



REPORT

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THE CASE FOR MODERNIZING UNEMPLOYMENT INSURANCE

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KEY TAKEAWAYS

- Missouri, like much of the nation, is suffering from a labor supply crisis that has been slow to improve.
- The current unemployment insurance system discourages work and slows the pace of recovery.
- Missouri can modernize unemployment insurance to make it pro-work, not pro-dependency.
- Reforms include: modernizing state computer systems to allow for policy innovation; prohibiting unemployment insurance from paying people more to be on benefits than to work; better tying the duration of benefits to changes in economic conditions; tackling fraud by tightening job search requirements and improving monitoring; reducing work penalties and obstacles to work-sharing to strengthen labor force attachment; and broadening the tax base to lower rates and boost hiring.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

EXECUTIVE SUMMARY

Over two years after the arrival of the COVID-19 pandemic in spring 2020, Missouri's unemployment rate as of September 2022 sat at a mere 2.4 percent. Such low unemployment would normally signal a robust labor market with rapidly rising wages, workers eager to get off the sidelines to seize opportunities, and businesses snapping up the workers to meet demand. Instead, economic growth has stagnated, inflation-adjusted wages are falling, and labor force participation is depressed. In Missouri, the labor force participation rate is still 1.5 percentage points below its early 2020 level—sitting at 62.5 percent—a rate not seen in the pre-pandemic economy since the late 1970s. In short, Missouri has a labor supply crisis.

Several forces are contributing to this crisis, including long-term trends like population aging and low net migration to the state, but these drivers cannot on their own account for the abrupt downshift since 2020. The COVID-19 pandemic itself undoubtedly reshuffled the economic deck, but the partial and incomplete recovery is deeply troubling. Unfortunately, research indicates that poorly designed government policies are important culprits. The current outdated and inefficient unemployment insurance system stands out because of how it disincentivizes work, weakens labor-market attachment, hurts job creation, encourages excessive layoffs in downturns, and hampers the post-recession pace of economic recovery.

Several design features of the current system account for these damaging and counterproductive effects. The narrow taxable wage base for the payroll tax that finances unemployment insurance amplifies layoff volatility in downturns. The imperfect tailoring of tax rates to businesses based on the systematic burden they impose on the unemployment insurance system through layoffs encourages free-riding by high-risk businesses. This in turn leads to higher unemployment and worsens the overall tax burden for businesses. Excessive benefit duration discourages job search, makes it more difficult for businesses to hire, and leads to longer unemployment spells that become self-reinforcing, leading to persistent wage scars that reduce family prosperity. Benefit cliffs for part-time work weaken labor force attachment and create

an incentive for businesses needing to make cutbacks during a downturn to lay off workers instead of seeking ways to keep them on the payroll at a temporarily reduced pay rate. The list goes on.

But Missouri need not settle for the status quo. This report puts forward several reforms to restore the true purpose of unemployment insurance as a temporary work support for people down on their luck rather than as an enabler of long-term government dependency and a drag on economic performance. These reforms range from ensuring that workers are never paid more to be on benefits than to be on the job to broadening the tax base to allow for lower rates, plus many other practical ideas that Missouri can pursue to distinguish itself as a leader in pro-work economic policy.

INTRODUCTION

Nearly three years have passed since the beginning of the COVID-19 pandemic, and in that time America has experienced shifting labor market conditions the likes of which the country has never seen. In April 2020, the unemployment rate reached a peak of 14.7 percent—eclipsing the previous post–World War II high of 10.8 percent set in November 1982—and that April peak was considered a “victory” of sorts in the face of predictions that unemployment could soar past the 20 percent mark.¹ Nevertheless, the 14.7 percent peak was particularly dramatic given that the unemployment rate had been just 3.5 percent two months prior. Fast forward to fall 2022, and the unemployment rate was down to 2.4 percent, but this statistic in isolation paints an incomplete picture of the health of the labor market.

Another statistic is equally compelling, but more foreboding. There are nearly twice as many job openings as there are unemployed workers seeking jobs—a 2:1 ratio—which is a historic anomaly considering the fact that, over the past 20 years of data this ratio never exceeded 1.5:1 and only surpassed 1:1 during the 2017–19 boom years.² If such labor-market tightness were the product of exceptionally robust demand for workers fueled by rapid productivity gains, workers would have reason to cheer as they watched market competition exert upward pressure on their wages. While wages have been rising in absolute

dollar terms, inflation has more than erased these gains, resulting in a precipitous decline in purchasing power. Adding to inflation concerns, the economy shrank during the first two quarters of 2022, and labor productivity is down from a year ago after Q2 posted one of the worst quarterly declines in the post–World War II period.³

The high ratio of job openings to unemployed workers is therefore not an unalloyed sign of a healthy job market. To the contrary, it is a manifestation of the severe labor shortage that is harming small businesses, contributing to supply-chain woes, and inflaming the inflation crisis because, without workers, businesses are unable to meet customer demand without raising prices. The labor shortage also manifests itself in the still-depressed labor force participation rate, which remains a full percentage point below its February 2020 level—tying its pre-pandemic low from September 2015.⁴ In short, workers continue to wither on the sidelines, or even worse, have left the labor market for good.

Doing a full forensic analysis of the ongoing labor shortage goes beyond the scope of this paper, but a growing body of evidence points to shortcomings in unemployment insurance—namely, that it has been a driver of slow and incomplete labor market recoveries in recent decades. The COVID-19 recession in particular highlighted troubling structural deficiencies in unemployment insurance that have rendered it a hindrance to work instead of allowing it to fulfill its intended purpose as a work *support*. In particular, the extended period of time during which many workers could collect more in unemployment benefits than they received at their previous jobs facilitated joblessness and acted as a strong disincentive to search for work.

This paper offers background information on the rationale for unemployment insurance, describes its specific design elements in the United States generally and Missouri specifically, and discusses state-of-the-art research into the economic effects of unemployment insurance. Lastly, this paper offers a potential roadmap to modernizing unemployment insurance to restore its purpose as a pro-work support for working families rather than as an enabler of government dependency and economic stagnation.

THE ORIGINS OF UNEMPLOYMENT INSURANCE: A BRIEF HISTORY

The Social Security Act of 1935 established nationwide unemployment insurance as a joint federal–state effort to provide income maintenance and work support for the involuntarily unemployed worker during their search for a new job. At the time, unprecedented and widespread unemployment was creating mass hardship across the country as the United States was in the throes of the Great Depression. The objective of the newly created unemployment insurance program was to help sustain the livelihoods of those willing and able to work and forestall a state of destitution rather than forcing jobless workers to rely entirely on dwindling savings and the goodwill of those around them.

The United States federal government was not the first to establish such a nationwide compulsory system. Great Britain instituted national unemployment insurance back in 1911, followed eight years later by Italy and nearly a decade after that by Germany.⁵ Before then, subnational governments in other countries like Switzerland had experimented with the idea. Even in the United States, some trade unions administered their own unemployment insurance systems in conjunction with the employing firms before any national system came into effect. At the state level, Wisconsin reacted even more quickly to the Great Depression by instituting its own unemployment insurance system in 1932. The philosophy behind the Wisconsin plan held that employers were responsible for their own workers, and thus, the system required that they set aside funds in a reserve to cover only their own workers.⁶ As support for national legislation gained steam, the focus turned toward a federal–state partnership that created a state-level reserve system to pool funds and spread risks across employers. This paper later returns to the details of the current unemployment insurance system both in America overall and in Missouri, specifically.

WHAT ROLE IS THERE FOR UNEMPLOYMENT INSURANCE IN A FREE MARKET?

Before delving into these programmatic details, it is worth contemplating whether there exists a sound, principled

reason for a public unemployment insurance system in the context of a free market or whether it is merely a vestige of New Deal economic thinking from a bygone era that has survived the test of time through political inertia and the lack of a clearly articulated alternative. As this paper will argue, America desperately needs unemployment insurance reforms—ideally to the whole federal–state program, but in the meantime incrementally in Missouri. But to point out the flaws of unemployment insurance is not to say that the idea of such a system is without merit entirely or that the only way to justify such a system is by making a grumbling reference to the realities of political compromise. To the contrary, one can make a coherent, principled argument for *some version* of public unemployment insurance rooted in the basic logic and empirical determinations of free-market economics.

The argument essentially boils down to establishing two claims: first, that workers value insurance against the risk of unemployment, and second, that the private market on its own is unlikely to adequately provide such insurance. Those who are broadly skeptical of markets are instinctively attracted to making claims of the second variety, though often without any discernible limiting principle, clear explanation of the market failures at hand, or bona fide attempt to understand how market actors themselves might be in a position to resolve such failures—or where the government could come up short. After all, the relevant alternative to a market failure is not a perfect government but rather an imperfect one with its own bureaucratic and political failures. The case for government action, therefore, depends on a sober-minded balancing act of different types of failures rather than dogmatic, one-sided assertions that selectively identify deficiencies of private market forces without recognizing the shortcomings and less-than-pure motives of public actors.

