Unprecedented: A Brief Review of the Extraordinary Unemployment Benefit Response to the Coronavirus Crisis

By Matt Weidinger

April 2020

Key Points

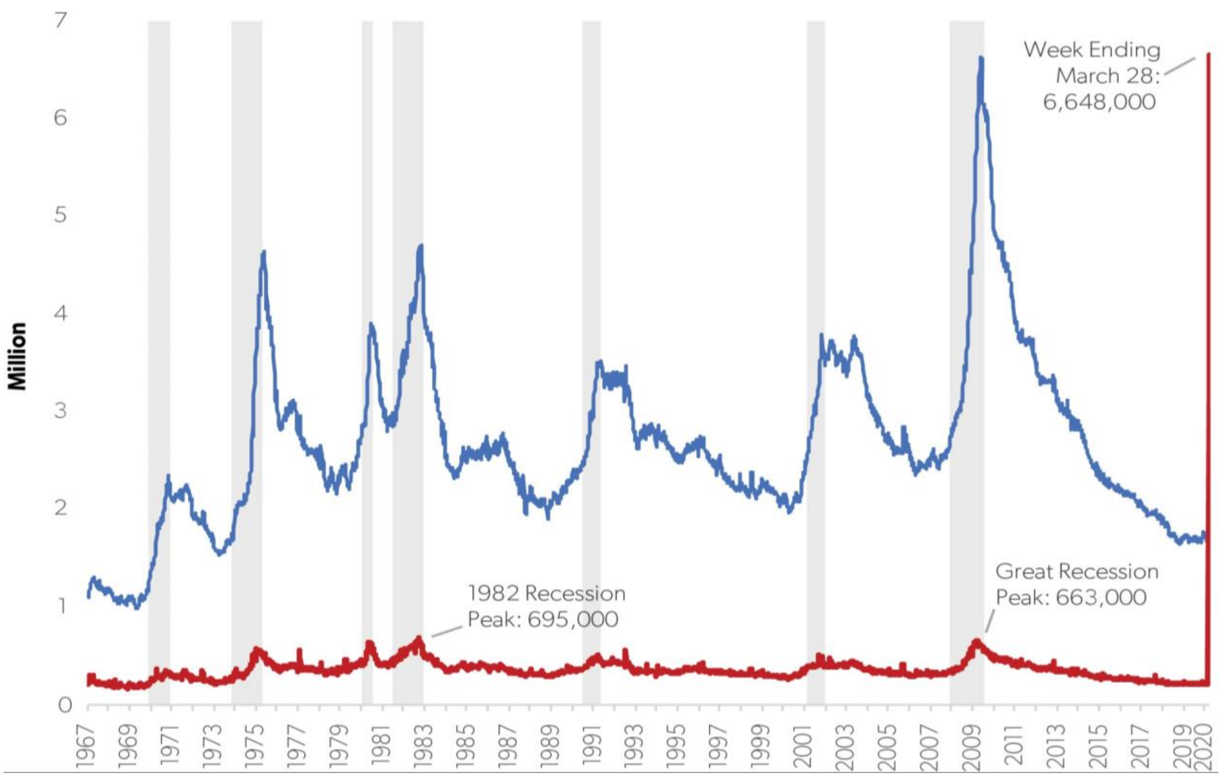
- In the two weeks ending on March 28, 2020, 10 million American workers filed initial claims for unemployment insurance (UI) benefits, including a record 6.6 million in the week ending March 28, an unprecedented spike that came after a record labor market expansion.
- The federal government's initial response to the enormous economic dislocation caused by the coronavirus has been equally unprecedented and ambitious and includes numerous changes, such as expanding the UI program and offering new unemployment benefits to millions of previously ineligible Americans.
- A number of these changes are specifically suited to an economy that is shuttered to slow the spread of the coronavirus. But when and where this health crisis eases and workers can safely return to work, those extraordinary policies should be lifted so workers and the US economy can quickly recover.

The recent rise in unemployment caused by the coronavirus crisis is unprecedented. The US labor market's 113-month expansion came to an abrupt end in March 2020 as the nationwide response to the coronavirus took hold. Instead of unemployment rates matching 50-year lows, millions of American workers have filed for unemployment insurance (UI) benefits in recent weeks.

