Research

Ending Federal Pandemic Unemployment Compensation and its Effect on Unemployment Claims

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Executive Summary

- Twenty-four states chose to end the $300 weekly supplemental unemployment payments first established by the CARES Act before the program expired on September 6.
- Eliminating the $300 unemployment supplement is correlated with a 14 percent reduction in initial unemployment claims or around 17,500 fewer claims.
- Eliminating the $300 unemployment supplement is correlated with a 5 percent reduction in continuing unemployment claims or 47,500 fewer claims, bringing the reduction of total claims to 65,000.
- Reducing total claims does not guarantee a comparable boost in jobs, but the expiration of the pandemic unemployment insurance programs should produce a boost in job creation.

Introduction

There has been ongoing interest in the degree to which a variety of factors—from fear of coronavirus infection, to school and child-care center closures, to the generous unemployment insurance benefits—have impeded the return to work in the United States. On September 6, however, the unemployment programs created under the CARES Act expired for all states. These programs include Federal Pandemic Unemployment Compensation (FPUC), which provided a $300 weekly unemployment supplement; Pandemic Unemployment Assistance (PUA), which allowed independent workers to collect unemployment compensation; and Pandemic Emergency Unemployment Compensation (PEUC), which added an additional 13 weeks of extended benefits to claimants.

In 24 states, the expiration of FPUC was a moot point, as they had already ended the program in June or July in an effort to limit spending and encourage more workers to return to the labor market. Similarly, nearly all of these states had also ended PUA and PEUC. This difference in benefits across states, and the fact that not all 24 early-exit states did so at the same time, allows one to examine whether access to these benefits affected claims for unemployment insurance.

This analysis finds that ending the $300 a week unemployment supplement in nearly half of U.S. states was correlated with a 5 percent reduction in continuing unemployment claims and a 14 percent reduction in initial claims. Those not claiming unemployment insurance could simply leave the labor force, but some fraction will return to work. Thus, the nationwide expiration of the unemployment supplement does not imply an automatic jump in employment, but these results do suggest a boost to the rate of job creation. To mitigate the significant negative effects of long-term unemployment on individuals and to promote a sustainable labor force and economic growth, policymakers should focus their efforts on encouraging unemployed individuals to reenter the workforce.

Unemployment and Economic Recovery

Since the CARES Act created FPUC, PUA, and PEUC, the Department of Labor has been compiling PUA and PEUC claimant numbers, which are kept separate from regular pre-pandemic state-level unemployment claims. (Note: FPUC was available to any claimant regardless of which program they received their unemployment benefits through.) These emergency programs, specifically the unemployment supplement, were never intended to be permanent and can act contrary to economic recovery efforts. Previous American Action Forum research found that 37 percent of workers could have made more on pandemic unemployment than at work. Now that the vaccines are widely available and many businesses have reopened, it makes sense to end programs that were intended as emergency measures. There has been some disagreement surrounding early termination of FPUC, but data indicate that the states that chose to keep the program until September 6 did not see the same reduction in both initial and continuing unemployment claims as did the states that discontinued the program early.

Initial Claims

The statistical analysis (see below) finds that removing the $300 unemployment supplement had a greater effect on reducing initial claims than continuing claims. Based on the state-level data, the removal of FPUC is correlated with a 14 percent reduction in initial claims, or around 17,500 claims. Consistent with a large research literature that shows high replacement rates (the fraction of earnings replaced by unemployment insurance benefits) increase the incidence and duration of unemployment spells, the statistical model implies that a permanent change of this magnitude would reduce claims by up to 78 percent.

Continuing Claims

Results from the analysis show that removing the $300 supplement in 24 states was correlated with a 5 percent reduction in continuing claims for a total of nearly 47,500 claims. Again, extrapolating a permanent $300 shift implies a 66 percent reduction in continuing claims. This does not necessarily mean that all of those individuals who did not file additional claims after COVID-19 unemployment programs ended were immediately employed, but it does point to the direction the labor market is headed once these programs expire nationwide.

Data and Methods

The statistical analysis employed regular weekly state-level unemployment claims data for continuing and initial claims for the weeks of December 26, 2020, to the week of August 7, 2021. A simple autoregressive structure is used to capture labor market dynamics, augmented by dummy variables for each week (which capture all common, national changes in labor market conditions) and each state (which capture the state labor environment). (See the appendix for regression results.) It is important to note that the data used in this analysis exclude those individuals collecting unemployment compensation through PUA and PUEC claims in order to better isolate the impact of the $300 [i]? The analysis ran two different fixed effects regressions, one for initial claims and the other for continuing claims, to estimate the effect of the removal or continuation of FPUC across states on the number of claims. Finally, Maryland and Indiana were not included in the analysis as both removed and within the span of two weeks reinstated the $300 supplement as a result of court rulings.

Conclusion

With the wide availability of vaccines, and businesses resuming operations but struggling to find employees, 24 states chose to end pandemic-related policies before they expired, including the $300 weekly unemployment supplement. Those states that chose to end the $300 supplement early saw reductions in both initial and continuing unemployment claims, 14 and 5 percent, respectively. With workers experiencing long-term unemployment and benefits expiring, policymakers should focus on fostering a sustainable labor force and economic growth by encouraging labor force reentry.

Appendix

Initial Claims

Variable	Coefficient (standard error)
Lagged Value Ln Initial claims	0.8175 (.0234)
Time (weeks without FPUC)	– 0.1419 (.0202)
P-value	<.01

Continuing Claims

Variable	Coefficient (standard error)
Lagged Value Ln Continuing Claims	0.9277 (.0177)
Time (weeks without FPUC)	-0.048 (.01)
P-value	<.01

Notes

[i] Ending PEUC in some cases may have had a minor effect on the decline in claims, but it is challenging to disentangle claimants who received PEUC as PUA claimants or as regular claimants.