Policy Brief
Initial Assessment of Early End to Unemployment Benefits: Questionable Impact

Background

With the onset of the COVID-19 pandemic, many employers, following guidance or regulation from federal, state and local governments, were compelled to shut down their operations for extended periods of time, affecting millions of workers. Public policy leaders responded swiftly, in order to ease the dramatic shock to those workers and the economy as a whole with redesigned federally enhanced unemployment benefits. In March, the $1.9 trillion American Rescue Plan Act, extended a number of programs that were approved a year earlier to September 6, 2021, including the Federal Pandemic Unemployment Compensation (FPUC) lowered to a $300 supplement; Pandemic Unemployment Assistance (PUA) for the self-employed, gig workers, and others who were not eligible for standard unemployment insurance; Pandemic Emergency Unemployment Compensation (PEUC) for the long-term unemployed. The bill allowed states to opt out.

As the economy bounced back, there was concern that those generous federal benefits would encourage many former low-wage workers to remain out of the labor force rather than returning to work. Many employers reported that their former workers were not returning to their jobs, and that they were having difficulty filling those positions and returning to full operations. In June and July, 25 states ended some or all of these benefits early, on or before July 10, in an effort to encourage the unemployed to return to work.¹

On August 20th, the Labor Department released state-level employment numbers for July, the first full month of data since most of the cut-off states ended the additional aid on or before July 10. This allows a first, though nascent, look at the question: Did the early termination of benefits in some states increase labor force participation and employment?

This is not an easy question to answer with any confidence. For one thing, especially at the state level (because of the smaller unit size than the nation as a whole), employment and labor force data are quite “noisy” simply because of inevitable statistical variation. There also may be other factors influencing employment in different states in any given month. At this early date only aggregate data are available, rather than “microdata” that represent the behavior of a sample of individuals and might be controlled for personal factors that would

¹ States (21) ending all pandemic UI benefits include (on or before July 10, 2021): AL, AR, GA, ID, IN, IA, MD, MS, MO, MT, NE, NH, ND, OK, SC, SD, TN, TX, UT, WV, and WY. States (4) ending only $300/wk benefit include: AK, AZ, FL, and OH. States continuing all UI benefits (on or before July 10, 2021) include: CA, CO, CT, DE, HI, IL, KS, KY, LA, ME, MA, MI, MN, NV, NJ, NM, NY, NC, OR, PA, RI, VT, VA, WA, and WI. LA ended all pandemic UI benefits as of July 31—after the Bureau of Labor Statistics July reference period—and is counted as “continuing all UI benefits” for this analysis.
influence their decisions. However, in the interest of answering this pressing question, it is possible to use the data at hand to get a first assessment of the impact of the termination of benefits in some states.

Following are some simple comparisons of labor market indicators across the groups of states that did or did not terminate benefits early, backed up with some statistical tests. To betray the conclusion (or lack thereof), there is little evidence that the termination of benefits had any significant impact. However, for a number of reasons, it would be premature to conclude that it had no impact either.

While private employment continued to rise in states continuing UI benefits, there was no significant change in employment in states that eliminated benefits early

The first exercise is a comparison of levels of employment in June (before benefits were terminated) and July (the first month when benefits were terminated) between states that did and did not terminate benefits (considering all such states, and separately those states that terminated all benefits, and those that ended only the flat added benefit). Notable findings include:

- There was no statistically significant difference (using a “Student’s t” test) in employment growth between states that did and did not end UI benefits early
- In states that ended benefits, doing so had no statistically significant impact on employment growth between June and July
- However, in states that did continue benefits, there was a statistically significant increase in employment over that time (as has been found by other studies).

Chart 1a. Average monthly percent change in total private employment

![Chart 1a](image-url)

Chart 1b. Average monthly percent change in total private employment
Reactions: The second chart demonstrates the month-to-month noise in the state employment data; the numbers for both groups of states bounce significantly even before the additional benefits were terminated. Some might argue that the greater employment growth in those early months in the states that later terminated benefits could have worked against a large increase in July, or that the greater growth in earlier months was in some sense an “anticipation effect,” as unemployed persons sought to find jobs before their benefits actually ran out.

Ending UI benefits did not move a significant number of people off the sidelines and into the labor force

Another possible effect of the termination of additional benefits would be that unemployed persons would become more active and search for work, even if they might not have found jobs. This is a complex question, because to qualify for unemployment benefits, people technically must search for work, and for that reason would already be counted as “in the labor force.” However, the monthly household survey and the representations of workers to their state employment offices are two different things, and the questions in both settings can be complex, and might be interpreted differently in the pandemic. However, taking this question at face value:

- As one would expect from the incentives involved, the labor force appears to have grown marginally in states that eliminated UI benefits, while contracting marginally in states that kept the pandemic-era benefits in place (Chart 2a).
- But a statistical test shows that there is no significant difference in the growth of the labor force between states that did and did not end benefits early, nor before and after the cut off dates for states that did eliminate benefits.
• Thus, there is no statistically significant evidence that removing UI benefits moved a significant number of people off the sidelines and into the labor force.

