



A 21st Century UI System Is a Requirement for Economic Resilience in Future Downturns

Unemployment Insurance (UI) plays a key role both in providing [an earned benefit for workers and acting as a macro automatic stabilizer of consumption](#). Because policymakers cannot count on every year being a good one, building up programs like UI smooths the way for both individuals and the collective U.S. economy when things fall apart and legislative solutions can't come fast enough to spare millions of families from financial hardship.

UI is essential to sustained economic growth

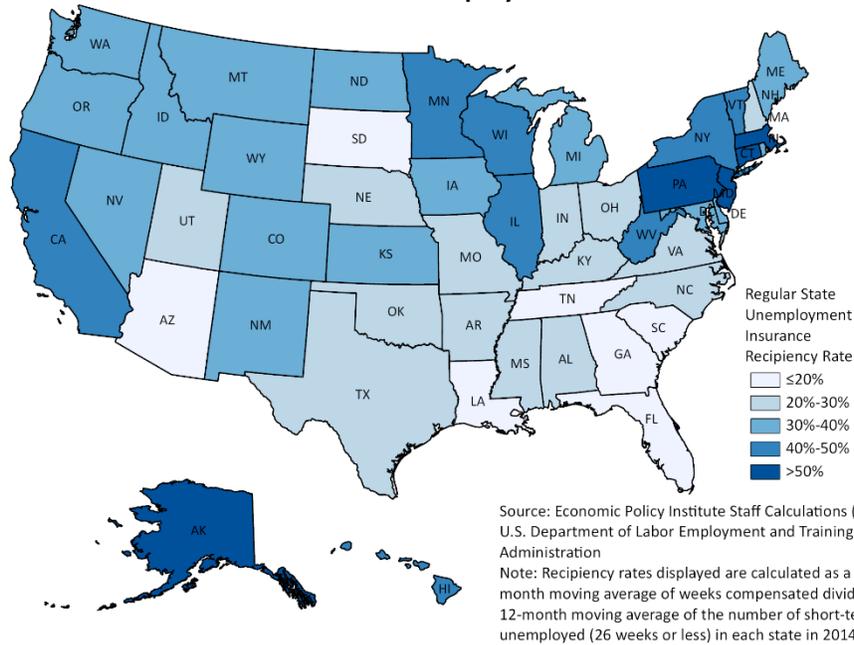
- **UI stabilizes consumption by insuring that, even after a job loss, covered workers can continue to purchase their basic needs (e.g. rent, food, medications, etc.).** Studies have documented that, [following a job loss, consumption of food and nondurable goods declines between 6 and 9 percent](#). Once UI benefits are exhausted, nondurable consumption can drop by up to 12 percent on average. UI works to counter this trend. During the Great Recession, UI “closed more than [18 percent of the shortfall in gross domestic product](#)” from 2008 to 2010.
- **UI helps to keep workers in the labor force instead of dropping out entirely.** A standard requirement of receiving UI is that the worker is actively seeking work, and recipients are not eligible to continue receiving benefits if they are offered, but decline, a suitable employment opportunity.
- **UI can enhance labor market efficiency in multiple important ways.** First, UI reduces the need for families to use a non-negligible share of their income to [accumulate](#) private savings in order to guard against the risk of job loss. Second, [UI allows workers to search for a job with wages and benefits that meet their needs, regardless of skills](#). The longer benefits last, the more workers' re-employment [wages increase on average, up to 5 percent](#) for a benefit duration of 99 weeks. Third, UI keeps skilled labor paid while individual workers find a job that matches their skills and abilities, a process that takes longer during downturns. Unlike when the economy was dominated by manufacturing, workers often do not return to the same employer or even the same kind of work when they are re-employed. This difference means re-employment takes more time—and sustained economic growth depends on getting it right.

Like all insurance, Unemployment Insurance does not work if...