As displayed in Figure 1, initial UI claims have skyrocketed now that broad swaths of the economy are shut down.[1] For the week ending March 21, 2020, there were 3.3 million initial claimants for UI benefits, followed by 6.6 million initial claimants for the week ending March 28, 2020. The highest prior level in the program's history was for the week ending October 2, 1982, when 695,000 individuals filed initial claims for UI benefits.

Never before in the UI program's history have initial claims for benefits exceeded continuing claims, as has occurred over the past two weeks. As these unprecedented initial UI claims are processed, continuing claims data will skyrocket, too. Initial claims in the past two weeks suggest that more than 11 million Americans are now on (or about to be on) state UI benefits. That is already more than 50 percent greater than the prior national record of 6.6 million recorded in 2009 during the Great Recession.

Figure 1. Continued (Blue) and Initial (Red) Weekly Claims for State Unemployment Insurance Benefits



Note: Shaded areas reflect recessionary period. Data are seasonally adjusted. The blue line shows continued claims, and the red line shows initial claims.
Source: Continued claims (insured unemployment) and initial claims were retrieved on April 2, 2020, from Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CCSA.

Unprecedented Response

The federal government's response to the extraordinary health and economic dislocations resulting from the coronavirus pandemic has been historic on numerous fronts. Never before has Congress so quickly enacted more complex, ambitious, or costly emergency legislation designed to address economic distress. This response has involved dozens of distinct policies and programs, including multiple changes involving unemployment benefits—both extending and expanding the UI program and creating a new program whose eligibility criteria extends to additional classes of laid-off workers ineligible for regular UI benefits.

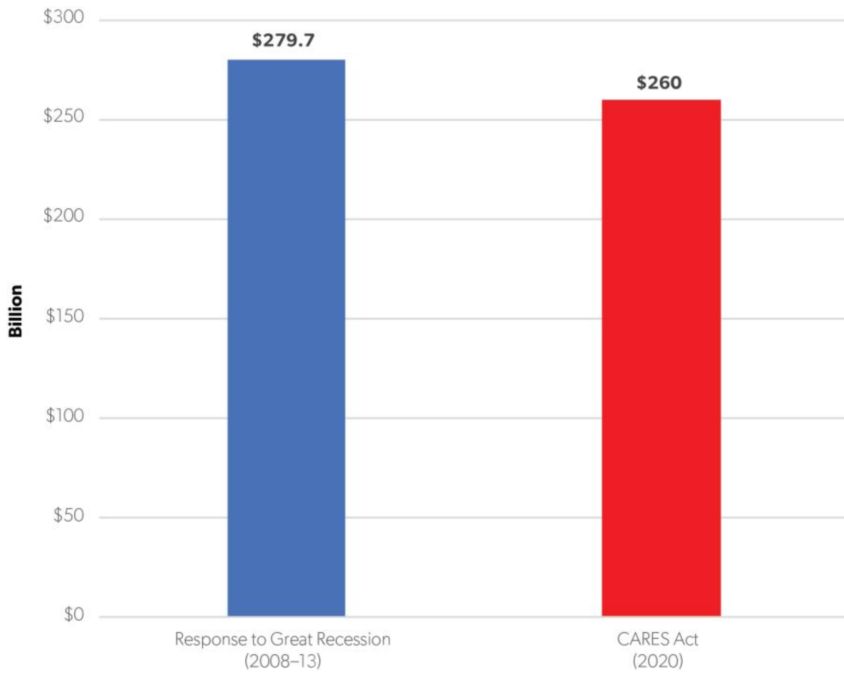
A significant factor in this effort is the well-intentioned desire to fully maintain purchasing power for workers whose layoffs stem directly from government efforts to minimize economic and other activity to slow the spread of the coronavirus. As displayed in Figure 2, the estimated cost of these federal benefit expansions just for the remainder of 2020 ($260.0 billion) already almost rivals the entire cost of the federal unemployment benefit response to the Great Recession from 2008 through 2013 ($279.7 billion).

Federal spending is just one measure of how the current federal unemployment benefit response is unprecedented. The review below of the major policies involved in this response reveals how several of those policies are also unprecedented—and in key ways suited specifically to a period when a pandemic prevents many businesses from operating.

