Benefit Cutoffs Failing to Ease Labor Shortfall

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FULL TEXT

Prematurely ending federal programs had little effect on employment but sharply cut spending, potentially hurting state economies, researchers say.

The cutoff of federal unemployment benefits in much of the country was meant to bring a flood of workers back to the job market. So far, that flood looks more like a trickle.

A total of 26 states, all but one with Republican governors, have moved to end some or all of the expanded unemployment benefits that have been in place since the pandemic began. The governors, along with many business owners, have argued that the benefits discourage returning to work when many employers are struggling to hire.

Several recent studies, however, have concluded that the extra payments have played only a small role in this year's labor shortages. And they found at most a modest increase in employment in states that abandoned the programs -- most of them in June -- even as millions of jobless workers have had to cut spending, potentially hurting local economies.

"The idea was that there were lots of jobs -- it was just that people weren't looking. That was the narrative," said Arindrajit Dube, a University of Massachusetts economist who was an author of one of the studies. "I don't think that story holds up."

Data released Friday by the Labor Department provided the latest evidence. It showed that the states that cut benefits have experienced job growth similar to -- and perhaps slightly slower than -- growth in states that retained the benefits. That was true even in the leisure and hospitality sector, where businesses have been particularly vocal in their complaints about the benefits.

Overall, the U.S. labor market has come a long way since last year, when more than 20 million people lost jobs in the span of two months and the unemployment rate jumped to nearly 15 percent. The economy has regained about three-quarters of the jobs lost in the pandemic, and the unemployment rate has fallen to 5.4 percent.

Still, at the end of July, nearly nine million people were receiving payments through two federal programs that cover people who don't qualify for regular unemployment benefits or whose regular benefits have expired. Millions more were getting a $300-a-week supplement on top of their regular benefits.

All those programs are set to expire next month unless Congress extends them, which appears unlikely. President Biden on Thursday encouraged states with high unemployment rates to use separate federal funds to continue the programs, but it is unclear how many will.

Advocates for the unemployed say they are worried about what will happen to workers if they lose their benefits, especially as the more contagious Delta variant of the coronavirus spreads nationwide.

"We're putting people in this situation at the worst possible time, where they have to be stressed about their children and their safety and now they have to be stressed about their finances," said Rebecca Dixon, executive director of the National Employment Law Project.

Recent evidence suggests that if the benefits do end, most jobless workers won't immediately find jobs, despite a record number of available positions.

In the most detailed study to date, also released Friday, Mr. Dube and several colleagues used data from Earnin, a

financial services company, to review anonymized banking records from more than 18,000 low-income workers who were receiving unemployment benefits in late April.
They found that ending the benefits did have an effect on employment: In states that cut off benefits, about 26 percent of people in the study were working in early August, compared with about 22 percent of people in states that continued the benefits.
But far more people did not find jobs. The researchers had data for 19 states that ended the programs; in those places, they found that about 1.1 million people lost benefits because of the cutoff, and that only about 145,000 of them found jobs. (The researchers argue that the true number is probably even lower, because the workers they were studying were the people most likely to be severely affected by the loss of income, and therefore may not have been representative of everyone receiving benefits.)
Cutting off the benefits left unemployed workers worse off on average. The researchers estimate that workers lost an average of $278 a week in benefits because of the change, and gained just $14 a week in earnings. They compensated by cutting spending by $145 a week -- a roughly 20 percent reduction -- and thus put less money into their local economies.
"The labor market didn't pop after you kicked these people off," said Michael Stepner, a University of Toronto economist who was another of the study's authors. "Most of these people are not finding jobs, and it's going to take them a long time to get their earnings back."
The Labor Department data that was released Friday told a similar story. The five states experiencing the fastest job growth in July -- Vermont, Hawaii, North Carolina, Rhode Island and Alaska -- have all retained at least some of the federal benefits. (Alaska ended the $300 weekly supplement in June but kept the other benefits.)
Overall, states that have ended some or all of the benefits have experienced slightly slower job growth since April than states that have continued the benefits, although economists cautioned that the data was volatile and that the benefits were only one of many ways that the states differed from one another.
Further complicating the picture, states cut off different sets of benefits at different times, and in several states court challenges delayed or are continuing to delay the end of the programs. Still, the data suggests that ending the benefits has not led to a surge in job growth.
"So far you just don't see much impact," said Ioana Marinescu, a University of Pennsylvania economist who has studied the impact of unemployment benefits in the pandemic. She noted that even if cutting benefits did push some people to look for jobs, it might not do much to increase overall employment because those people might take jobs that would otherwise have gone to someone else.
There is some evidence of that in the current labor market: Data from Gusto, a provider of payroll and other services to small businesses, shows that employment among adults 25 and older has risen faster in states that cut federal benefits, while in states that kept the benefits, employment has risen faster among teenagers. That suggests employers may have turned to younger workers to fill jobs during a labor shortage.
Other recent research also finds that benefits are not the primary driver of employers' hiring woes. Economists at the Federal Reserve Bank of San Francisco used data from the government's Current Population Survey to conclude that the $300 supplement "likely had small but noticeable effects on job search and worker availability in early 2021." Jed Kolko, chief economist at the employment site Indeed, looked at more recent data from the same survey and found that the states that have cut benefits have experienced employment growth that was at most slightly faster than in states that kept the benefits.
And in a study published this summer, economists at the University of Chicago and the JPMorgan Chase Institute used data from thousands of Chase customers to study the effect of the $300 supplement. Like Mr. Dube and his co-authors, they found that the benefits had a small though measurable effect on employment.
"It's among the factors," said Fiona Greig, co-president of the JPMorgan Chase Institute. "It's playing a role, but it's not this on-off switch, where if you turn it off everyone goes back to work."
Ms. Greig said a variety of other factors could be discouraging people from returning to work, including child care issues and concerns about the coronavirus itself. Those issues may have receded somewhat over the summer, but

they could worsen again this fall if virus cases continue to rise. If people lose benefits and don't quickly return to work, they will have to cut spending -- which will hurt their families and the economy overall.
"You have to weigh the pros and the cons," Ms. Greig said. "If these benefits get turned off, some of them may go back to work, but some of them may not, and those who do not will likely cut their spending a lot."
Coral Murphy Marcos contributed reporting.
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