- ... **People can't use the program.** Before the pandemic—and the implementation of emergency expansions of UI by Congress—[only 3 in 10 unemployed workers collected UI nationwide](#). In some states, this rate is much lower. Many workers are not eligible for benefits because the eligibility rules [categorize their causes for unemployment as insufficiently “good.”](#) Over the past year, millions of women have taken steps away from the labor force because of extra-payroll responsibilities (e.g. supervising children whose

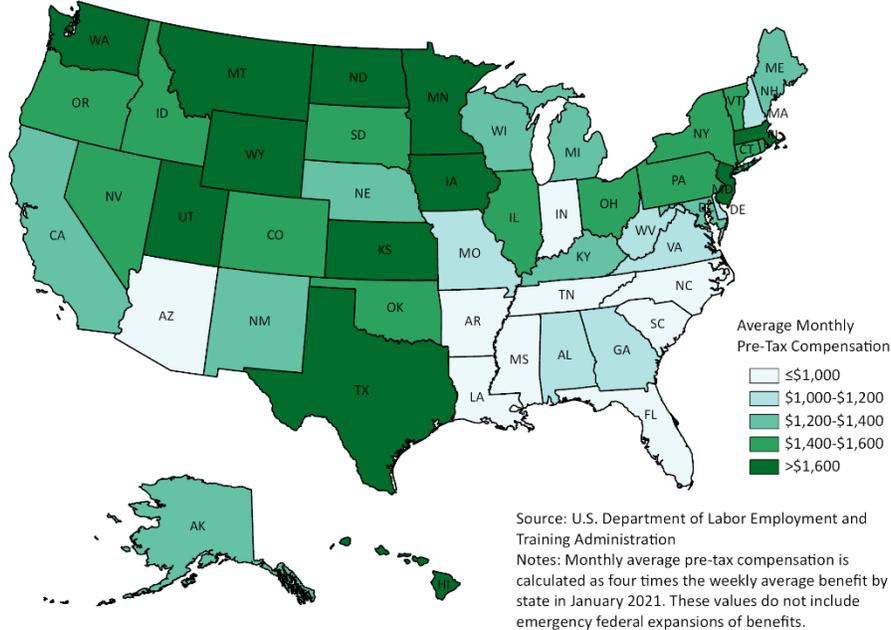
schools are remote learning, taking care of an aging relative, etc.) and have been excluded from collecting UI.

Only 5 States and DC Actually Paid Out Unemployment to More than Half of Short-Term Unemployed Workers in 2014



- ... **People are not covered by the program in the first place.** UI eligibility rules assume that those paid wages by a company are primarily employees of that company. Gig workers, contractors, the self-employed, part-time workers with multiple jobs and other workers whose incomes come from a patchwork of sources, have trouble getting benefits and/or wage replacement that is proportional to their actual income. The population not covered by traditional benefits for this reason is not only large but growing. Between 2010 and 2020, the share of gig workers at U.S. businesses increased by 15 percent.
- ... **Benefit levels are inadequate to stabilize consumption/support families.** The national pre-tax average benefit level for unemployment compensation is \$1,383/month. In 2020, the average monthly rent for a one-bedroom apartment was \$960, leaving recipients just over \$400 for all other monthly expenses as well as taxes.

9 States Pay Average Unemployment Benefits of Less than \$1,000/Month Before Taxes



UI is in dire need of reform

Despite the benefits of UI described above, the UI system has long been neglected. [For decades, policymakers have underestimated the dual role of UI as an earned benefit for workers and a macro automatic stabilizer of consumption.](#) The emergency steps taken to bolster the UI system during the COVID-19 pandemic were not the first of their kind. During the Great Recession, an emergency supplemental program and a boosted weekly benefit amount was required to fill the gaps left by the system, and [“UI kept more than 5 million Americans out of poverty, and saved more than 2 million jobs by boosting demand in a sagging economy.”](#) This time around, without emergency federal UI programs, millions of gig workers would not have been eligible to receive any unemployment benefits.

Continuing to ignore shortcomings and gaps in UI that have existed for decades will only degrade the system further. Misguided concerns about labor disincentives, and continued partisan interest in painting any government assistance as discouraging work, have led to inefficiently low benefits and chronic underfunding. In order to bring UI into the 21st Century, eligibility should be expanded to cover the changed (and changing) labor force, benefit durations should last long enough to predictably sustain a worker through a high-quality job search and compensation should provide enough cash to maintain the basic needs of families.