It should be obvious why workers might value insurance to help them hedge against the risk of losing their jobs—as evidenced by the large drop in spending that unemployed workers suffer if they remain jobless for long enough that their benefits expire (Figure 1)—but it bears explaining nevertheless. To begin with, while it is a wise move, building up a large savings account balance does not amount to insurance *per se*. Properly understood, insurance involves setting aside resources in “good times”

(in many cases by paying a premium to the third-party entity offering the insurance) in exchange for receiving a payout *in the event that the “bad times” arrive*. In a well-functioning market, the premium for such insurance should reflect the properly measured actuarial risk that the bad event occurs for the insured party. For example, if there is a 5 percent chance a worker loses their \$50,000 a year job in any given year, and if such insurance fully replaces lost wages for 6 months, the worker should pay a premium equal to $(5\% \text{ chance of a claim}) \times (\$50,000 \text{ salary}) \times (0.5 \text{ years of replacement}) = \$1,250$ per year plus overhead. That amount is a far cry from a worker needing to build up \$25,000 in savings to have on hand just in case they lose their job. The same logic applies to medical insurance, life insurance, homeowner insurance, and so on. It is simply not feasible for most people to accumulate a savings account sufficiently flush to compensate for the total loss of their home—or especially their own life and all future lost years of earnings—and in any case, such savings would not be “insurance” because they are accessible and on hand to households without any need for an insurable event (“bad outcome”) to trigger their availability.

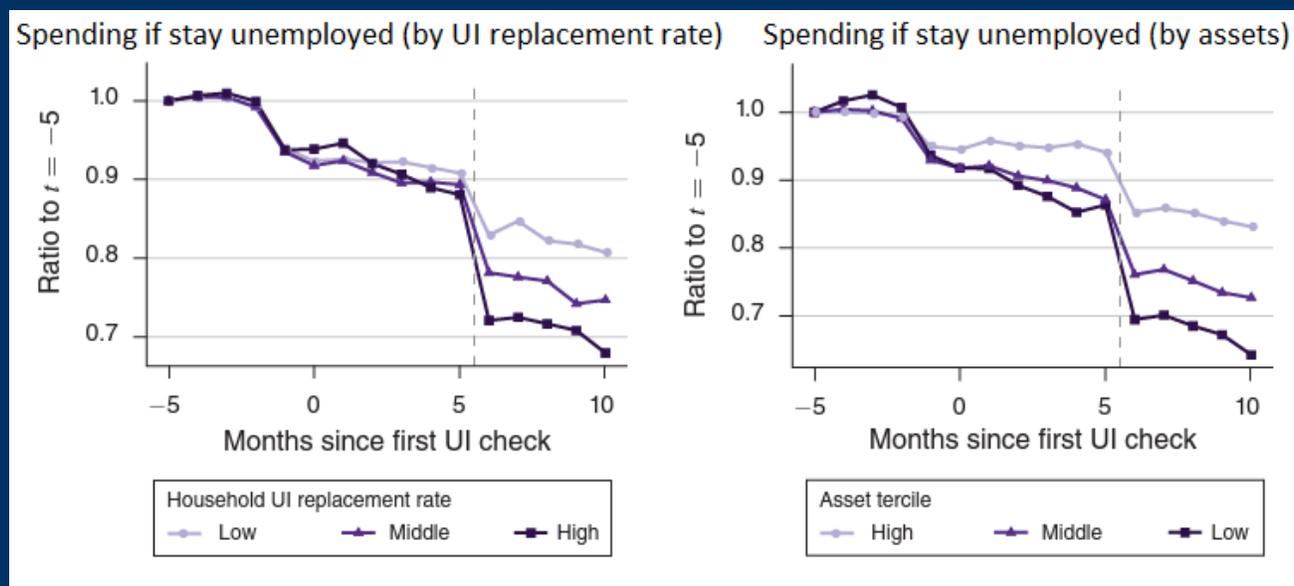
The question then turns to establishing whether the private market on its own is positioned to provide an adequate amount of unemployment insurance. The answer appears to be no, for reasons of asymmetric information and moral hazard that cannot readily be mitigated through screening, individual risk-pricing, or clever contract design. It should be stated up front that advocates of single-payer socialized health care also regularly appeal to asymmetric information to justify their ends. In particular, they claim that patients know more about their health risk than do insurance providers, and that therefore a classic insurance “death spiral” must inevitably emerge in a free market. In this scenario, high-risk, high-cost patients have the strongest interest in enrolling, but then their higher-than-average claims drive up overall plan costs, which forces premiums up. This escalation in premiums drives out healthier segments of the insurance pool, leaving a smaller and even higher-cost enrollee pool that perpetuates the cascade of rising premiums and enrollee exit until the market collapses. What single-payer advocates conveniently omit, however, is that it is their own preferred regulations prohibiting premiums

Figure 1

Consumption Response to UI Expiration Based on Initial Replacement Rate (Left) or Initial Assets (Right).

The Y-Axis Measures the Value Relative to Five Months Before the First UI Check. The Large Spending Decline Around Month 6 Coincides with the Expiration of Unemployment Benefits.

Individuals experience a large drop in spending after expiration of UI benefits, especially if they had few assets to begin with or if UI replaced a high fraction of their previous income.



Source: Ganong and Noel (2019).⁷

based on health history that form the basis of this spiral. Otherwise, why do we not observe death spirals in every other insurance market, such as homeowner insurance and auto insurance? The reason is that premiums are allowed to vary based on actuarial risk—that is, those with observables that reliably predict higher future claims face higher premiums. Importantly, actuarially fair, risk-based pricing can coincide with government subsidies to support the vulnerable—market forces for price-setting and social insurance are not mutually exclusive.

Returning to the issue of unemployment insurance, one challenge that emerges is that there is no obvious

verifiable record (like a medical record) that a hypothetical unemployment insurance company could use to reliably predict future claims. For starters, such a company would likely need to know the layoff history of each individual employee as well as the patterns for their occupation, employer, and industry. Even if such a company could collect and verify all of this information and devise a statistically reliable method to predict claims, researchers have found that employees still harbor a significant informational advantage regarding their own layoff risk.⁸ In particular, one recent study found that workers are reasonably adept at anticipating impending layoffs and that households respond proactively by cutting

spending and raising the labor supply of the spouse. If there were a purely voluntary market for unemployment insurance, such workers would have the incentive to keep such information private and also to purchase a plan just before receiving their official layoff notice, which would undermine the insurance market by fueling a death spiral akin to that described earlier. With health insurance, even if it were priced based on actuarial risk with no government subsidies to help cover pre-existing conditions (which few would advocate), people would need to actively hide health information not just from the insurance company but also from their own doctor to keep premiums low—a risky move that would come at the expense of their own health. By contrast, a worker facing higher-than-average unemployment risk would have everything to lose and nothing to gain by disclosing their status. Thus, adverse selection seems to be more severe for unemployment insurance.

If such adverse selection were the only issue, one partial solution might be to offer contracts that feature a “vesting” period where enrollees become benefit-eligible only after being on the job for a period of time. However, moral hazard represents another threat to a well-functioning private unemployment insurance market. In fact, it represents a cost-driver and source of inefficiency for public unemployment insurance too—an issue that partly motivates the need for reforms. However, in the case of private unemployment insurance, it would likely prove fatal.⁹ Without a comprehensive, verifiable database to accurately track claim histories, workers could shirk on the job—and employers could cavalierly lay off workers—with little consequence, knowing that the third-party insurance plan would absorb the lion’s share of costs. Moral hazard undoubtedly exists with health insurance, too, but the unpleasantness of poor health and invasive medical procedures acts as a nonfinancial disincentive to people altering their healthcare behavior simply to take advantage of the fact that insurance helps to defray the monetary cost.

Lastly, and perhaps most importantly, a significant fraction of unemployment risk relates to the aggregate state of the United States economy—a source of risk not diversifiable across the population. During times of recession, the unemployment rate rises substantially to the point that private unemployment insurance companies

would find themselves stretched beyond their capacity to pay out claims unless they had built up extraordinarily large reserves. For these reasons, there is a compelling rationale for the existence of public unemployment insurance whereby the government facilitates risk-sharing across the population.¹⁰ Such a program has the added benefit of acting as a macroeconomic stabilizer to dampen business cycles. To admit as much in no way undermines the importance of market forces. Quite to the contrary, actually. As discussed later, many shortfalls of the current unemployment insurance system can be traced to ways in which the system does not properly align incentives to encourage work, self-initiative, and job creation.

A TAXONOMY OF UNEMPLOYMENT INSURANCE IN THE UNITED STATES

Unemployment insurance in the United States actually consists of a patchwork of different programs. The two permanent staples of unemployment insurance are the Unemployment Compensation program and the Extended Benefits program, but the federal government has also on multiple occasions supplemented these programs—particularly during the COVID-19 pandemic and the Great Recession.

The Unemployment Compensation (UC) Program

The Unemployment Compensation (UC) program is the main operative program during normal economic times, and it is a federal–state partnership that states are primarily responsible for managing. The Social Security Act authorizes the program and, with it, a federal Unemployment Trust Fund that states can make advances to and deposits from to manage liquidity. UC is financed by a combination of federal taxes under the Federal Unemployment Tax Act (FUTA) that cover administrative costs and by state payroll taxes under the State Unemployment Trust Act (SUTA) that cover normal benefit outlays. Workers who have been fired for cause or voluntarily quit their jobs cannot receive UC benefits. Moreover, states set minimum earnings thresholds and job search requirements for eligibility, though there are inherent enforcement difficulties. In particular, even if a worker goes through the motions of applying for jobs, unemployment offices cannot perfectly monitor whether

a worker is making a bona fide effort to succeed in their job-search.

