

The Economic Case for Strengthening Unemployment Insurance

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Chairman, Council of Economic Advisers



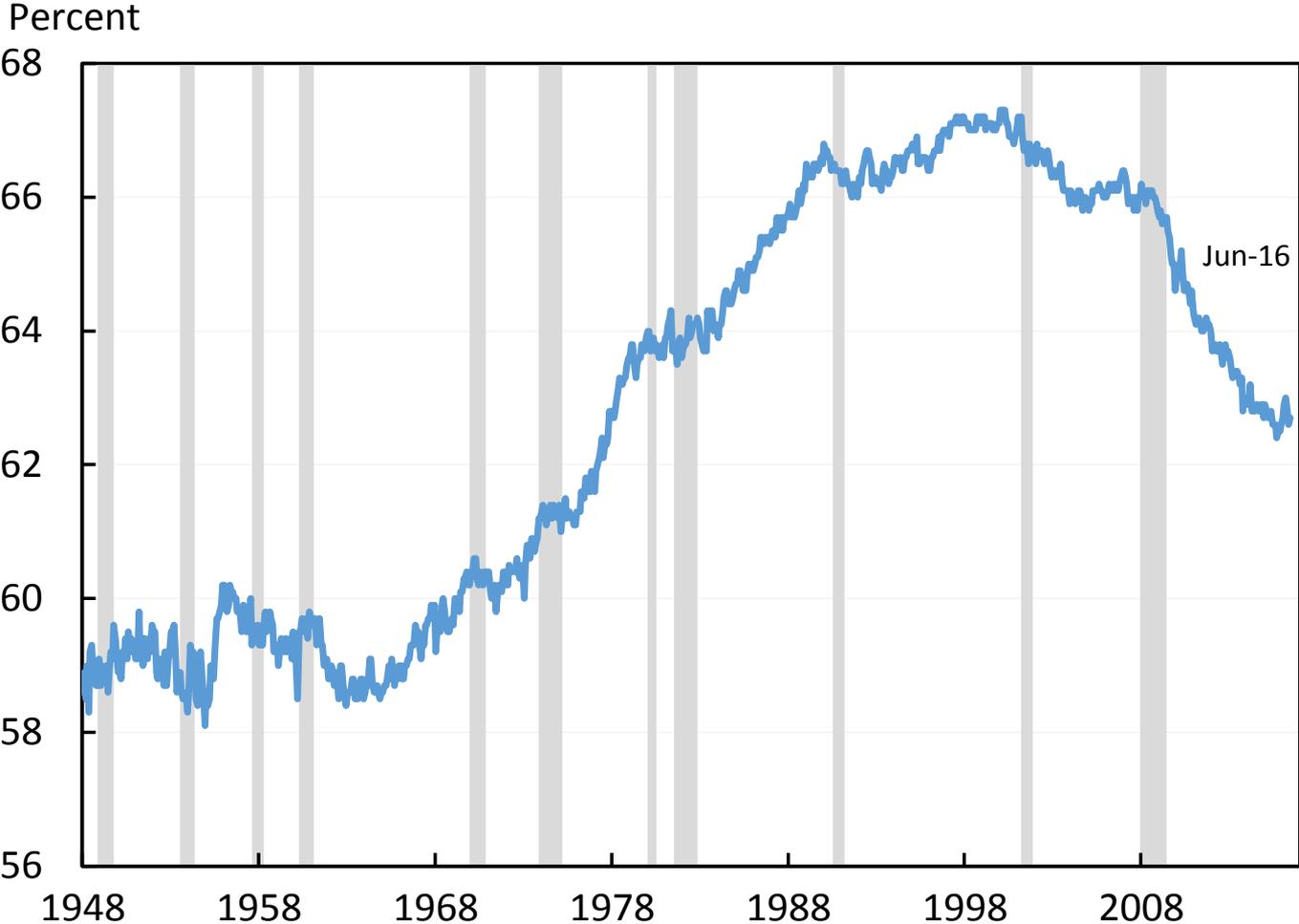
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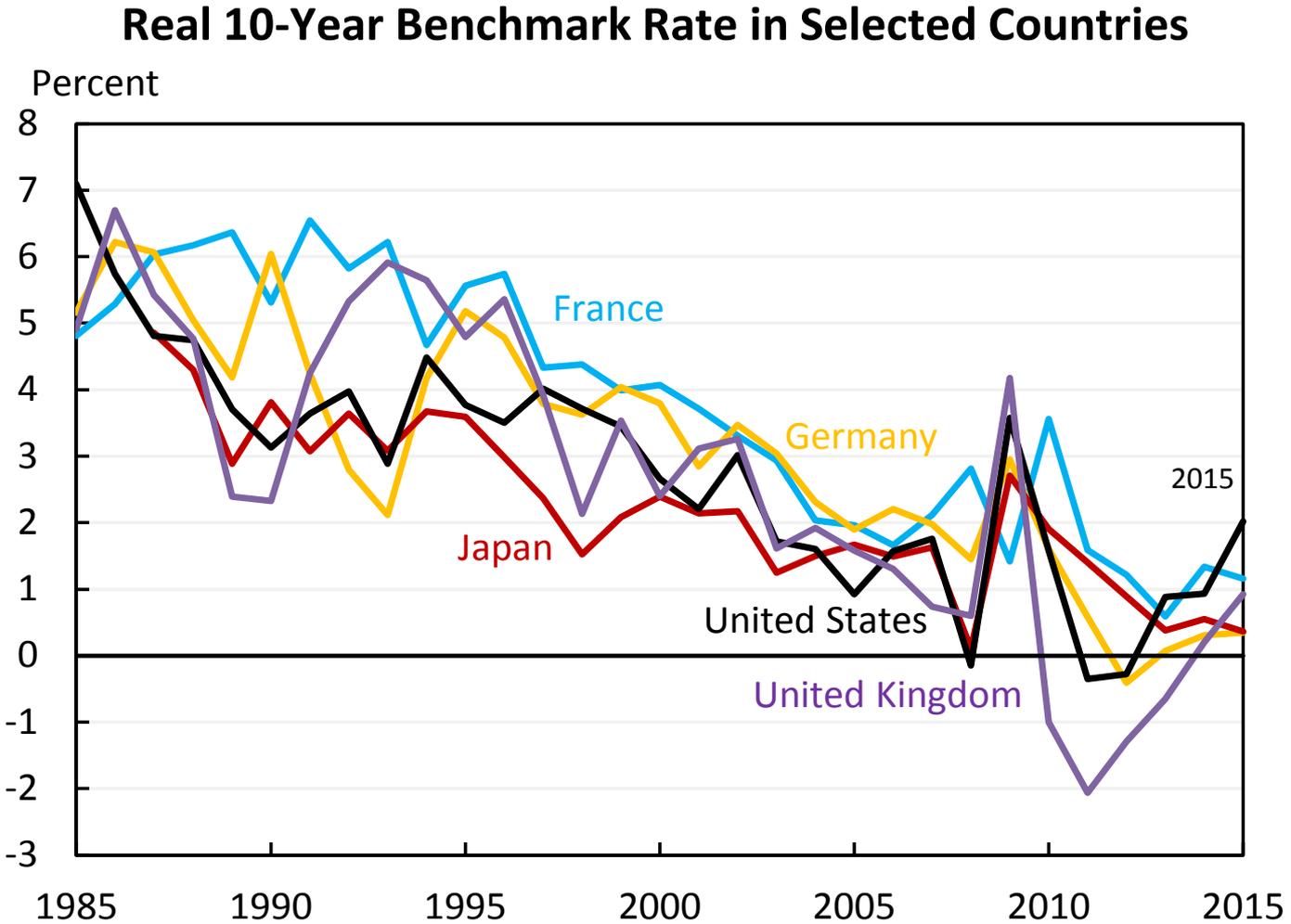
Challenge #1: Declining Labor Force Participation