Major Legislative Changes

As coronavirus cases started significantly rising in the US, major federal legislative responses included (1) emergency appropriations for affected programs (Coronavirus Preparedness and Response Supplemental Appropriations Act, enacted on

Figure 2. Emergency Federal Unemployment Spending, Response to Great Recession (2008–13) vs. CARES Act (2020)



Source: Federal unemployment spending for 2008–13 is based on author's calculation using US Department of Labor, Employment and Training Administration, "Emergency Unemployment Compensation 2008 (EUC08) and Federal-State Extended Benefit (EB) Summary Data for State Programs," https://oui.doleta.gov/unemploy/euc.asp. The CARES Act estimate is from Senate Democrats, "Fighting the COVID-19 Public Health Crisis and Putting 'Workers First,'" https://www.democrats.senate.gov/imo/media/doc/C-3%20summary_V1.2-updated.pdf.

March 6, 2020), (2) new and expanded benefit programs assisting low-income and other families (Families First Coronavirus Response Act, enacted on March 18, 2020), and (3) major expansions in employer assistance, other tax relief, and unemployment and other benefit programs (Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020). Significant UI program changes were included in the Families First and CARES Acts, as reviewed in turn below and in Figure 3.[2]

Families First Coronavirus Response Act. Major unemployment benefit policies in the Families First Coronavirus Response Act include:[3]

1. The payment of up to $1 billion in federal UI administrative funds to states that expand eligibility for UI benefits. State shares of this funding are available in two equal installments, provided individual states satisfy two sets of requirements. For the first installment, states must require employers to notify employees about the availability of unemployment benefits at separations, ensure unemployment applications are available through at least two methods, and provide individuals assistance with processing unemployment benefit applications. For the second installment (which is available to states that experience UI claim increases of greater than 10 percent compared with the same calendar quarter in the previous year), states must agree to steps increasing access to unemployment benefits, such as waiving the requirement to search for work and waiving the one-week waiting period to receive benefits.

2. Full (100 percent) federal funding of the permanent law Extended Benefits (EB) program, which is typically 50 percent federally funded and offers individuals who exhaust state unemployment benefits in high-unemployment states up to 13 or 20 additional weeks of extended unemployment benefits. The legislation also provides for partial (50 percent) federal funding for the first week of EB benefits in states that do not have a waiting week for collecting regular UI benefits. These benefits are payable through December 2020.

3. Interest-free federal loans made available to states that exhaust their state unemployment benefit trust funds, through December 2020.

4. The secretary of labor assisting states in "establishing, implementing, and improving the employer awareness of short-time compensation programs."[4]

CARES Act. Major unemployment benefits created or expanded in the CARES Act include:[5]

1. Pandemic Unemployment Compensation (PUC), a new $600 per week supplement added to regular UI benefits; Pandemic Unemployment Assistance; Pandemic Emergency Unemployment Compensation; EB program benefits; and, according to Department of Labor guidance issued on April 2, 2020, Short-Time Compensation benefits.[6] These supplemental payments are 100 percent federally funded and available for weeks of unemployment through July 2020. The supplement is disregarded for determining eligibility for Medicaid and Children's Health Insurance Program benefits. A nonreduction rule applies, requiring states to maintain current levels of UI benefit weeks and benefit amounts for unemployed workers to be eligible for supplemental payments in the state.

2. Pandemic Unemployment Assistance (PUA), a new unemployment benefit program serving unemployed workers not eligible for the regular UI program, including freelancers, self-employed individuals, independent contractors, those seeking only part-time employment, and individuals who have exhausted other state and federal unemployment benefits. This benefit is 100 percent federally funded, payable for up to 39 weeks, and available through December 2020. The PUA benefit is calculated using the terms of the regular UI program, except that the minimum PUA benefit cannot be less than 50 percent of the average weekly UI benefit in the state (to which the $600 per week PUC supplement is added through July 2020). Unlike regular UI, which is generally payable only to individuals who are laid off through no fault of their own, PUA benefits are payable to an individual who is needed at home to care for a child whose school has closed due to the coronavirus or who "has to quit his or her job as a direct result of COVID-19,"[7] among other categories for which a claimant provides self-certification. There is no waiting period for PUA benefits, which are payable as soon as the claim is processed.