States vary in the generosity and maximum duration of regular benefits they provide. Typical replacement rates (UC benefits as a share of past wages) hover around 50 percent, and maximum durations range from 12 to 26 weeks. Regarding duration, Missouri currently provides up to 20 weeks of regular benefits.¹¹ The weekly benefit amount (WBA) in Missouri is set to 4 percent of a worker's average earnings over the two highest quarters in the base period (which is the first four of the last five quarters completed preceding the filing), with a minimum WBA of \$35 and a maximum of \$320.¹² For example, for a worker with a \$30,000 salary (corresponding to $\$30,000/4 = \$7,500$ per quarter), the WBA would be $(0.04) \times (\$7,500) = \300 per week. For a worker with a \$50,000 salary, the same calculation would yield \$500 per week, which exceeds the maximum, so that worker would receive the maximum of \$320 per week instead. The replacement rate for workers with annual pay of y is given by the benefit amount, $\min(320, 0.04 \times y/4)$, divided by the weekly pay, $y/52$. For workers whose WBA falls below the maximum (workers earning under \$32,000), the result is a 52 percent replacement rate. The replacement rate gradually falls as income rises above that amount.

Partial Unemployment Benefits

Workers who have had their hours and pay reduced but who have not been completely laid off may also be eligible for partial unemployment benefits. When submitting weekly claims, a worker must attest to their weekly earnings, and then the benefit amount gets reduced depending on the amount of earnings and based on the laws of the state. In general, if earnings fall below the *earnings disregard*, the worker can still receive the full benefit amount. In Missouri, the disregard is \$20 or 20 percent of the WBA, whichever is larger.¹³ Above the disregard, benefits fall dollar-for-dollar with earnings in most states. For example, if a worker's WBA is \$300 and they earn \$100, and if the disregard is \$20, then they would be entitled to unemployment benefits of $\$300 - (\$100 - \$20) = \220 , leaving them with \$320 total. If earnings rise to \$150, the benefit amount falls to $\$300 - (\$150 - \$20) = \170 , leaving them with the same \$320 total.

Short-time Compensation Programs

Partial unemployment benefits generally only come into effect if a worker experiences a substantial drop in pay that puts them below the WBA—to a first approximation, a 50 percent or greater cut in pay. As a potential complement to partial unemployment insurance, short-time compensation (STC) programs partially replace lost wages if an employer cuts worker hours and pay by a smaller amount—by between 20 percent and 40 percent in Missouri.¹⁴ Thus, STC programs hold the potential to avert layoffs to begin with by encouraging employers to reduce pay and keep workers on the payrolls—with the government temporarily covering some of the lost pay—instead of laying workers off and sending them to the unemployment rolls. For this reason, STC is often referred to as a form of “work sharing.”

The Extended Benefits Program

During times of high unemployment, the Extended Benefits (EB) program allows states to extend benefits by an additional 13 to 20 weeks. Typically, the federal government covers half of the cost of the program, with states financing the other half. However, during the COVID-19 lockdowns in 2020 and through almost all of 2021, the federal government financed the entire cost. Federal law provides for 13 weeks of EB to activate when a state's insured unemployment rate (IUR) passes 5 percent and is 1.2 times its IUR for the corresponding period in the prior two years.¹⁵ States also have optional triggers that they can put in place, such as 13-week extension of benefits if the IUR reaches 6 percent.¹⁶

Temporary Measures Implemented during the COVID-19 Pandemic

In addition to the two permanent programs described above—UC and EB—the federal government put in place multiple temporary unemployment insurance programs to extend the generosity, duration, and breadth of benefits during the COVID-19 pandemic. Pandemic Emergency Unemployment Compensation (PEUC) provided 49 further weeks of federally financed unemployment benefits for those who exhausted UC and EB benefits. The Federal Pandemic Unemployment Compensation (FPUC) program supplemented regular benefits by \$600 per week

from March 29, 2020, until the end of July 2020. The Continued Assistance Act reauthorized FPUC at a lower \$300 per week amount until March 14, 2021, and the American Rescue Plan Act extended the program further through September 4, 2021. Pandemic Unemployment Assistance (PUA) made available a total of 75 weeks of benefits for people not eligible for unemployment insurance, such as the self-employed, gig workers, and independent contractors. All of these programs operated as voluntary agreements between the federal government and states, and they all expired on September 4, 2021. However, some states ended their participation early, which Missouri did in June 2021. Before this expiration, workers could claim benefits for over a year by transitioning from UC to PEUC to EB to PUA.¹⁷

The Financing of Unemployment Insurance

The FUTA calls for a 0.6 percent federal payroll tax rate on the first \$7,000 of each employee's earnings to fund federal and state administrative costs of UC as well as the federal contribution to EB. Far more important for employers is the SUTA payroll tax, which varies widely from state to state. Each state determines both the taxable wage base and the tax rate schedule. The base specifies the wage range over which employers owe payroll taxes. For example, in Missouri, the taxable wage base is only \$11,000 and is not indexed to the average wage in the state or to inflation. By contrast, in Utah, the current taxable wage base is \$38,900 and is indexed to be 75 percent of the prior average fiscal year wage.¹⁸ Given any revenue target, the narrower the wage base, the higher the payroll tax rates must be.

The plural writing of “rates” is intentional, because federal law calls for *experience rating* state payroll tax rates for unemployment insurance, which means, roughly speaking, that employers that more frequently lay off workers and send them to the unemployment rolls should pay at higher rates. In essence, the more that an employer is a “burden” to the unemployment insurance system, the more it pays. Naturally, the devil is in the details with regard to experience rating. The two most prevalent versions of experience rating are the *reserve-ratio* formula and the *benefit-ratio* formula. The reserve ratio, which Missouri uses, is calculated by determining each employer's history of tax contributions, subtracting the unemployment benefits paid to workers that it laid off, and then dividing

this difference by the company payroll. The tax rate that an employer faces then depends on which range its reserve-ratio falls into, as illustrated in Figure 2. Under this system, an employer's entire history of past contributions and layoffs affects its tax rate. This entire tax rate schedule (the relationship between reserve ratios and tax rates) can also shift up or down depending on the financial health of the state's unemployment trust fund balance with the federal government. In particular, if the state racks up a deficit, it may need to raise tax rates to restore its trust fund to solvency. By contrast, the benefit-ratio approach assigns tax rates based on a finite history (e.g., the last three years) of unemployment benefits paid out relative to payrolls. In this sense, the benefit-ratio approach focuses on employers' recent past.

The next section will dive deeper into the economic effects of experience rating, but at a glance, financing unemployment insurance in this manner creates multiple layers of incentives. First, it induces firms to internalize some of the costs they impose on taxpayers when they lay off workers who go on to claim unemployment benefits. The more finely that a state's SUTA differentiates tax rates across employers, the more “complete” its experience rating is and the more employers will have the incentive to exercise prudence and foresight in their hiring and termination decisions, since a layoff today translates to higher (perhaps persistently so) payroll tax rates in the future. Currently, the SUTA in Missouri ranges from 0 percent to 5.4 percent for established employers and is 2.376 percent for new employers (1% for non profits) that do not have a sufficiently long history to calculate their reserve ratio, with the new-employer rate slated to rise to 2.511 percent in 2023.¹⁹ If Missouri's unemployment trust fund balance were to fall below \$350 million, the top rate would rise to 7.8 percent.