Labor Force Participation Rate, 1948-2016



Note: Shading denotes recession.
Source: Bureau of Labor Statistics, Current Population Survey.

Challenge #2: Less Space to Address Future Recessions

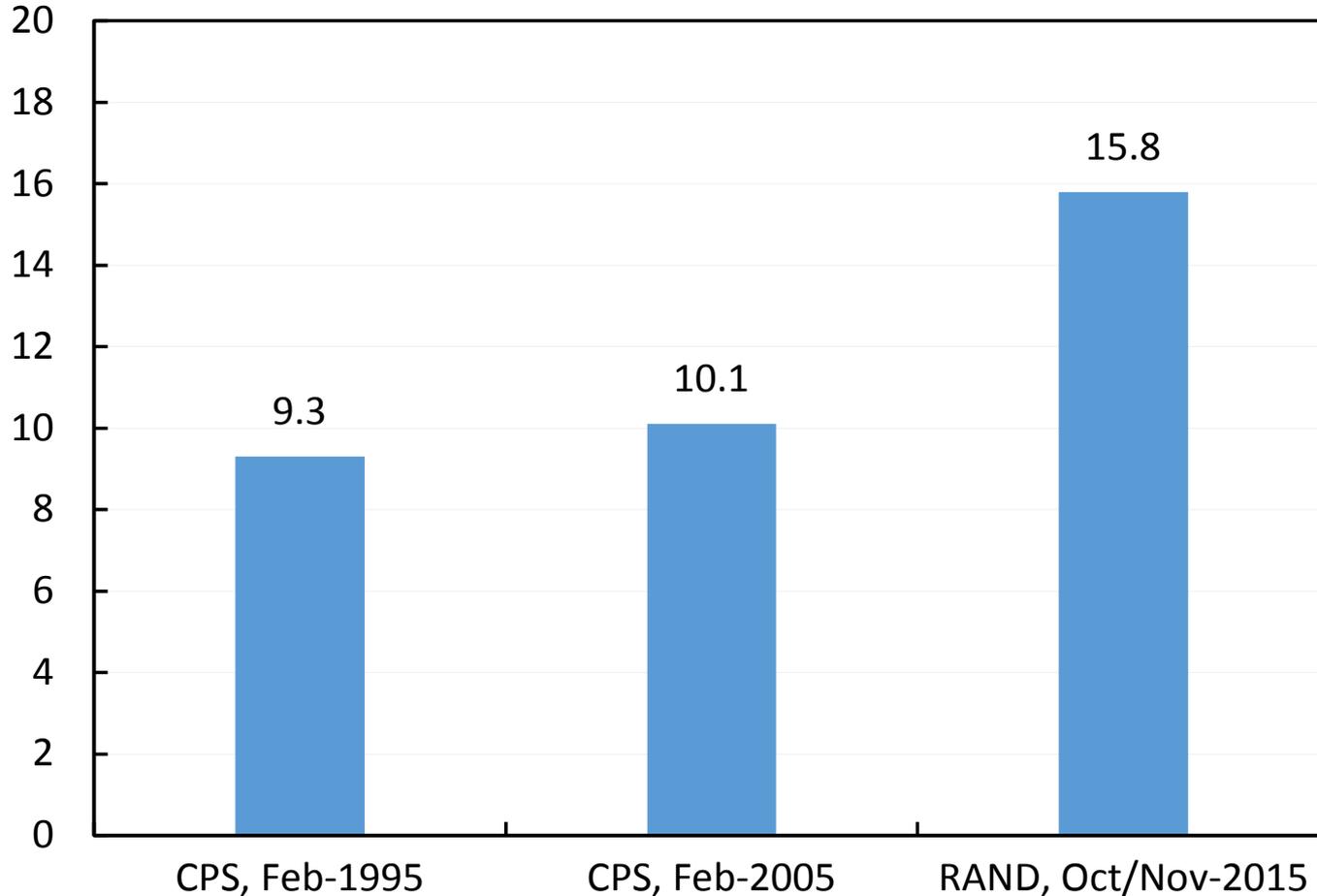


Source: National sources via Haver Analytics.