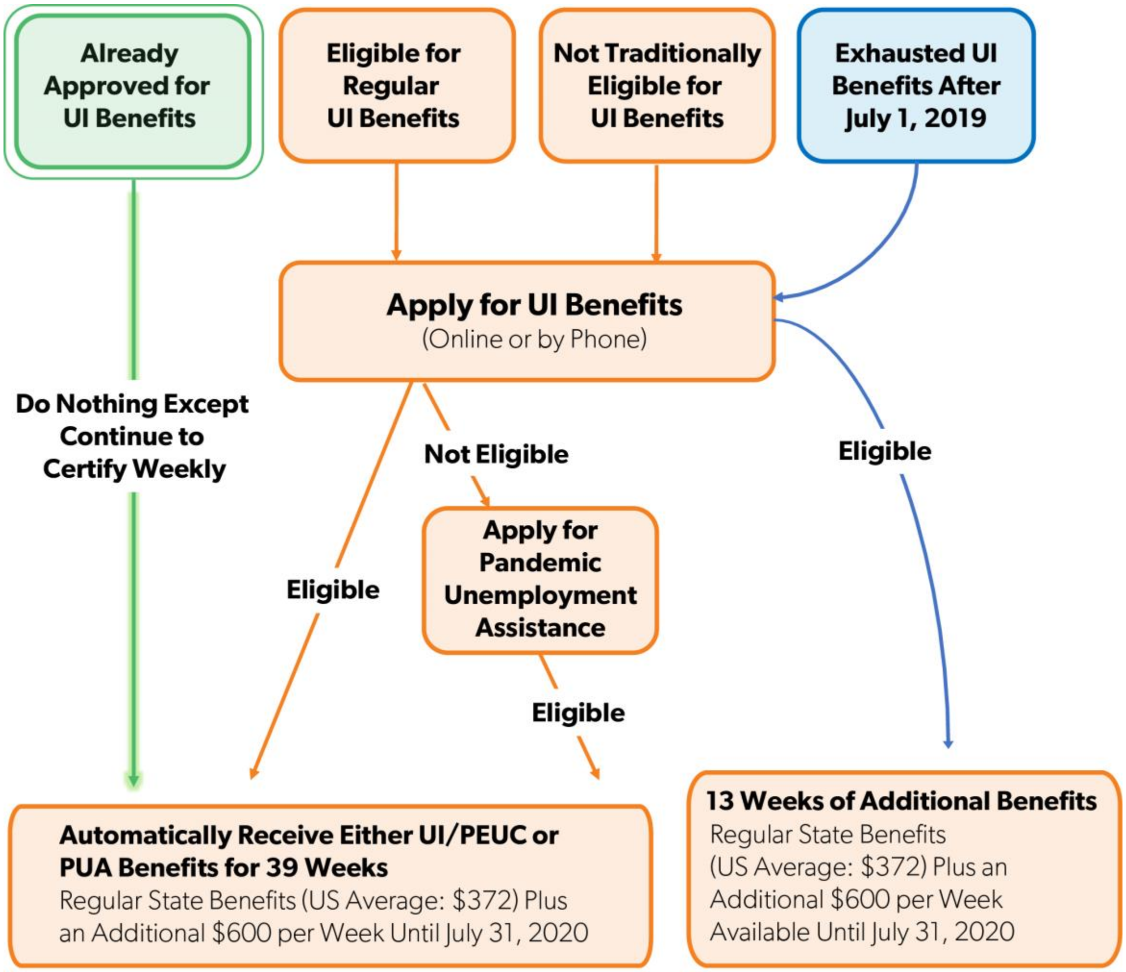
3. Pandemic Emergency Unemployment Compensation (PEUC), a new 100 percent federally funded temporary program providing 13 weeks of extended unemployment benefits to individuals who have exhausted state UI benefits, with the 13 weeks payable regardless of the duration of individuals' state UI benefits. The PEUC benefit is payable in all states, without a minimum state unemployment rate requirement. The "weekly benefit amount" of PEUC is equal to the individual's state UI benefit, to which the $600 per week supplement is added through July 2020. A nonreduction rule applies, requiring states to maintain current levels of UI benefit weeks and benefit amounts for unemployed workers to be eligible for PEUC benefits in the state.

4. Full (100 percent) federal funding for the first week of state UI for states with no waiting week, through December 2020.

5. Full (100 percent) federal funding for the cost of Short-Time Compensation (STC) in states that operate such programs by law and partial (50 percent) federal funding for states that operate STC programs temporarily by agreement with the secretary of labor. In each case, the funding is available through December 2020. States are also eligible for shares of $100 million in new federal administrative funding to administer (one-third of the total) and promote (the remaining two-thirds) STC programs, under applications that must be submitted before the end of calendar year 2023.