Chart 2a. Average monthly percent change in the labor force

Note: “All pandemic UI benefits” include: Federal Pandemic Unemployment Compensation ($300 supplement); Pandemic Unemployment Assistance (for the self-employed, gig workers, and others); Pandemic Emergency Unemployment Compensation (for the long-term unemployed). States “ending any or all pandemic UI benefits” include those ending all pandemic-related benefit programs and those (AK, AZ, FL, and OH) ending only the $300 weekly payment early. Data refer to the week that includes the 12th of each month. LA ended all pandemic UI benefits as of July 31—after the July reference period—and is counted as “continuing all UI benefits” for this analysis. Source: US Bureau of Labor Statistics, Current Population Survey; state announcements and websites
Reactions: Again, in these noisy monthly data, there are inevitable questions about possible anticipation effects, and other influences on worker choices.

Even for hotels and restaurants, removing UI benefits did not translate into a significant change in employment

To focus on a labor market segment that was intensely affected by the pandemic, we look specifically at employment in the personal services delivered in hotels and restaurants. This sector has been cited as suffering from an inadequate supply of workers.

- Hospitality is probably the sector that would be expected to show the greatest impact from the removal of UI benefits. However, in a word, the data do not show an inducement to work in the states that terminated the pandemic benefits.
- Chart 3a shows that hospitality employment grew in the states that continued benefits, and generally shrank in the states that did not.
- But Chart 3b shows that the outcomes between the two groups of states are quite similar.
- A statistical test indicates that hotel and restaurant employment in July did not experience a significant change in either group of states.

Chart 3a. Average monthly percent change in employment, accommodation & food services
Chart 3b. Average monthly percent change in employment, accommodation & food services

Note: "All pandemic UI benefits" include: Federal Pandemic Unemployment Compensation ($300 supplement); Pandemic Unemployment Assistance (for the self-employed, gig workers, and others); Pandemic Emergency Unemployment Compensation (for the long-term unemployed). States “ending any or all pandemic UI benefits” include those ending all pandemic-related benefit programs and those (AK, AZ, FL, and OH) ending only the $300 weekly payment early. Data refer to the pay period that includes the 12th of each month. LA ended all pandemic UI benefits as of July 31—after the July reference period—and is counted as “continuing all UI benefits” for this analysis. NM (continuing benefits) and SD (ending all pandemic benefits) do not report data for accommodation & food services and are excluded.


Reactions: In addition to all of the statistical noise, there could well be important local conditions that would have affected employment during this pandemic-influenced period.

Concluding Thoughts

- There is considerable statistical noise in these data, and state-specific developments could be important.
- We may know more in time with the collection of additional data. However, even then, there might not be a definitive answer as to the impact of the removal of benefits. Benefits will be terminated in all states in September, and so the experimental period of differences in benefits across states will be short.
- And that point has the additional implication that the policy issue of the pandemic unemployment benefits is going away in the very near future in any event.
- Some people may have responded to the announced termination of benefits early out of caution before the cut-off dates, to ensure that they had jobs once benefits were actually terminated. To the extent that such behavior was prevalent, employment and labor force participation in the states that terminated benefits might have increased in June as well as July, which would confound the June-versus-July comparison on which this exercise has been based.
- With respect to continuing policy choices, it is noteworthy that CED Trustees have reported considerable difficulty filling jobs even at high wage levels, such that the amount of unemployment benefits would seem irrelevant. Even before the pandemic, labor market analysts at The Conference Board have emphasized that
the United States faces long-term labor shortages. This is a structural issue that will apply all along the wage spectrum. Employers can expect difficulty recruiting both low and high wage workers, in the leisure & hospitality sector with relatively low wages, but also in manufacturing, construction and transportation where wage rates are relatively high. This long-term labor market pressure is largely due to the aging of our population generally, the current gradual retirement of the outsized baby boom generation, and declining birth rates over the long term. The impact of the pandemic on these long-term developments is of course yet to be fully understood.

- Also looking forward, states today differ widely in their rates of vaccinations and new infections and hospitalizations. And ahead of the start of the new school year, many parents—and disproportionately mothers—are still struggling to find adequate childcare. The ongoing fear of infection and childcare issues will continue to affect the decision calculus for many would-be workers about returning to the labor force.