JOINT ECONOMIC COMMITTEE
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Unemployment Insurance, Worker Power and the Recovery

"This is an extraordinarily unusual time… we have to be humble about our ability to understand the data [and not] reach hard conclusions about the labor market, about inflation [and] about the path of policy."

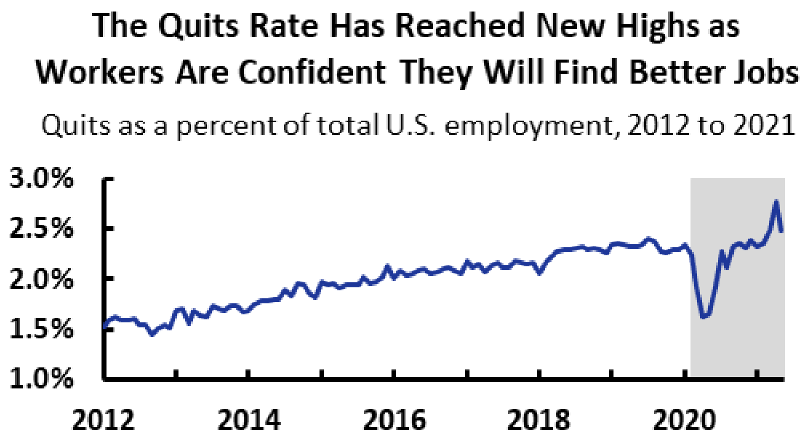
Federal Reserve Chairman Jerome Powell,
June 16, 2021

Economic indicators show that the labor market is experiencing a period of rising wages and more job choices for workers as Americans continue to recover from the economic effects of the COVID-19 pandemic. Research indicates that the scale of the impact of government programs like Unemployment Insurance (UI) on the timing of workers' return to work is small to negligible. Real-time evidence and broad academic consensus suggest that the labor market is returning to its pre-pandemic tightness, countering claims by proponents of a "labor shortage." Before the pandemic, wages were rising and workers had more choices for jobs that fit their skills and needs as the labor market tightened. Looking at the economy now, we are beginning to see signs of broad-based growth and a return to these conditions, with wages rising the most among the lowest-paid one-quarter of employees and workers—including those with jobs—choosing to move, change sectors and ask for better benefits.

The data today point toward a tight labor market

The breadth of available evidence indicates we are witnessing a return to pre-pandemic tight labor market conditions. Workers have more job choices and are better able to find employment that is a match for their skills and needs, and businesses must adapt and market themselves to be more attractive places to work. Here is an overview of the evidence pointing toward a tightening labor market:

- **The quit rate among those with jobs is nearly the highest of the 21st Century, an indication of a strengthening labor market.** A high quits rate reflects high labor market confidence: Workers are confident they can find a new, better job—with higher wages, benefits, employer-sponsored training or in a preferable sector or location. Being able to hold out for a job that is better suited to a worker's skills and needs (even without government support) results in a better match for the worker in terms of wages, and also improves labor market functioning because better matched workers are more efficient and productive.



Sources: Bureau of Labor Statistics, National Bureau of Economic Research
Notes: Data are seasonally adjusted. Shading indicates a recession.

- **The industries most vocal about labor shortages are frequently characterized by low pay, inconsistent scheduling or poor working conditions—which the pandemic has made even riskier.** Rebecca Givan, a professor of labor studies and employment relations at Rutgers University, told *The Washington Post* that workers in retail, for example, understand "that these were never good jobs and they were never livable jobs… In many cases, the pay is below a living wage and the hours are inconsistent and insufficient." In 2018, 1-in-10 retail workers lived in poverty and 3-in-20 were on Medicaid. After a global health pandemic made these jobs potentially life-threatening, workers like Aislinn Potts of Murfreesboro, Tenn., understandably decided that "My life isn't worth a dead-end job."
- Even with increasing vaccination rates, **workers are factoring in the value of their and their families' lives in their decision to return to work.** Particularly in jobs that involve frequent face-to-face contact, workers may think twice about putting their own health and the health of their loved ones at risk. Another signal of worker optimism—and an indicator that job recovery may accelerate—is that this concern is becoming less prevalent among those out of the labor force and looking to re-enter.
- **The workers who were going to return to the job they held before the pandemic have either gone back already or are looking for something new.** Most workers who were able to return to their previous position did so quickly, or they were optimistic about their prospects and decided to quit and look for something that better met their skills and needs. Both those who quit and those who are looking for the right job post-pandemic require more time to find a job that is a good match than the workers who returned to a pre-existing job, which contributes to a stronger recovery overall.

