aggregate, with full FPUC expiration coming to 11 percent of the state’s pre-COVID personal income. Rhode Island and Michigan come in at 9 percent. These states stood out less in the prior chart because on average, their UI systems are consistent with the generosity of those in other states.

As a result, the outcome for a typical worker in these states was more or less in line with what the typical worker elsewhere in the country would see under FPUC expiration. Nevada, Michigan, and Rhode Island stand out in aggregate, however, thanks to the sheer number of UI recipients that they have. This may in part reflect greater logistical success in processing claims, and in particular in getting the PUA program up and running, but it also signals the depth of the downturn in these areas.

**METHODOLOGY**

**Macroeconomic Analysis**

Similar to Bivens (2020), I calibrate future spending on the FPUC based on the relationship between aggregate FPUC spending in the May 2020 personal income data, and the May 2020 unemployment rate adjusted for misclassification. I assume this relationship holds based on CBO’s July 2020 economic projections, with adjustments similar to Furman (2020) that account for changes in underlying UI eligibility and extended weeks of unemployment eligibility. Also similar to Furman (2020) I assume a current policy baseline of no FPUC expiration.

I then feed these aggregate FPUC spending calibrations to the Fed’s FRB/US macroeconomic model to account for general equilibrium interactions. In all cases I assume that monetary policy is fixed (accommodative) between now and end-2021, and that all agents have VAR (adaptive/backwards-looking) expectations. The FRB/US eight-quarter cumulative fiscal multiplier for government transfers is 0.49 under these conditions; I scale the simulations to test outcomes under the 0.4-2.1 range of CBO’s assumed multipliers for government transfers.

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12 [https://dash.harvard.edu/bitstream/handle/1/33493378/KEKRE-DISSERTATION-2016.pdf?sequence=4](https://dash.harvard.edu/bitstream/handle/1/33493378/KEKRE-DISSERTATION-2016.pdf?sequence=4)

Wage Replacement Rate Analysis

I conduct a cross-sectional logit regression on linked month-to-month records in the basic monthly CPS in May and June; therefore, the analysis covers April-May and May-June flows.

I use two specifications: a broad model that includes all working age (18-64) individuals transitioning between employment and nonemployment (Models 1 and 3), and a more targeted specification that uses just prime age (25-54) individuals transitioning between employment and likely UI eligibility (Models 2 and 4), which I define as workers unemployed for less than 39 weeks who are not job leavers or new/re-entrants, or workers likely misclassified as employed in the CPS. We exclude non-US citizens from all model samples. The specifications control for sex, 10-year age group, 5-category educational attainment, 4-category race/ethnicity, parenthood, sex-parenthood interaction, immigrant status, and Census division. Models 2 – 4 also include the individual’s prior 2-digit NAICS industry, either of employment or labor force. Because industry is not coded for all nonemployed individuals this variable is not present in Model 1.

Wage replacement rates in this analysis are generated by the Ganong et al (2020) UI benefits calculator using the 2019 CPS Annual Social and Economic Supplement (ASEC). I link these to our sample in the May and June 2020 basic monthly CPS by randomly drawing from the ASEC-generated sample within the same sex-age-education-state groups. I include the linear effects of these wage replacement rates in our analysis; I also test for a kink at 100 percent by separately including the wage replacement rate portion above 100 percent (which is 0 for wage replacement rates below 100 percent).

State Median & Aggregate FPUC Cuts

For median cuts, I use the linked CPS-Ganong et al (2020) data from the wage replacement analysis and calculate the median cut to benefits for workers I deem likely to be UI-eligible (see description above).

For aggregate cuts, I assume 30 million total UI recipients on July 31, implying $18 billion per week or $936 billion SAAR in FPUC payments. I distribute this among the states based on their share of combined regular state and emergency federal PUA claims through June 27. For regular state programs I use spot continuing claims on June 27. For federal PUA I use cumulative initial claims through June 27 to account for data issues in some states with PUA continuing claims reporting.

ABOUT THE AUTHOR

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