

# Research Briefing | US

## Enhanced benefits aren't the labor market's top problem

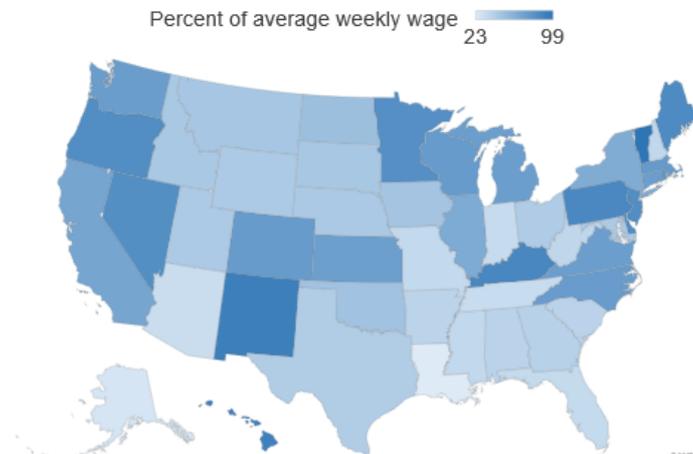
### Economist

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- **Enhanced US unemployment benefits are discouraging only a small share of unemployed workers from finding jobs. The disincentive to work is greatest among lower-wage workers in states where the combination of emergency and regular unemployment benefits are the highest relative to prevailing wages.**
- **Empirical evidence signals a tenuous relationship between benefits and jobs. An increase in the number of people receiving benefits doesn't dramatically weaken job-search activity, and states offering high replacement wages haven't experienced significantly slower job growth.**
- **Overall, the value of a job outweighs the value of unemployment benefits. We find the latter would have to be in the range of \$1,600-\$3,200 per week (depending on the state) to persuade a person to stay unemployed. The benefits that come with a long-term job outweigh the boost from the temporary income supplement.**
- **Still, in the current environment, low-wage workers in states that aren't ending the federal emergency benefits early might be tempted to temporarily remain unemployed since they can earn 10%-20% more from unemployment benefits.**
- **Health conditions are the most important factor for labor market healing. Cross-correlation analysis indicates states loosen restrictions three to four weeks after a consistent downturn in new cases, which then allows labor markets to heal more quickly. Jobless claims in Texas dropped more sharply after its rapid reopening than in New York, whose reopening has been more cautious.**

**Figure 1:  
Supplemental  
benefits will end  
prematurely in 26  
states**

**US: Jobless benefits on the eve of the September 2021  
expiration of the emergency supplement**



Note: Total weekly benefit payout equals standard state payout plus \$300/week FPUC transfer. As of June 21, 26 states will end emergency UI benefits before the September 6 expiration.  
Source: Department of Labor/Oxford Economics

# Enhanced benefits aren't the labor market's top problem

## Enhanced benefits are part of a larger problem

Officials in 26 states have already stopped or are about to stop paying federal emergency unemployment benefits, arguing that pandemic relief is holding back their states' labor market recovery. We believe jobless benefits are one of four factors contributing to a current [transitory mismatch](#) between labor supply and demand that's leaving most industries having less than one unemployed worker available (supply) per job opening (demand) (**Figure 2**).

## Generous benefits slightly impede job growth

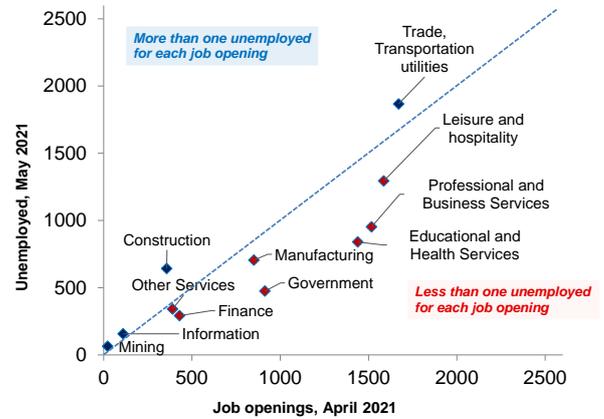
We find that enhanced jobless benefits are an incentive for only a small share of unemployed workers to not find a job. The data indicates a tenuous relationship between changes in the number of people receiving supplemental jobless benefits and the number of people sending out resumes or filling out job applications (**Figure 3**).<sup>1</sup>