Challenge #3: The Changing Nature of the Employment Relationship

Alternative Work Arrangements, 1995-2015

Percent of Employed Who Worked During Survey Week

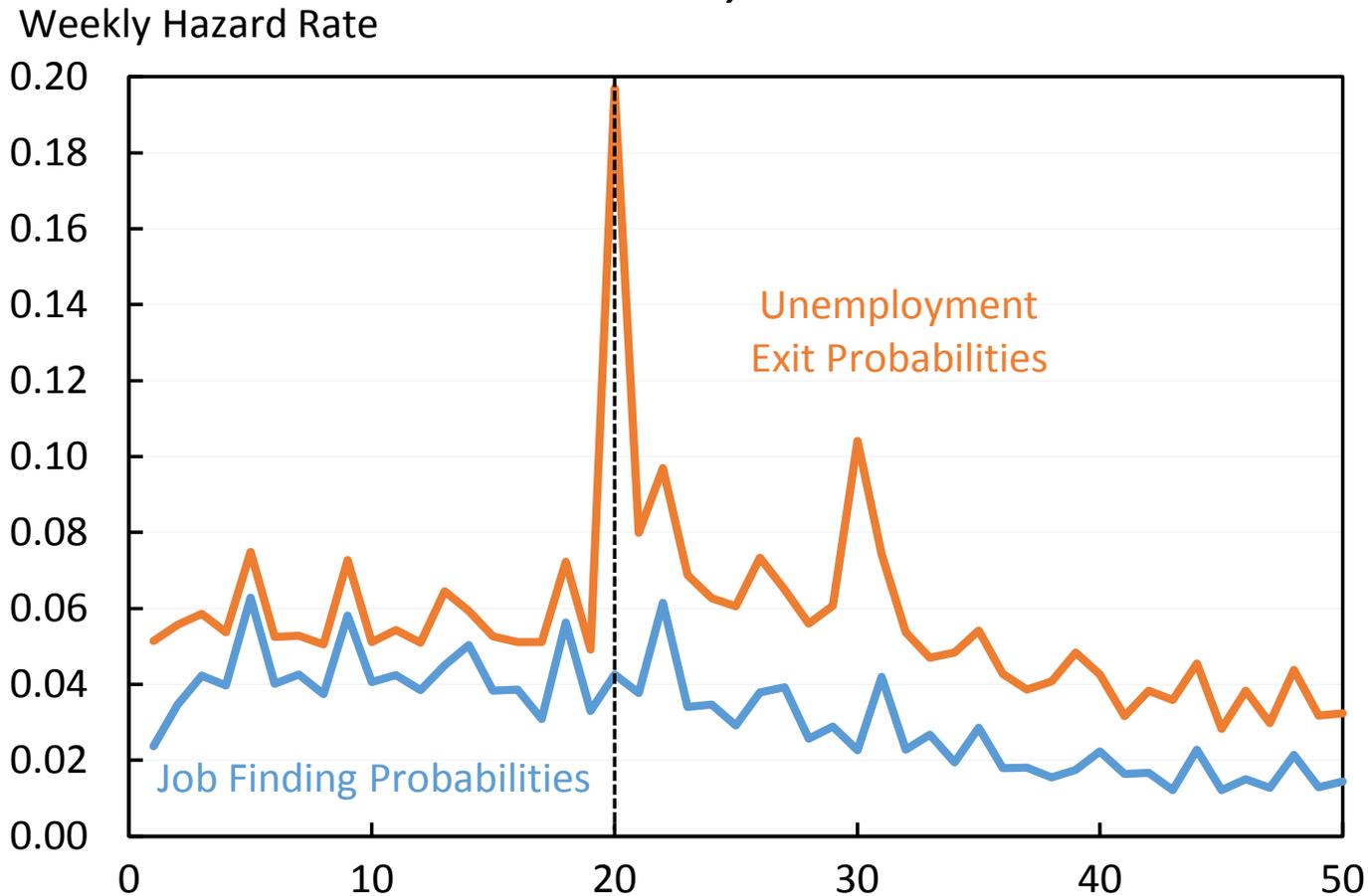


Why UI is Economically Important

- **Provides households with income when it is needed most**
- **Acts an “automatic stabilizer,” reducing the depth of economic downturns**
- **Helps improve the functioning of labor markets by keeping workers attached to the labor force who would otherwise drop out**
- **Provides liquidity and, in turn, helps workers form better job matches (Nekoei and Weber 2015)**