6. Partial (50 percent) federal funding for the UI benefit costs of reimbursable state and nonprofit employers, through December 2020.[8]

Figure 3. Current Unemployment Benefit Process



Note: Weeks of benefits reflect the majority of states that pay up to 26 weeks of regular unemployment insurance benefits. It does not include an additional 13 or 20 weeks of extended benefits potentially payable under the extended benefits program, which was made 100 percent federally funded under the Families First Coronavirus Response Act, through December 2020.
Source: Author's reproduction from New York State Department of Labor, "Relief for Workers Affected by Coronavirus Act," https://www.labor.ny.gov/ui/pdfs/cares-act-need-to-know-flowchart.pdf.

Policies Unique to This Crisis

Several of the emergency policies deployed thus far are highly unique to the current emergency and related to efforts to "temporarily halt certain activities in order to defeat the coronavirus," as Labor Secretary Eugene Scalia said.[9] As that suggests, this employment downturn is uniquely intentional (that is, stemming in part from a desire to limit economic activity and otherwise promote social distancing to reduce the spread of the coronavirus). For that reason, policymakers on both sides of the aisle supported policies to "make people whole." As Sen. Brian Schatz (D-HI) put it:

> The idea here is that it's the government that is, by necessity, telling everybody to stay home, and we have to make people whole so that they can make their rent, they can buy their groceries and they can pay their mortgage, they can pay their utilities.[10]

Below is a discussion of key emergency policies that are unique to the current crisis.

Adding $600 per Week to UI Benefits. The new $600 per week supplements to regular unemployment benefits are distinctly unique to this crisis.

These supplements proceed from and appear to have been set at a level consistent with the desire to "make people whole" due to the unique nature of this crisis.[11] That contrasts with the long-standing goal of unemployment benefits to replace a fraction of a worker's prior wages.[12]

The $600 supplements are also far larger than supplements provided under a previous program designed to temporarily boost unemployment benefits: the Federal Additional Compensation program. That temporary program operated in 2009 and 2010 in the wake of the Great Recession, when it paid eligible recipients an additional $25 per week in benefits—1/20th of the current $600 supplements, on an inflation-adjusted basis.[13] As Gary Burtless of the Brookings Institution notes of the $600 benefit increase:

> If the typical recipient had 41% of past earnings replaced by a UI check, when the benefit increase in the relief package goes into effect, the typical UI replacement rate will rise to about 105%. This means many unemployed workers, especially those earning below-average wages, will receive weekly benefits that are greater than the weekly earnings they lost.[14]

Suspending Work Search Requirements. To increase family income, shorten unemployment durations, and promote the smooth operation of the labor market, unemployment benefits have historically been conditioned on a recipient searching for work. Generally, UI benefits are payable to those who are "able, available, and actively searching for work."[15] Again, owing to the unique nature of this crisis—including the desire to limit contact between individuals and otherwise promote social distancing—Congress has taken several steps to relax these long-standing job search requirements.

In the Families First law, Congress conditioned the availability of part of $1 billion in new federal UI administrative funding on states taking steps to "ease eligibility requirements and access to" unemployment benefits, including by "modifying or suspending work search requirements."[16] In addition, key benefits provided temporarily under the CARES Act are available even if recipients do not search for work.

For example, PEUC is payable if recipients do not search for work: "a State shall provide flexibility in meeting such requirements in case of individuals unable to search for work because of COVID–19, including because of illness, quarantine, or movement restriction."[17] These steps make sense given the exceptional conditions of the current crisis, for as long as movement restrictions and similar extraordinary conditions apply.

Providing Benefits to Many Individuals Who Are Not Laid Off Through No Fault of Their Own. UI benefits are typically payable only to individuals who are laid off through no fault of their own, except for a limited number who quit work for "good cause." In the Families First law, as noted in recent guidance from the Department of Labor, Congress provided

> broad flexibility for states to temporarily amend their "good cause" provisions in response to the spread of COVID-19. We encourage states to consider temporarily modifying their good cause provisions in such a way as to comply with the social distancing recommendations of federal, state, and local government officials to mitigate the spread of COVID-19. Examples that states may consider in allowing good cause include leaving work due to a reasonable risk of exposure or infection (i.e., self-quarantine) or to care for a family member affected by the virus.[18]

Those expansions apply to UI and EB recipients. In the CARES Act, Congress further expanded such exceptions to cover new PUA benefits payable to an individual needed at home to care for a child whose school has closed due to the coronavirus or who "has to quit his or her job as a direct result of COVID-19,"[19] among other categories.

