Recession Ready: Fiscal Policies to Stabilize the American Economy

A new book by The Hamilton Project and Washington Center for Equitable Growth, titled *Recession Ready: Fiscal Policies to Stabilize the American Economy*, offers detailed proposals from leading economists and policy experts for better fiscal policy responses to recessions. These proposals aim to strengthen our automatic stabilizers: policies that inject money into the economy in a downturn and withdraw stimulus when the economy is strong.

Unemployment Insurance and Macroeconomic Stabilization

A proposal by Gabriel Chodorow-Reich of Harvard University and John Coglianese of the Federal Reserve Board aims to strengthen the automatic stabilization functions of the Unemployment Insurance, or UI, system. Specifically, the authors offer policy reforms that would make UI a better automatic stabilizer while preserving and improving its social insurance role, including:

- **Increasing UI participation and payments** during downturns, as well as strengthening Extended Benefits.

Issue Overview

- **Unemployment Insurance plays an important role in the lives of U.S. workers** by providing a cushion for workers who have lost their jobs and are searching for new work, which, in turn, supports overall consumption.
- **UI acts as a macroeconomic stabilizer** in recessions by supporting the consumer expenditures of those who experience unexpected drops in income during spells of involuntary unemployment.
- **But UI recipiency rates are low**; the automatic component of benefit extensions, Extended Benefits, has played almost no role historically in providing timely, countercyclical stimulus; and emergency benefits are subject to implementation lags. These facts weaken the ability of the program to stabilize the economy during recessions.

The Challenge

Unemployment Insurance recipiency rates are quite low on average. In 2018, for example, only 28 percent of unemployed individuals—and 35 percent of unemployed individuals reporting unemployment duration of fewer than 26 weeks—received regular UI benefits. Low recipiency rates reflect a combination of restrictive eligibility criteria, as well as a take-up rate of well below one among qualifying individuals. The fact that a small share of the unemployed draw benefits constrains the boost to the economy that Unemployment Insurance could provide in a downturn.

Chodorow-Reich and Coglianese show that in times of economic distress, the automatic extension component of UI, Extended Benefits, has played little role in providing timely, countercyclical stimulus. Moreover, Extended Benefits look-back periods can lead to deactivation of benefits during prolonged downturns. Policymakers have stepped in to provide emergency extensions to UI, which have reached more individuals during periods of high unemployment, but they must be debated by Congress, approved, and then implemented over time.

The Path Forward

As a response to these problems, Chodorow-Reich and Coglianese propose five reforms to the Unemployment Insurance program that would increase its efficacy as an automatic stabilizer. Because Unemployment Insurance's role as a stabilizer comes, in large part, through the provision of regular benefits, the reforms aim to expand that role. In addition, they attempt to improve the functioning of the Extended Benefits system.

1. **Expand eligibility for Unemployment Insurance and encourage take-up of its regular benefits.** Policymakers could expand the role of Unemployment Insurance in countercyclical stimulus by updating eligibility requirements to reflect the reality of variable and part-time work in today's U.S. labor market, harmonizing those eligibility requirements across states, and increasing the weekly benefit amount.

2. **Make Extended Benefits fully federally financed.** Currently, half of the cost of Extended Benefits are paid by the states, which makes states reluctant to opt into the program. Making Extended Benefits fully federally financed would remove this hurdle, increasing the countercyclical potential of Unemployment Insurance and also alleviating constraints on state government finances during economic downturns.

3. **Remove the "look-back provisions" from Extended Benefits eligibility.** Look-back provisions require a state's unemployment rate to be above its level in previous years in order for the state to remain eligible for Extended Benefits. This means eligibility could end as the unemployment rate is coming down and the economy is improving, but at the very moment that there are most likely to be long-term unemployed workers who need Unemployment Insurance and when Extended Benefits are most countercyclically important.

4. **Create two new permanent triggers for Extended Benefits.** Extend eligibility for Unemployment Insurance to 60 weeks when a state's unemployment rate crosses 9 percent and to 73 weeks when a state's unemployment rate crosses 10 percent.

5. **When Extended Benefits are in place, all recipients should receive an additional $50 in the weekly benefit amount.** Extending Unemployment Insurance has limited efficacy as an automatic stabilizer because it only affects people after unemployment has already risen and stayed elevated for an extended period of time. Increasing the weekly benefit amount immediately affects both long- and short-term Unemployment Insurance recipients at once.

Chodorow-Reich and Coglianese argue that improvements to the Unemployment Insurance program can help it better achieve its core goals of providing a cushion for people experiencing joblessness, as well as mitigate the severity and duration of economic downturns. They demonstrate that these reforms would increase countercyclical spending on Unemployment Insurance, especially during very deep economic downturns, helping cushion the impacts on families and the economy.

About the Authors

Gabriel Chodorow-Reich is an assistant professor of economics at Harvard University.

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