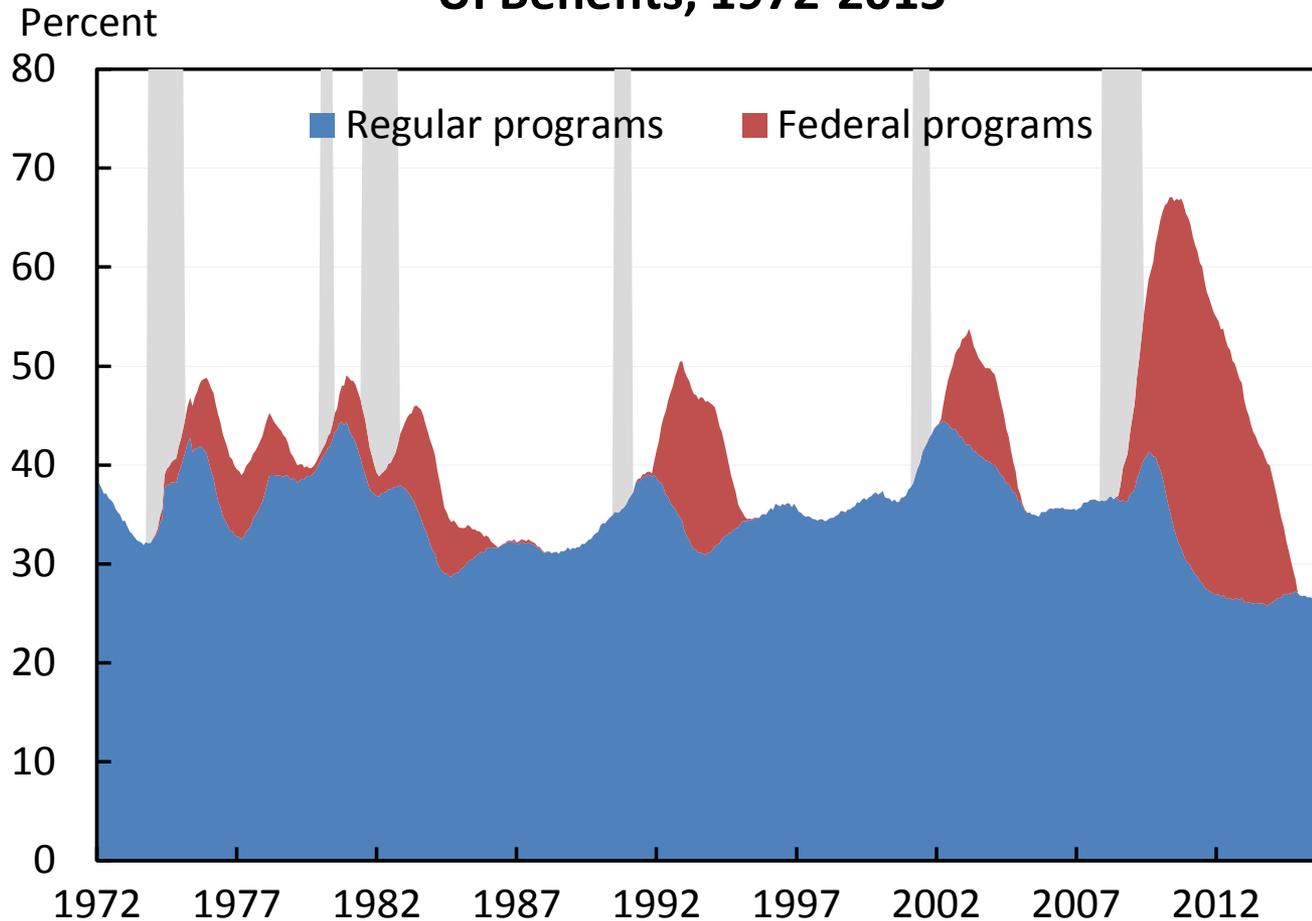
The Downsides of UI Have Been Overstated

Job Finding vs. Unemployment Exit Probabilities: 20-Week UI, Austria



Shortcoming #1: Declining UI Coverage

Share of Unemployed Workers Receiving UI Benefits, 1972-2015



Shortcomings of the Current UI System—and Reforms to Address Them

1. Declining Coverage

- Require State programs to cover part-time workers, newer labor market entrants, certain low-income and intermittent earners, and workers who leave work for compelling family reasons
- Require that all State programs provide at least 26 weeks of coverage

2. Insolvency of State Programs

- Broaden FUTA taxable wage base from \$7,000 to \$40,000 while cutting rate from 0.8 percent to 0.167 percent and require States to broaden taxable wage base

3. Ineffective Countercyclical Triggers

- Establish new, permanent, 100-percent Federally funded Extended Benefits Program to provide 52 additional weeks of benefits to States experiencing high *or* rapidly increasing unemployment

4. Incentives to Reduce Employment, Not Hours

- Provide incentives for States to create work-sharing programs

5. Insufficient Support for Job Search

- Provide incentives for States to create temporary work-based training programs and to allow workers to continue receiving UI benefits while participating in an apprenticeship or on-the-job training

6. Insufficient Insurance Against More Adverse Job Prospects

- Establish new wage insurance system to replace up to 50 percent of lost wages for qualifying workers who take new, lower-paying jobs earning less than \$50,000

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