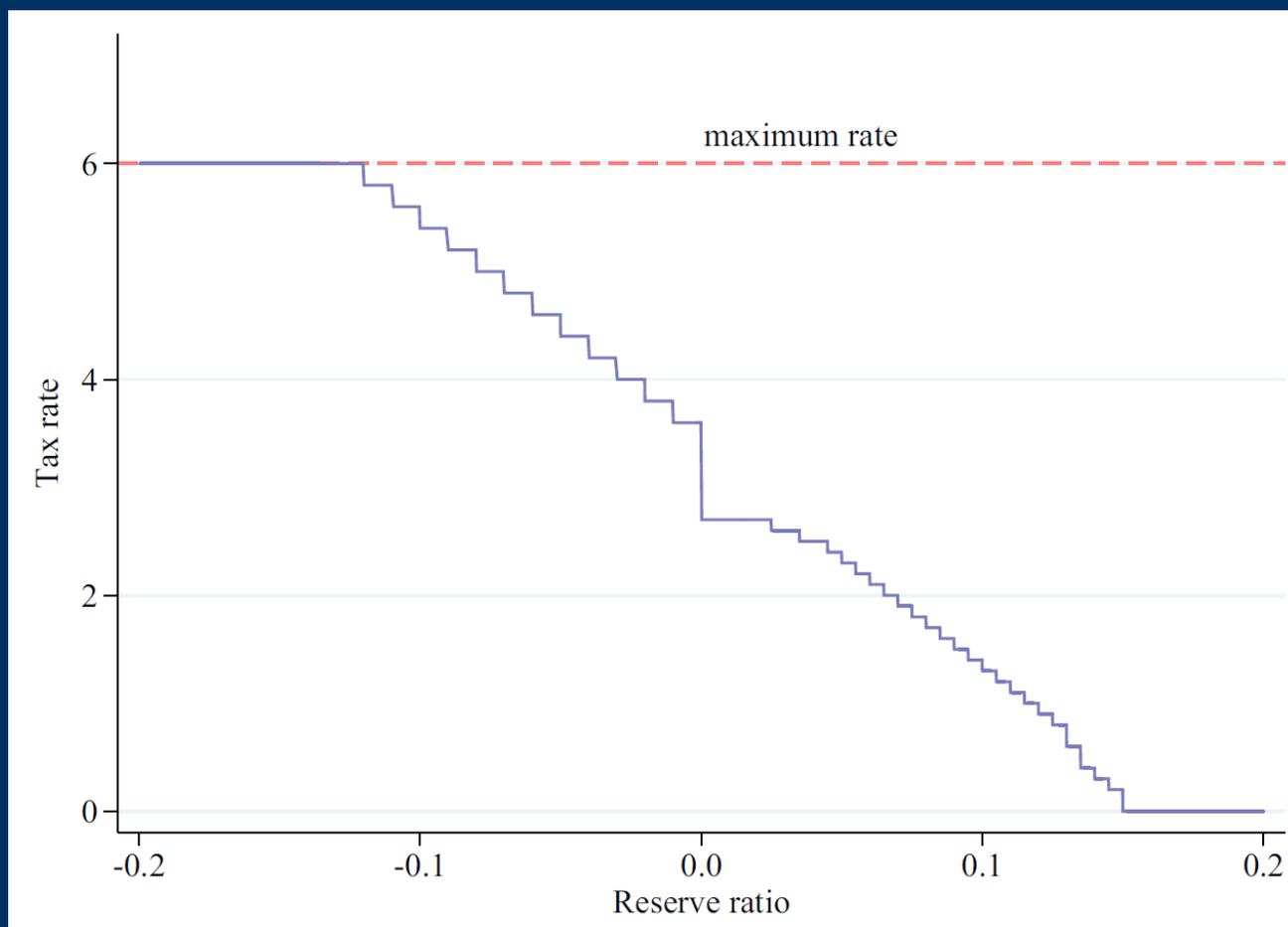
DIAGNOSING PROBLEMS IN THE UNEMPLOYMENT INSURANCE STATUS QUO

Several studies have established that unemployment insurance does provide a valuable cushion to jobless workers during recessions, in particular by mitigating what would otherwise be steep cuts to consumption and by giving them the capability to find a good-quality job

Figure 2

Illustration of Reserve Ratio Tax Rate Determination

In this example, which comes from Missouri data, the employer's UI tax rate rises as their reserve ratio becomes smaller but then flattens out for sufficiently negative reserve ratios, thus causing clustering among employers.



Source: Guo, Audrey and Andrew C. Johnston. "The Finance of Unemployment Compensation and its Consequences." 2021. *Public Finance Review*, Vol. 49(3), pp. 392–434.

match instead of taking the first opportunity to come their way out of desperation.²⁰ However, research also finds that poor unemployment insurance design and cavalier implementation by policymakers has on several occasions hurt the pace of economic recovery after recessions and swelled the ranks of the long-term unemployed, leading to persistent labor market scars. This section discusses several of these deficiencies, thereby underscoring the need for reforms.

Excessive Benefit Duration Leads to Longer Unemployment Spells and Less Job Creation

As described previously, UC is the main unemployment insurance program that laid-off workers come into contact with during normal times and features benefit durations from 12 to 26 weeks (20 for Missouri). However, benefit durations grew much longer in the COVID-19 recession and the Great Recession, with nearly half of workers collecting benefits for over a year at the trough of each

recession.²¹ The permanent EB program—triggered by high unemployment—is partly the reason, but officials also repeatedly enacted benefit extensions at their own discretion. As shown in Figure 3, there has been a noticeable increase in the share of long-term unemployed workers (those without a job for over 26 weeks) since the mid-2000s that has proven remarkably stubborn even during non-recession years. Before the early-2000s dot-com bust, the share of long-term unemployed rarely surpassed 20 percent in recessions and would reliably fall to 10 percent or less at the height of economic recovery. However, the long-term unemployed share has been above 15 percent nearly every year since 2000, and the new normal in non-recession years appears to be near 20 percent, with recession episodes sending it above 40 percent.

On the opposite end of the spectrum, the share of unemployed workers who are jobless for under 5 weeks has trended dramatically downward over the past two decades, as shown in Figure 4. Prior to 2000, around 50 to 60 percent of unemployed workers would normally find jobs in fewer than 5 weeks. That share is now closer to 35 percent in good years, which is what it used to be during recessions. Looking in the middle of the duration range, the share of jobless workers with unemployment durations between 5 and 14 weeks used to be stubbornly around 30 percent, even during recessions. Post-2000, this share is proving stable during non-recession years but dipped dramatically—to 20 percent—both during the Great Recession and the COVID-19 recession. Lastly, the share of unemployed workers with unemployment durations between 15 and 26 weeks has shown only a modest uptick over the past two decades, now accounting for about 15 percent of unemployed workers. To summarize, arguably the most dramatic shift has occurred at the tails, with far more long-term unemployed and far fewer short-term unemployed.

In the case of COVID-19, the CARES Act initially expanded unemployment benefits during the spring 2020 lockdowns but determined in advance that they would expire four months later, at the end of July 2020. However, the federal government later ended up extending these enhanced benefits multiple times, most notably for an additional six months when the American Rescue

Plan Act went into effect in spring 2021—despite the fact that rapidly falling unemployment and the removal of widespread lockdowns meant that the economy was in a dramatically different place than it had been in a year prior. In the Great Recession, the federal government extended unemployment benefits for even longer—years past the end date of the actual recession—in response to the sluggish labor market recovery. While policymakers may have thought that they were reacting to the slow recovery, they were actually contributing to it. Research has since shown that the “jobless recovery” was in no small part a result of the repeated and open-ended unemployment benefit extensions—a case of the cure worsening the disease. States that ultimately went on to lead the way in stopping benefit extensions earlier experienced a surge in job creation and a faster drop in unemployment rates relative to states that kept extended benefits in place longer.

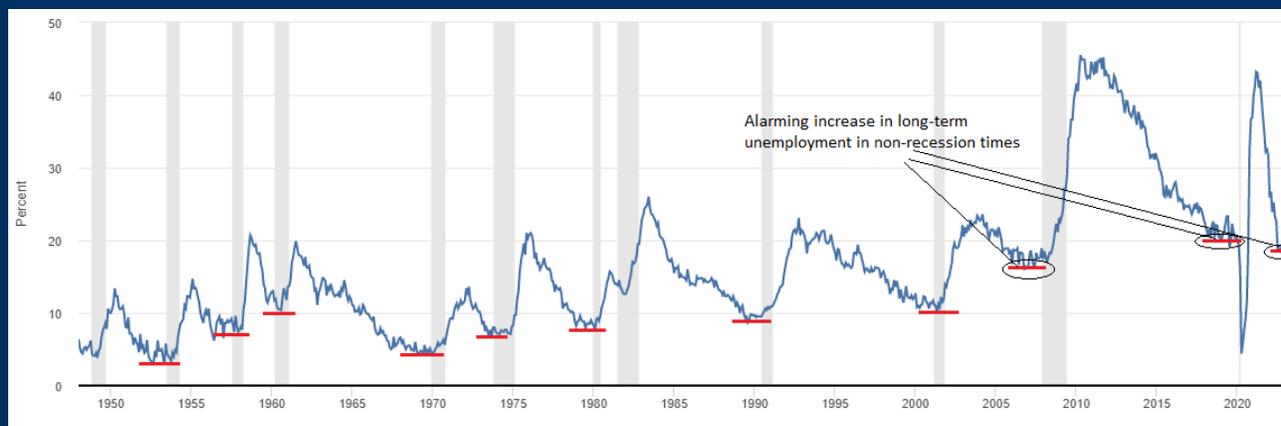
This finding is consistent with a well-established body of research that identifies unemployment insurance as a driver of longer jobless spells—at least in the program’s existing form. For example, multiple studies find that the probability in any given week that a jobless worker leaves unemployment to start a new job increases rapidly right around the time benefits are expected to expire and is lower the more generous benefit levels are.²² The natural interpretation of these findings is that the unemployed either raise their search intensity, reduce their pickiness—or both—as they approach expected benefit termination. Either way, this behavior represents a form of moral hazard induced by unemployment insurance.²³ However, the magnitude of this moral hazard depends on economic conditions, proving worse when the economy is stronger.²⁴ The intuition is as follows: when job vacancies are robust, it is less risky for the unemployed to take a more patient or even lackadaisical approach to their job search because they know that plenty of jobs will be there when they need them—namely, near when their benefits expire. By contrast, if unemployed workers were to adopt such an attitude in the depths of a recession with vacancies at low levels, they would run the risk of not being able to find a job before their benefits ran out.

In the above scenario, it is the worker’s expectation of ongoing benefits that affects their current behavior,

Figure 3

Share of Unemployed Workers Who Are Unemployed for more than 26 Weeks

The share of long-term unemployed workers has been trending up in recent decades, which is evident not only by looking at higher peaks, but also by higher troughs during economic expansions, as shown by the horizontal red lines.



Source: Bureau of Labor Statistics.

Figure 4

Share of Unemployed Workers Who Are Unemployed for under 5 Weeks

The share of short-term unemployed has been falling, as shown by the downward trend in the horizontal red segments that correspond to periods of economic expansion.