It was necessary to take unprecedented actions to prevent the spread of a deadly pandemic, and as vaccination rates improve and demand returns, the return to work will likely continue to pick up pace in coming months. In June, total nonfarm payroll employment increased by 850,000, with notable job gains in public-facing service industries. High demand for labor is good news for workers and wages, and employers who respond to the changing labor market reality by raising wages and making other workplace changes to compete for workers will be in the best position to capitalize on the return in demand for services.

UI provides working families the support they need during uncertain times

Unemployment Insurance (UI) is a benefit that workers earn by having an employment record that is provided when they lose their job through no fault of their own. During the Great Recession, the Center for American Progress found that "UI kept more than 5 million Americans out of poverty" and "saved more than 2 million jobs by boosting demand in a sagging economy." Research by Federal Reserve economist Joanne Hsu and co-authors estimates that UI prevented 1.4 million foreclosures.

Instead of supporting unemployed workers to navigate the barriers to reemployment, the governors who prematurely cut enhanced federal UI programs pushed families deeper into economic hardship. Black and Latino families, who were disproportionately affected by job loss during the pandemic, have been especially hard hit by these cuts. In the month of June, initial filings for unemployment rose for the first time since late April and the unemployment rates for Black and Latino workers remained well above the rate of white workers at 9.2% and 7.4%, respectively, continuing the long-term and disturbing trend of the Black unemployment rate being twice as high as the white unemployment rate.

While the economy continues to recover from the coronavirus recession, and workers and employers find a new equilibrium in the labor market, UI dollars support communities, keep families housed and fed and bolster the entire economy. Using the threat of starvation and homelessness to push American workers into unlivable, minimum wage work is harmful to workers, families and businesses—who are the foundation of the economy.

Data show that prematurely cutting off enhanced UI programs doesn't achieve its supposed goal of forcing people to return to work

Prematurely canceling enhanced federal UI programs means that millions of families will have a harder time covering their living expenses while they search for a job that matches their skills and needs. As evidence predicted, the premature cuts did not push a large number of workers off of unemployment and into work, contrary to the claims from 26 governors who chose to prematurely cut enhanced federal UI programs in their states.

- In recent real-time data on job searches, analysts at Indeed did *not* identify an uptick in search activity in states where workers are facing an early end to benefits, implying that cutting programs short did not have the intended effect on jobseekers in the immediate term.
- The primary data cited to indicate that workers are returning to employment is that there are fewer people being paid UI in states where UI has been cut. This does not necessarily mean that unemployed workers have found a job, but instead could just mean that they have fewer financial resources to meet their needs.
- Early in the pandemic, empirical research from the Federal Reserve and Glassdoor on whether enhanced UI programs impacted employers' ability to hire found that it did not make hiring more difficult for employers. More recently, the San Francisco Federal Reserve Bank predicted that the impact of recent program terminations would be small. They estimated that the emergency supplement is only a factor in 1-in-28 workers not returning to work, while cutting benefits may threaten the financial security of the other 27-in-28.

- Early data indicates that rising vaccination rates and business re-openings have led to a big drop in unemployment rates in states that are continuing enhanced federal UI programs, while states that have cut UI are seeing little economic benefit. For example, in Missouri (which cut off benefits on June 12, 2021), workforce development officials have seen virtually no uptick in applicants since the announced change. At the same time, states in New England that are continuing their enhanced UI programs saw large drops in their state-level unemployment rates recently.