Providing Unemployment Benefits to Previously Uncovered Individuals, Whose Prior Work Was Not Taxed to Support the Cost of Those Benefits. The UI system is a social insurance program that provides benefits to "covered individuals"—that is, those for whom employers have paid payroll taxes based on "covered work" in the months and years before a layoff. In contrast to that long-standing practice, the CARES Act created PUA. PUA benefits are 100 percent federally funded, and eligibility is not based on the payment of taxes for prior covered work, as is the case under the UI system. This lack of a prior program connection is expected to result in significant challenges for state UI agencies tasked with paying accurate and timely PUA benefits.[20]

After This Crisis Has Passed

It remains to be seen how long the current coronavirus shutdowns will last and how quickly the economy will be able to recover from them. But we know that some major unemployment benefit expansions already enacted in response to the coronavirus crisis will remain in place through July, and others through December.

Policymakers have started to discuss future unemployment benefit and other program expansions, some of which could become permanent features of the UI system.[21] On April 3, 2020, House Speaker Nancy Pelosi

> called for the fourth package to extend enhanced unemployment insurance benefits, including an added $600 weekly benefit on top of current state maximums, through September. The just-approved package provides the bigger unemployment payouts through July 31. "Let's take it to six [months] for the unemployment so that people have that confidence," she said. "Hopefully they don't need it, but they have that confidence."[22]

As these and other proposals are debated, lawmakers should be aware that a number of the emergency unemployment benefit policy responses to the coronavirus crisis are highly unique to this crisis and at odds with long-standing and important UI policies. Those extraordinary policies include the well-intentioned desire to fully maintain purchasing power for millions of workers whose layoffs stem directly from government efforts to minimize economic and other activity to slow the spread of the coronavirus.

While that and related policies—such as temporarily suspending work search requirements and providing benefits to individuals who quit their jobs—make sense in the current extraordinary context, those policies should not be considered suitable to the future operation of the regular UI system or to emergency responses to more traditional economic downturns. The rationale for important and long-standing UI policies effectively suspended in this crisis include keeping workers connected to employment and more quickly connecting laid-off workers to new work.

While the coronavirus crisis may have temporarily suspended such motives for millions of Americans, that should not be considered the norm for the UI system in the future. Once the coronavirus crisis passes and the economy reopens, the extraordinary policies suited specifically to the current crisis should be rapidly phased out so workers, families, businesses, and the economy can more quickly recover as well.

About the Author

Matt Weidinger is the Rowe Fellow in poverty studies at the American Enterprise Institute, where his work is focused on safety-net policies, including cash welfare and unemployment insurance.

Notes

1. US Department of Labor, Employment and Training Administration, "Office of Unemployment Insurance Weekly Claims Report," https://oui.doleta.gov/unemploy/claims_arch.asp.
2. For additional analysis of recent changes to Unemployment Insurance, see Gary Burtless, "Unemployment Insurance as Social Protection and Stimulus During the Coronavirus Crisis," Brookings Institution, March 30, 2020, https://www.brookings.edu/research/unemployment-insurance-as-social-protection-and-stimulus-during-the-coronavirus-crisis/; and Tara O'Neil Hayes, "Enhanced Unemployment Benefits in the Coronavirus Aid, Relief, and Economic Security (CARES) Act," American Action Forum, March 25, 2020, https://www.americanactionforum.org/insight/enhanced-unemployment-benefits-in-the-coronavirus-aid-relief-and-economic-security-cares-act/#ixzz6IwDDRCa6.
3. Families First Coronavirus Response Act, Pub. L. No. 116-127, https://www.congress.gov/bill/116th-congress/house-bill/6201.
4. Families First Coronavirus Response Act, Pub. L. No. 116-127.

5. Coronavirus Aid, Relief, and Economic Security (CARES) Act, Pub. L. No. 116-136, https://www.congress.gov/bill/116th-congress/house-bill/748.