Source: Bureau of Labor Statistics.

but *already accrued* benefits that they have stored up in their bank account also affect their job search by giving them a liquidity buffer that enables them to search less aggressively while still being able to pay the bills. In short, unemployment insurance alters job search both by inducing moral hazard and through a liquidity effect. The empirical evidence bears this effect out, with cash-constrained households exhibiting greater sensitivity in their search behavior to unemployment benefits than do unconstrained households.²⁵

The above discussion focuses on the effect of unemployment benefit extensions on the supply side of the labor market—namely, on worker behavior. However, excessive benefit duration also impacts the demand side of the market by discouraging job creation. The intuition is fairly straightforward. Unemployment benefit extensions make it more difficult for employers to find workers—given that fewer of them are proactively searching—and then more difficult to entice them into giving up further benefits in exchange for a job. Put another way, unemployment benefit extensions intensify competition for workers between businesses and government benefits, thereby pressuring businesses to raise wages to attract the unemployed back into the workplace. At first, this dynamic may seem like good news for workers, but unless accompanied by rising productivity, this artificial pressure to hike wages also causes businesses to post fewer openings than they otherwise would.

A growing body of research reveals that excessive unemployment benefit extensions are a driving force behind jobless recoveries, generally, and severely hobbled the labor market recovery in the aftermath of the 2007–09 Great Recession, specifically.²⁶ Conversely, job creation and job-finding rates surged upon the cessation of further benefit extensions. For example, one study that examines the aftermath of the Great Recession finds that 2.1 million people secured employment in 2014 as a direct result of the expiration of unemployment benefit extensions when Congress declined to reauthorize them in December 2013.²⁷ Two other studies examined Missouri’s decision to cut benefit duration in 2011 and concluded that the change significantly increased job-finding *both* by raising search effort *and* by inducing greater job availability.²⁸ The left panel of Figure 5 displays the difference between the unemployment rate in Missouri and that in all other

states. Prior to the benefit cut, this curve fluctuates around 0, indicating similar unemployment conditions between Missouri and the rest of the country. However, after the benefit cut, unemployment fell by around one percentage point in Missouri versus the rest of the country. To account for the fact that there are other differences between Missouri and the rest of the country, the authors of the study also conducted what is called a synthetic control analysis that is meant to adjust for these differences. The right panel shows a similar pattern to that in the left panel, but more cleanly. Prior to the benefit cut, Missouri unemployment behaves similarly to the control, while after the cut, the Missouri unemployment rate falls 1 to 1.5 percentage points.

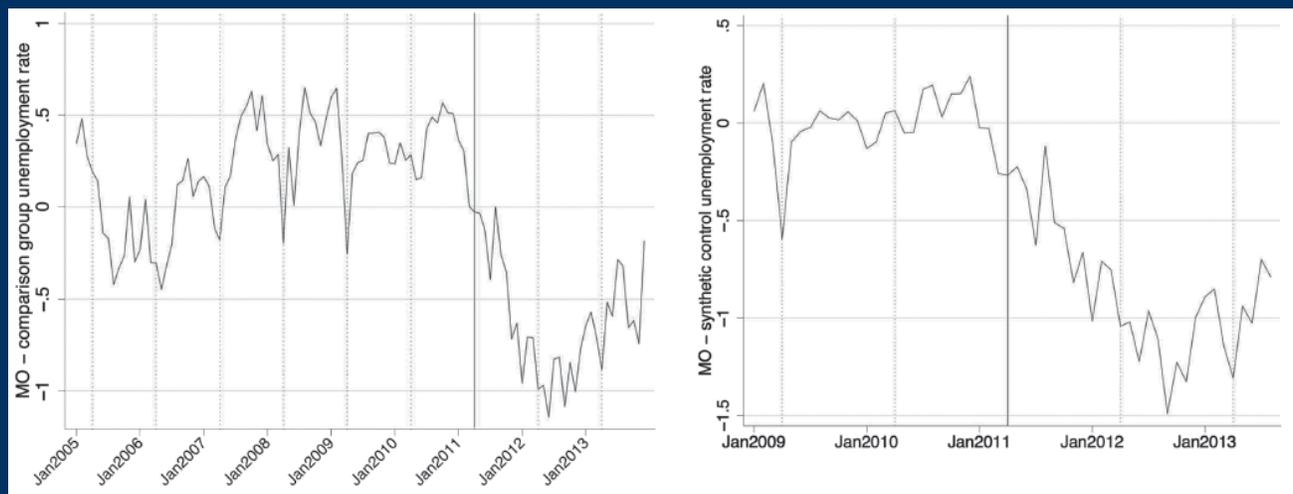
The consequences of longer unemployment durations extend far beyond their budgetary impact through heightened benefit outlays. In the current economic environment, the ongoing labor shortages stand out as one key problem that would improve with shorter unemployment durations. Even more broadly, during non-pandemic times, long unemployment spells can be self-reinforcing and create persistent wage scars. Specifically, the longer a worker’s jobless spell, the less likely they are to receive future job offers that pull them out of unemployment—a phenomenon called *duration dependence*. To quantify this effect, one study has found that the call-back rate at eight months of unemployment is 45 percent lower than at one month. Just as moral hazard varies with economic conditions, so, too, does duration dependence. When economic times are bad, duration dependence is actually somewhat lower. Intuitively, when employers observe that a job applicant has been unemployed for a while in an economic boom, they may wonder what the matter is with that worker and may be reluctant to hire as a result. By contrast, during a recession, such a worker is more likely to just be unlucky in the face of bad conditions, and the employer would not count such bad luck against the worker (i.e., because this luck gives no indication as to how good the worker would be).²⁹

Such duration dependence is bad in its own right in that it weakens labor market attachment and raises the likelihood that a worker gives up, sits on the sidelines, and becomes dependent on government, perhaps for good. To make matters worse, even when the long-term unemployed *do* find jobs, they come at a steep wage discount—that

Figure 5

Difference Between the Unemployment Rate in Missouri and All Other States (left) and a Synthetic Control

Missouri's unemployment rate fell relative to those of other states after it cut UI duration in 2011.



Source: Johnston and Mas (2018), Figures 11 and 12.

is, they experience wage scarring induced by their long unemployment.³⁰ The research also finds that periods of high unemployment benefit duration lead to more shirking at work among the employed, perhaps because workers are less worried about the prospects of getting laid off if they know they can rely on benefits.³¹ The bottom line is that long jobless spells are extremely costly at all levels—economically for the state and country as a whole, fiscally for the government, and individually. Given the evidence that unemployment insurance exacerbates this problem, the need for reform is clear.

A Narrow Tax Base Discourages Hiring and Disproportionately Hurts Low-wage Workers

The state-level unemployment insurance payroll tax also has profound economic ripple effects. By raising labor costs, the payroll tax necessarily acts as a drag on hiring, but the magnitude of the drag depends on how each state determines the tax base and degree of experience rating. As one might expect, the more burdensome the payroll tax, the more it discourages hiring. However, assessing this burden comes down to more than just calculating

the average UI payroll tax rate. The breadth of the tax base and the extent to which businesses can minimize their tax bill by reducing the burden they impose on the unemployment insurance system likewise matter for assessing the payroll tax. This section addresses the SUTA payroll tax base while the next shifts attention to experience rating.

To begin with, states vary widely in the wage range that they subject to the SUTA payroll tax. For example, Missouri only applies the SUTA tax to the first \$11,000 in wages at a rate that varies from 0 percent to 5.4 percent for established businesses and is 2.376 percent for new businesses. Because any full-time worker who earns above the minimum wage would get paid more than \$11,000 over the course of a year, employers essentially face a per-head SUTA tax. By implication, businesses looking to expand face a lower SUTA tax bill if they increase the hours and pay of existing workers—knowing that annual wages above \$11,000 would not be subject to the SUTA tax—instead of hiring new workers who would get taxed on their first \$11,000. Put another way, as an example, the narrow tax base in Missouri makes it cheaper for

businesses to hire one employee at \$60,000 pay than two employees at \$30,000 pay. As a point of contrast, Idaho's SUTA tax base covers the first \$43,000 in wages. Because the tax applies to a wider wage base, Idaho is able to charge a lower rate of 0.97 percent to new businesses, and employers do not face as strong of a tax-induced preference against expanding their workforce. Because employers in a low-base, high-rate SUTA tax environment can reduce their tax bill by consolidating their workforce into fewer but potentially higher-paid workers, such a setup is especially harmful to unskilled and part-time workers.

This logic also applies in recessions. In states with a broad SUTA tax base, employers looking to temporarily cut total payroll costs during a downturn can trim hours and pay, which reduces the amount of SUTA taxes they owe, thereby allowing them to cut underlying labor costs by less and retain more workers. However, in states like Missouri with a narrow SUTA tax base, cutting a worker's pay does not reduce the SUTA tax owed unless that pay falls below \$11,000, which is impossible for a full-time worker without violating the minimum wage. Thus, employers looking to reduce their SUTA tax bill in Missouri have to resort to layoffs. Part-time and other low-earning workers are especially vulnerable in states with a narrow SUTA tax base.³²

Weak Experience Rating Is Economically Destabilizing and Slows the Speed of Recoveries

One can think of the payroll taxes that firms pay to finance unemployment benefits as a form of insurance premium. Because consumers of other types of insurance do not all face uniform premiums, it is natural for different employers to also face different "premiums" (i.e., SUTA payroll tax bills). To make this point more clearly, set aside unemployment insurance momentarily and consider the auto insurance market. In this market, which is not hamstrung by excessive pricing regulations, beneficiaries pay different premiums based on their underlying actual risk. In short, the more costly a beneficiary is likely to be to the insurer, the higher premium they face. Such risk-tailored premiums are perfectly compatible with the notion of insurance. Put another way, nothing about the concept of insurance requires that all beneficiaries of a policy face the same premium, because premiums are

based on projected risks, which vary systematically across individuals with different histories and characteristics.