A weak negative relationship between benefits and jobs is also visible in state-level data. Since January 2021, states that offered higher total replacement wages (standard state benefit plus the \$300/week federal supplement) haven't had significantly weaker job growth than states where total replacement wages are less generous (**Figure 4**).

Recent academic research also finds that a minority of unemployed workers receiving enhanced benefits would turn down a job. A recent San Francisco Fed [study](#) found that one in seven jobless Americans isn't accepting a job offer because of the \$300/week federal supplement.

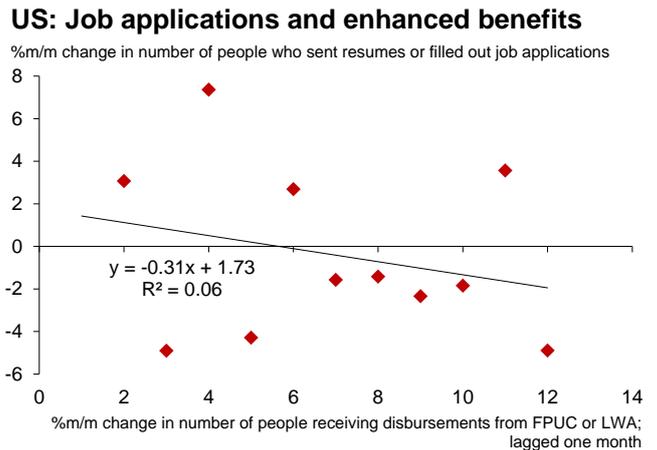
As might be expected, workers choosing to stay unemployed are likely those who previously worked in low-wage positions (**Figure 5**). But the impact of the enhanced benefit has been more modest with the \$300/week federal supplement than it was with the \$600/week supplement paid last year. By occupation, food service, janitors, sales and retail workers, medical assistants, and receptionists can still earn 10%-20% more by collecting benefits than if they worked (**Figure 6**).

**Figure 2: Many industries have too few unemployed workers per job opening**  
**US: Job openings and unemployed**



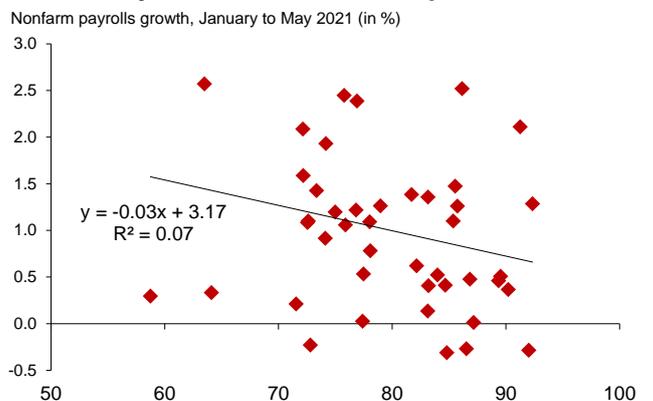
Source : Oxford Economics/Haver Analytics

**Figure 3: Enhanced benefits are weighing modestly on employment growth**  
**US: Job applications and enhanced benefits**



Note: Reflects data from June 2020 through April 2021  
Source: Oxford Economics/Haver Analytics

**Figure 4: States offering more generous jobless benefits haven't seen much slower job growth**  
**US: State jobs recoveries and replacement rates**



Source: Department of Labor/Oxford Economics

<sup>1</sup> We estimate the number of people receiving the enhanced jobless benefits per month using data pertaining to Pandemic Unemployment Compensation Payments and the Lost Wages Supplemental Payments.