6. US Department of Labor, Employment and Training Administration, "Unemployment Insurance Program Letter No. 14-20," https://wdr.doleta.gov/directives/attach/UIPL/UIPL_14-20_acc.pdf.

7. CARES Act, Pub. L. No. 116-136.

8. Public and nonprofit employers may elect to opt out of the state unemployment system, but they must reimburse the state for unemployment benefits paid to their laid-off employees instead of paying unemployment insurance taxes.

9. Jeffrey Martin, "Trump Says Jobs Will Return Very Quickly After Record Number of Americans File for Unemployment," *Newsweek*, March 26, 2020, https://www.newsweek.com/trump-says-jobs-will-return-very-quickly-after-record-number-americans-file-unemployment-1494596.

10. The CARES Act and other unemployment benefit expansions passed the Senate 96–0 and the House by a voice vote. Nick Grube, "A $2 Trillion Coronavirus Deal Will Pump Billions into Hawaii Economy," Civil Beat, March 25, 2020, https://www.civilbeat.org/2020/03/a-2-trillion-coronavirus-deal-will-pump-billions-into-hawaii-economy/.

11. For the calendar quarter ending in September 2019 (the most recent data available on replacement ratios when the CARES Act was passed), the average weekly UI benefit was $368, compared with average prior weekly wages of $958. This means for the average UI recipient across the country the $600 supplement would have raised their total UI benefit (including both their regular UI benefit plus the $600 federal supplement) to slightly above their prior wage. See Matt Weidinger, "Under Stimulus #3, Unemployment Checks Could Exceed Paychecks for Half of the Unemployed," AEIdeas, March 26, 2020, https://www.aei.org/poverty-studies/under-stimulus-3-unemployment-checks-could-exceed-paychecks-for-half-of-the-unemployed/.

12. For example, for 2019, the Department of Labor reports that the average UI replacement rate was between 38 and 45 percent, depending on the method of calculation. See US Department of Labor, Employment and Training Administration, "UI Replacement Rates Report," https://oui.doleta.gov/unemploy/repl_ratio/repl_ratio_rpt.asp.

13. For additional information on Federal Additional Compensation (FAC), see US Department of Labor, Employment and Training Administration, "Federal Additional Compensation (FAC) Data for State Programs," https://oui.doleta.gov/unemploy/fac.asp. For a comparison of FAC to the $600 supplement, see Burtless, "Unemployment Insurance as Social Protection and Stimulus During the Coronavirus Crisis," 4.

14. Burtless, "Unemployment Insurance as Social Protection and Stimulus During the Coronavirus Crisis," 4. In 36 states, the addition of the $600 supplement will mean the average weekly unemployment benefit will exceed average weekly earnings. See Weidinger, "Under Stimulus #3, Unemployment Checks Could Exceed Paychecks for Half of the Unemployed."

15. See Congressional Research Service, "Unemployment Insurance: Program and Benefits," October 18, 2019, 3, https://fas.org/sgp/crs/misc/RL33362.pdf.

16. US Department of Labor, Employment and Training Administration, "Unemployment Insurance Program Letter No. 13-20," https://wdr.doleta.gov/directives/attach/UIPL/UIPL%2013-20_acc.pdf.

17. See section 2107 of CARES Act, Pub. L. No. 116-136.

18. US Department of Labor, Employment and Training Administration, "Unemployment Insurance Program Letter No. 13-20," 7–8.

19. CARES Act, Pub. L. No. 116-136.

20. For example, state UI agencies have no experience processing claims from independent contractors or "gig workers," such as those contracted by ride-sharing companies. See Noah Scheiber, "Uber and Lyft Drivers Face Hurdles to Stimulus Bill Benefits," *New York Times*, April 8, 2020, https://www.nytimes.com/2020/04/08/business/economy/coronavirus-gig-unemployment.html.

21. See Michael Bennet, "Reforming Unemployment Insurance to Automatically Respond to Deteriorating Economic Conditions," https://www.documentcloud.org/documents/6818270-Michael-Bennet-s-UI-reform-plan.html.

22. Jessica Wehrman, "Pelosi Punts on Infrastructure in Next Coronavirus Aid Package," Roll Call, April 3, 2020, https://www.rollcall.com/2020/04/03/pelosi-punts-on-infrastructure-in-next-coronavirus-aid-package/.