Consider a concrete example. Suppose that two individuals with similar driving backgrounds and relevant characteristics take out the same auto insurance policy and pay the same premium based on having similar risk profiles. If only one of them gets in an accident, the payout they receive from the insurance company cushions them—that is, insures them—from the financial consequences of the accident so that they are not forced to pay the entire bill themselves. However, depending on the circumstances of the accident, it is likely that the premiums will rise for that individual. The reason that premiums might rise is because the accident may signal previously unobservable information about that individual's true underlying riskiness that gives the insurance company a more accurate projection of future claims. By raising premiums, insurance companies are not exploiting any kind of undue market power or being "judgmental." Rather, they are simply updating their risk assessment based on the fact that the driver who was at fault has a greater chance of being involved in future accidents. If the government were to force insurers to charge all beneficiaries the same premium, it would in effect be mandating that low-risk drivers subsidize high-risk drivers. This cross-subsidization is just another form of government redistribution, not insurance.

Returning to the issue of unemployment insurance, even though the program is publicly financed and operated, it still contains some features that are analogous to what one commonly observes in private insurance markets (although there are no UI deductibles). In terms of financing, the extent of experience rating is a stand-in for actuarially priced insurance premiums. As with the insurance example above, under experience rating, employers with high layoffs in one year can expect higher payroll tax rates in future years. Experience rating is *incomplete* if the present value of higher tax payments that an employer incurs following a string of layoffs is insufficient to cover the present value of benefit payments that go to the former employees. The weaker the experience rating is, the more that businesses with stable employment (those that impose a smaller taxpayer burden) subsidize high-layoff employers, causing a reallocation of resources to less stable industries and employers and also reducing the incentive

of businesses to be more prudent in their hiring and layoff decisions.

Research dating back decades finds that incomplete experience rating may be responsible for 30 percent of all spells of temporary-layoff unemployment.³³ One source of incompleteness in experience rating is the fact that the tax rate schedule faces flat portions, and in particular, that the top tax rate is capped. While low taxes are in general much better for economic performance, it is important to recall that the experience-rated tax rate that a business faces should more properly be viewed as the sum of an underlying base rate that all businesses pay uniformly to ensure the solvency of the state UI system plus an individual “premium” that reflects the expected claim-generating activity of each business. Capping the top tax rate is akin to capping this “premium,” which (as discussed momentarily) can have the adverse effect of creating greater fiscal pressure to raise the base rate that all employers pay. Capping the top rate makes experience rating incomplete because once an employer reaches that threshold, they no longer face consequences for further layoffs that add to the taxpayer burden. In economics terminology, the marginal cost of a layoff becomes zero to them. Such high-layoff employers may consistently impose costs on the unemployment insurance system in excess of their tax contributions. Moreover, in states like Missouri that use the reserve-ratio system—which creates tax rate bands corresponding to a range of reserve-ratio values—the wider those bands are, the weaker experience rating is because of the pooling of employers with different layoff propensities.

Weak experience rating compounds the labor market woes associated with a narrow SUTA tax base. To understand how experience rating and the tax rate interact, note that fiscal pressures during recessions (most notably in the aftermath of the Great Recession) cause states to raise tax rates to offset changes in their unemployment trust fund balance. In recessions, benefit outlays increase and revenues fall, which causes states to draw down their trust fund balance, ultimately requiring them to raise rates to replenish the balance. This pattern of raising tax rates while the economy is still rebounding—as displayed in Figure 6—discourages hiring and creates a destabilizing dynamic that contributes to slower recoveries. Weaker experience rating forces states to adjust the tax rate

schedule across all employers by more in order to subsidize the subset of industries and employers that may be disproportionately driving up taxpayer costs through their layoff behavior. Put more bluntly, weaker experience rating shifts the burden of unstable, high-layoff businesses onto *all* employers. A narrow taxable wage base, more generous benefits (in terms of benefit amount and duration), and reserve ratio systems are also factors that put higher upward pressure on across-the-board tax rates following periods of high unemployment.³⁴ By contrast, research has found that states that index their tax base to the average wage in the state economy had twice the reserves of states that resort to a fixed taxable wage base. Trust funds in states with reserve-ratio financing and a fixed base can take more than a decade to recover following a recession and are more likely to have to resort to hikes in the entire rate schedule (“solvency taxes”). States with benefit-ratio financing recover more quickly whether or not they index their tax base.³⁵

Impediments to Worksharing Exacerbate Labor Market Downturns

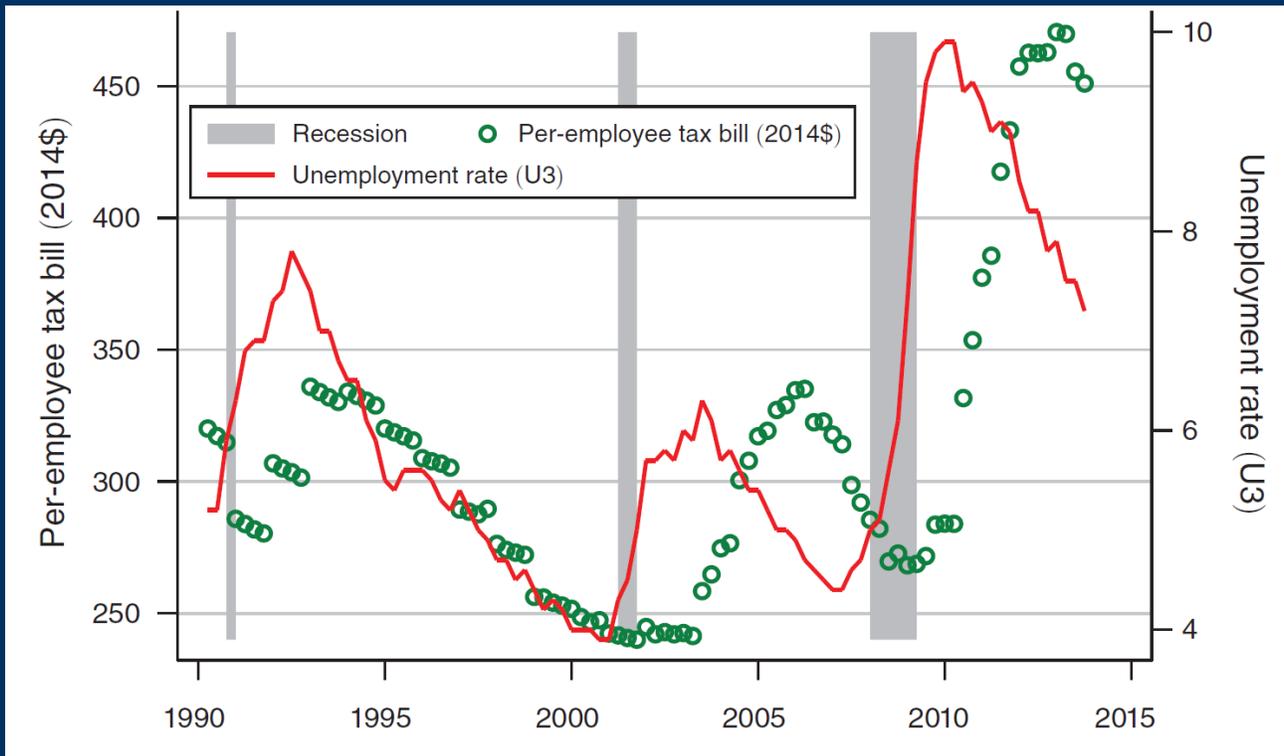
Both partial unemployment insurance and short-time compensation programs give firms the flexibility to respond to deteriorating business conditions by reducing hours and pay without relying as heavily on layoffs. Unfortunately, both programs face barriers to effectiveness. In many states—Missouri included—the \$1-for-\$1 earnings offset eliminates almost any incentive for workers on unemployment benefits to earn money part-time while looking for a job because doing so does not increase their take-home pay. By contrast, Michigan has a smaller offset of \$0.50 for each dollar earned, giving underemployed workers at least some incentive to increase their hours as they continue to search for new, full-time employment.

Uptake of short-time compensation is quite low, at least partly because of a high administrative burden.³⁶ Unlike with partial unemployment insurance benefits, which are straightforward and do not require pre-approval from the state for employer participation, employers must submit work-sharing plans to receive approval for STC participation. This process is cumbersome and often paper-based. Moreover, the fact that employers must actually reduce hours—affecting the operation of the workplace—and not just pay in order to participate in

Figure 6

Cyclicality of the UI Tax Burden

This figure shows a rise in the UI tax burden (green dots) in the years following a spike in the unemployment rate (red line), which makes hiring more costly during recoveries.



Source: Johnston (2021).