# Enhanced benefits aren't the labor market's top problem

## Why aren't benefits posing a larger drag?

With low-wage workers able to earn more from jobless benefits than working, the natural question to ask is: Why have any of them returned to work? Despite the supposed disincentive from generous jobless benefits, employment among [low-wage workers](#) is up almost 30% since April 2020.

We believe the static comparison between jobless benefits and earnings from employment is inherently misleading because it misses other considerations when deciding to find, and accept, a job.

The decision to reject a job offer involves other considerations. People must consider the fact that enhanced benefits won't last forever. Among other considerations: One might be unemployed for longer than preferred, it could take longer for the next job offer to arrive, the new role could pay less than an old job, and skills deteriorate the longer a jobless spell lasts.

To assess the impact of these dynamics, [Petrosky-Nadeau and Valletta \(2021\)](#) calculate a reservation benefit – the amount of unemployment benefits that would make a jobless person indifferent between collecting benefits and staying unemployed versus accepting a job at their previous wage.

Based on their research, we estimate that the reservation benefit across states (assuming the \$300/week supplement continues to be paid) ranges from about \$1,600/week (North Dakota) to roughly \$3,200/week (Massachusetts) (**Figure 7**). The range is wide because workers face different idiosyncratic risks depending on the state. For instance, people in North Dakota tend to be unemployed for less time than people in Massachusetts.

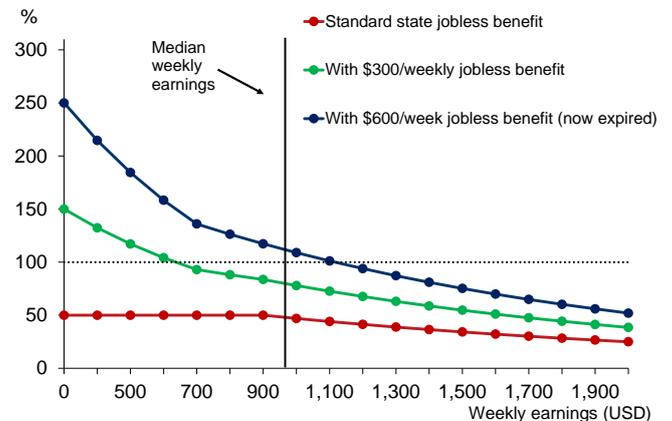
This reservation benefit range is higher than the actual replacement wage range while all states were paying the \$300/week benefit (which has already ended in some states). In all, the findings indicate that the value of a permanent job and the elimination of risks tied to staying unemployed (such as the chance of a long jobless spell) outweigh the value of enhanced jobless benefits.

## Health conditions will drive the jobs recovery

Rather than jobless benefits, we believe Covid dynamics and reopenings are the ultimate factors for labor market healing.

**Figure 5: Lower-wage workers have the most incentive to not find a job**

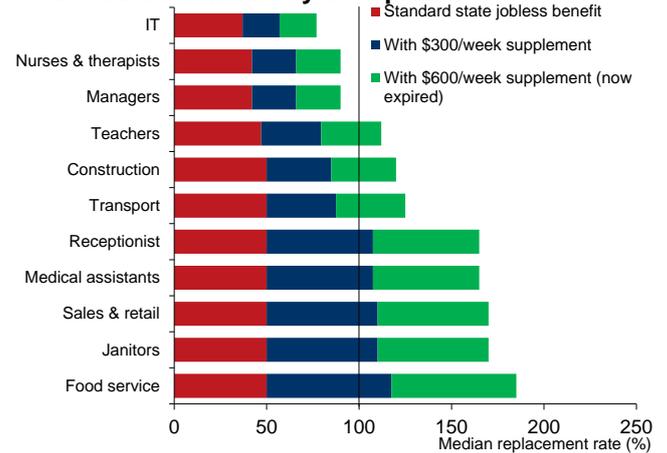
### US: Replacement rates



Note: Replacement rate >100% means worker earns more from benefits than working  
Source: Boar and Mongey (2020)/Oxford Economics