STC may reduce the program's appeal depending on the firm's business model.³⁷

The Problem of Fraud

Unemployment insurance fraud is a perpetual concern, both because of its immediate budgetary impact through improper outlays and from its undermining of public trust. Arguably, such concerns have reached fever pitch during the COVID-19 pandemic in light of the dramatic eligibility expansion and increase in benefit generosity implemented by the federal government. However, there is not just one type of fraud. It comes in multiple varieties. Prior to the pandemic, a 2015 study citing Department of Labor data listed several types of fraud. Job-search

fraud refers to a situation in which workers misrepresent their efforts to look for a job (a typical requirement to receive benefits), just as workers also commit fraud when they refuse a suitable job offer. Workers who receive benefits after quitting or after being fired for cause also do so fraudulently, as both situations are supposed to be disqualifying. However, the study finds that, despite not being discussed as prominently in public discourse, concealed earnings represent the lion's share of fraud—over 60 percent. In particular, concealed earnings fraud occurs when an unemployed worker finds a job but chooses not to notify the unemployment office about the new job—collecting benefits and a paycheck simultaneously.³⁸

Although fraud concerns often focus on the behavior of

benefit recipients, especially given ongoing labor shortages and the unprecedented expansion of benefits during the pandemic, impropriety exists on the employer side as well. To set the stage, note that, because of experience rating, employers have the incentive to limit the number of laid-off workers who go on to claim unemployment benefits. One way to accomplish this goal is by simply laying off fewer workers. The other way is to challenge the unemployment insurance claims of their laid-off workers, for example by claiming that the layoffs occurred for cause—which normally would render the ex-employee ineligible for benefits. Undoubtedly, employers are at times right to challenge, but recent research also finds that improper denial of benefits is relatively common, which is one reason that 27 percent of unemployment benefits go uncollected. Both fraud and improper denials uncover shortcomings of the current system's ability to properly determine in an accurate and timely manner who should and should not receive benefits.³⁹

Unemployment Insurance Problems Revealed by the COVID-19 Experience

The unique circumstances of the COVID-19 pandemic and the profound unemployment insurance changes implemented in response revealed with great clarity some structural flaws in the program that might not otherwise have been as readily apparent in normal economic times. To begin with, policymakers chose to enhance unemployment benefit generosity in the CARES Act because economic lockdowns and virus fears during spring 2020 meant that unemployed workers had little ability to find a job or recourse to replace lost income. The 50 percent or less replacement ratio that unemployment benefits typically provide is in part a way to incentivize job search, but the widespread lockdowns rendered job search nearly impossible. Leaving the replacement ratio at 50 percent during the lockdowns would have thus created financial strain for families with little benefit in terms of moral hazard reduction. However, the choice to enhance benefits by adding a \$600 fixed weekly supplement to base benefits instead of simply raising the replacement rate from, say, 50 percent to 90 percent was the result of policymakers learning that states lacked the ability to make such a parameter change to their systems because of antiquated computer systems.

Outdated information technology systems may also explain at least in part the severe benefit processing delays that characterized the early months of the pandemic and, to a lesser extent, the time period after passage of the American Rescue Plan Act in spring 2021. As depicted in Figure 7, unemployment insurance caseloads in Missouri (as in the nation as a whole) skyrocketed in spring 2020, coinciding with a sharp dive in benefit payment timeliness as the percentage of beneficiaries who received benefits within 3, 6, or 9 weeks of filing fell. The system buckled under the pressure of dramatically higher utilization.⁴⁰ Notably, only some of the increased benefit utilization came from newly laid-off workers. A considerable fraction of new caseloads came from jobless workers who would normally have insufficient earnings to qualify for benefits but gained eligibility under the CARES Act and who were enticed by larger payments.⁴¹

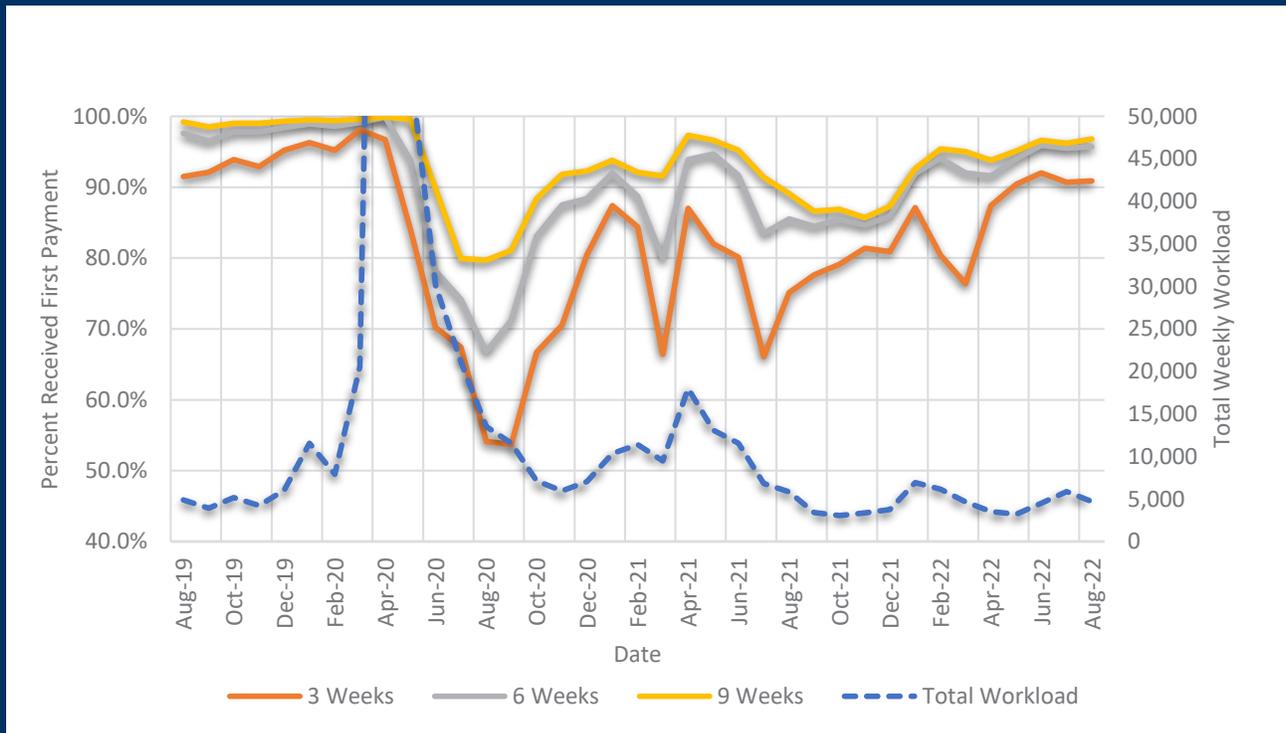
The late stages of the pandemic have also revealed the shortcomings of fraud detection at the state level. Despite significantly expanded benefits enticing more workers into claiming benefits, the state fraud detection rate dropped implausibly to nearly zero. At the same time, overpayment rates increased.⁴² Although job search requirements were waived temporarily during the pandemic, states began reinstating them in mid-2021 in the face of a growing labor shortage crisis and record job openings. In spite of the requirements, long-term unemployment—which only slowly turned the corner as the federal benefit extension expiration date approached—remained elevated entering 2022.⁴³

Regarding the issue of benefit expiration, several states—Missouri being one of the leaders—opted to terminate participation early in the federal unemployment benefit extensions before their nationwide expiration in September 2021. Early evidence suggested that the termination did lead to a modest boost in the pace of recovery for these states, but the absence of a dramatic post-expiration boom was fodder for critics, who derided the early termination of benefits as being harmful to workers.⁴⁴ However, economists had never predicted that employment would instantly jump to a higher level in one fell swoop after the expiration of benefits. To the contrary, the post-expiration acceleration in the labor market recovery was always bound to be gradual and set in motion by the *announcement* of the future date of expiration as

Figure 7

Missouri UI Payment Delays and Workload

Timeliness of unemployment insurance payments fell dramatically during the early months of the COVID-19 pandemic as the workload (related to the volume of claims) faced by unemployment agencies spiked.



Source: Data from U.S. Department of Labor.

workers immediately begin to intensify their job search. However, it still takes time for heightened job search to translate into job finding and acceptance. Another confounding factor is the trillions of dollars in government money deposited into people's bank accounts throughout the pandemic, ranging from stimulus checks to the temporarily enlarged Child Tax Credit to, especially, the enhanced unemployment benefits. All of this government money has left checking accounts flush—even to this day—which makes it easier for unemployed workers to remain on the sidelines or be pickier in their job searches.⁴⁵ Harvard economist Raj Chetty calls this the liquidity effect of unemployment insurance. Even though unemployed workers are no longer receiving more from benefits than

they were on the job, as had been the case for the second half of 2020 and much of 2021, the hangover from such elevated benefits slows job searching activity. As time goes on, this liquidity effect is likely to fade as people whittle down their bank balances. Already, the prime-age (for 25–54 years old) labor force participation rate has been edging back to pre-COVID levels.⁴

FEATURES OF AN "IDEAL" UNEMPLOYMENT INSURANCE PROGRAM

The previous section makes clear that the *existing* unemployment insurance system suffers from several

glaring flaws that needlessly lead to longer jobless spells, higher unemployment rates, slower labor market recoveries following recessions, less job creation, and excessive public expenditures. The solution is not to simply eliminate unemployment insurance, however, as it provides a valuable form of insurance against the risk of unexpected job loss, thereby alleviating financial distress for families and the need for them to initiate draconian cuts to consumption during an unemployment spell. In an ideal world, the United States would redesign unemployment insurance from the ground up according to the lessons that research and lived experience have taught us about the promises and pitfalls of the current system. This section gives a glimpse into what such a reconceptualized system could look like, while the next section highlights some immediate reforms Missouri could undertake to reduce the chasm between the status quo and the ideal.