**Figure 6: Jobless benefits might discourage lower-paid workers from accepting job offers**

### US: Jobless benefits by occupation

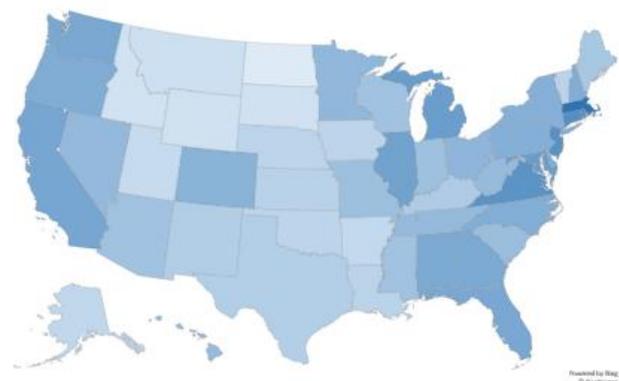


Source: Ganong et al. (2020)/Oxford Economics

**Figure 7: Only more generous jobless benefits might convince a person to stay unemployed**

### US: Reservation rates, state average worker

\$ amount of UI payments per week



Source: Based on Petrosky-Nadeau and Valletta (2021)/Oxford Economics

# Enhanced benefits aren't the labor market's top problem

Looking past the initial round of reopenings (which had a clearly positive impact on the jobs recovery), states that contained the virus more effectively have loosened their restrictions more significantly (**Figure 8**). Based on cross-correlations of data from summer 2020 to June 2021, slower virus case growth tends to precede a loosening of restrictions by three to four weeks.

And looser restrictions subsequently spur faster labor market healing. We find that a 10ppts drop in a state's restrictions in a particular month, based on the University of Oxford's [stringency indices](#), leads weekly initial jobless claims to fall 18% in the following month, on a median basis.

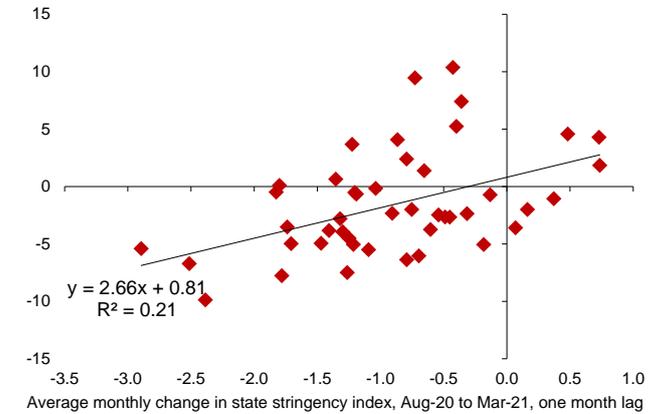
These dynamics are readily apparent at the state level. Texas, which [completely rescinded](#) restrictions in early March, saw its initial jobless claims fall from an average of 73k/week in March to 26k/week in May (down 65%). New York's more cautious approach to reopening led its initial jobless claims to decline more modestly, from an average of 45k/week in March to 24k/week in May (down a tamer 50%). The Empire State's more generous jobless benefit may also underlie the slower decline in its jobless claims.

With new Covid infections (**Figure 9**) and death rates now at their lowest since the pandemic began and most of the adult population now vaccinated, looser restrictions are set to spur stronger job gains. We anticipate that the very modest headwind posed by enhanced jobless benefits on job growth will gradually fade as the supplement slowly expires across states. This drag will completely diminish by September, when all states stop paying the supplement.

**Figure 8: Covid restrictions play a role in the pace of labor market healing across states**

## US: Initial jobless claims vs. stringency

Average change in average initial jobless claims from Aug-20 to Mar-21



**Figure 9: Health conditions are on an encouraging trend**

## US: Coronavirus incidence rates

Confirmed cases per 100,000 persons by region, weekly change