Front-loaded Payments

Under the current unemployment insurance system, recipients receive the same benefit amount during the first week that they claim benefits as during the fifth week, and tenth week, and so on. However, an extensive body of economics research finds that delivering larger benefits at the beginning of the jobless spell and then reducing the benefit amount with each passing week would boost job search incentives.⁴⁷ Under this program design, workers receive the largest payments up front—coinciding with the arrival of economic uncertainty associated with job loss—giving them the maximum flexibility to organize finances as they begin their job search. In subsequent weeks, the declining payments raise the incentive to increase search intensity and accept a job.

Reemployment Taxes and Bonuses

Temporarily modifying a worker's payroll tax rate after an unemployment spell based on their duration of benefit receipt could also enhance job search incentives.⁴⁸ The tax rate adjustment could come either in the form of a temporary rate *discount*—with larger discounts for those who found jobs more quickly—or a temporary rate *surcharge*—with larger surcharges for workers who collected benefits for longer. Either way, the tax adjustment would incorporate an explicit or implicit penalty associated with long periods of time claiming

unemployment benefits, thus incentivizing faster job search.

In a similar vein, instituting reemployment bonuses tied to finding a job within a certain time period would encourage workers to accelerate their job search instead of waiting until close to their benefit expiration.⁴⁹ In fact, multiple states have already experimented at times with different forms of a reemployment bonus. Although the details vary, the basic structures of the different bonus experiments follow a similar rubric—namely, unemployed workers receive a cash bonus if they find a job within a predefined time period that is less than the maximum duration of unemployment benefits and on condition that they remain in the new job for some minimum amount of time. Studies of each of the experiments reveal that bonuses can successfully reduce unemployment duration, but the magnitude of the effect varied across the programs.

Arguably the most successful experiment, based on the research, occurred between July and November of 1984 in Illinois. The bonus featured a \$500 payment (equal to about four weeks' worth of average benefits at the time) if workers found a job in less than 11 weeks and if they held onto the job for four months. One prominent study found that the Illinois experiment sharply reduced unemployment benefit payments due to workers finding jobs more quickly without the program even paying out a large number of bonuses. The study conducted a cost-benefit analysis of the bonuses and found that not only did they reduce costs for the unemployment insurance system itself, but they also caused increased tax revenues because total earnings in the state economy rose as more people returned to work. Even in cases where reemployment bonuses do not yield clear cost reductions for the unemployment insurance system viewed in isolation, they improve the overall fiscal picture by bringing in tax revenues from the additional economic activity.⁵⁰ One option would be to only institute such reemployment bonuses in the early stages of recovery from a recession to prevent entrenched long-term unemployment from taking root.

Countercyclical Benefit Duration and Generosity

The insurance value of unemployment benefits is highest and the job-search disincentives lowest during recessions,

which suggests that the generosity of benefits should vary with the state of the business cycle. In particular, research has found that duration dependence—whereby longer unemployment spells beget lower job finding chances—is worse when the labor market is tight.⁵¹ The natural implication is that the duration of unemployment benefits should be shorter when the labor market is healthy, which is consistent with existing practice. However, the economy would fare even better if policymakers followed a more explicitly rules-based approach to benefit extensions instead of exercising their more unpredictable discretion. In addition, if policymakers were to follow such a rules-based approach, the benefit duration should depend on the *change* in the unemployment rate (i.e., longer benefit duration when the rate is deteriorating, and shorter duration when the rate is improving).⁵² One can make a similar research-based argument for adjusting the generosity of the benefit amount as conditions change.⁵³ As an example, the time limits associated with the enhanced unemployment benefits in the CARES Act greatly minimized their disincentive effects—until, that is, policymakers subsequently enacted several extensions even as the economy strengthened.

More Robust Monitoring and Job Search Assistance

One lesson that emerges from the research is that financial incentives function better when coupled with more robust monitoring and job search assistance. These measures serve the dual purpose of giving direct help to workers and discouraging fraud.⁵⁴ For example, Nevada's Claimant Placement Program from 1977 to 1978 increased staff attention and referrals, with claimants expected to have weekly interviews and eligibility checks. Research has found that the program reduced unemployment duration by 3.9 weeks.⁵⁵ Nevada also instituted a Reemployment Eligibility Assessment (REA) program from July to December 2009 that randomly assigned benefit recipients to either a control group or a treatment group, where the latter were subject to an eligibility review followed by job search assistance. Analysis of the program finds that it led to persistent, long-term earnings increases and a substantial short-term drop in benefit usage.⁵⁶

Better Experience Rating

Ideally, employers should face perfectly individualized

payroll tax rates that fully respond to the actuarial risk they systematically impose on the unemployment insurance system. In short, increasing the slope of the payroll tax schedule through more gradations and a wider gap between the minimum and maximum rates would lead to better labor market outcomes in general.⁵⁷ However, raising payroll tax rates on firms that engage in heavy layoffs in a recession when they are temporarily distressed causes them to reduce hiring as the economy improves, contributing to jobless recoveries.⁵⁸ In principle, risk-pricing should be based on a forward-looking assessment of future use. Past use is only relevant insofar as it is a predictor of future use. However, past use—especially when driven by recession conditions—is a highly imperfect proxy for the future. One possible way to accommodate the need for more experience rating during normal times without imposing tax hikes on firms for laying off workers simply because of deteriorating aggregate economic conditions is to curtail experience rating during recessions, perhaps by rating employers based on their layoff activity in relation to layoffs in the entire economy or their industry. Delaying or avoiding payroll tax hikes aimed at replenishing the unemployment trust fund—for example by drawing down rainy day funds or tapping into general revenues—would avoid unduly stunting the jobs recovery following a recession. Broadening the taxable wage base and indexing it to average wages in each state's economy would also improve the speed of recoveries.⁵⁹

Unemployment Insurance Accounts

The boldest, most transformative change that policymakers could make to the unemployment insurance system is to move workers from first-dollar reliance on taxpayer money during an unemployment spell to giving them personal unemployment accounts that they would draw on first.⁶⁰ The basic structure would be to use a portion of each worker's unemployment insurance payroll taxes as a mandatory contribution to the newly created account. Prior to retirement, workers would only be able to draw down the account during a period of unemployment. If a worker had a particularly long unemployment spell and drained their account completely, only then would they begin receiving "traditional" unemployment benefit payments, which would get registered as a debit on the worker's account. Upon retirement, any negative balances would be erased—in other words, retirees would

never have to pay back the government for their use of unemployment benefits during their working lives.⁶¹ However, workers with positive balances would gain the ability to access and withdraw funds from their accounts as with any other retirement account.

This design, unlike the current first-dollar system, creates the incentive for unemployed workers to begin their job search in earnest immediately rather than wait until close to the expiration of benefits, because each dollar of benefits they do not draw down from their account is a dollar (actually more, after taking into account interest compounding over time) they will have at retirement. At the same time, people who enter a jobless spell with a small account balance have the reassurance that they will receive payments from the government for a period of time, as with the current unemployment insurance system. Researchers have simulated the performance of such a system and estimate that only 5 percent of people would enter retirement with a negative account balance. Moreover, the cost to the taxpayer of wiping away those negative balances would be substantially less than the cost of the current system such that the government could even cut the payroll tax, thereby boosting the demand for workers.⁶² Other research finds that such a reform would reduce overuse of the direct government benefit payments by people with less need and concentrate assistance where it would actually be needed—on those with the most tenuous labor market outcomes.⁶³

PRACTICAL FIRST STEPS FOR MISSOURI

Missouri would put itself at the vanguard of unemployment insurance reform if it adopted several of the measures outlined in the previous section, with some options likely to be heavier lifts than others. As policymakers assess the scale of their ambitions, Missouri can take immediate steps to rectify some of the most glaring flaws in its unemployment insurance system to create a more pro-work environment.

Modernize State IT and Accounting Systems

The COVID-19 experience revealed that antiquated state IT and accounting systems were some of the top

impediments to sound policy, arguably more so than competing political forces. For example, the federal government ran into resistance from state unemployment offices to the idea of raising the replacement rate from 50 percent to, say, 80 percent during the height of lockdowns because the offices claimed that they lacked the technological capability to institute such changes in a timely manner. Thus, the federal government instead opted for the \$600 weekly supplemental payments, which had the consequence of paying most workers more money to remain unemployed than to go back to their previous job or a similar job.⁶⁴ State unemployment offices maintained this stance throughout the pandemic, apparently never making any tangible progress toward modernizing their systems to be able to handle changing this single parameter. Before Missouri can think about adjusting its replacement rate to economic conditions, facilitating partial unemployment insurance and short-time compensation, or instituting bolder reforms like unemployment insurance accounts, the state must first ensure that its IT and accounting systems are up to the task.

Prohibit the Replacement Rate from Ever Exceeding 100 Percent

During the height of COVID-19 lockdowns, the near-complete inability of unemployed workers to engage in job-search activities created a compelling rationale for policymakers to temporarily raise the generosity of unemployment benefits, but replacement rates above 100 percent create serious disincentive effects by making it financially disadvantageous for unemployed workers to go back to work. On the precondition that Missouri modernizes its antiquated unemployment insurance IT systems as described above, it would also make sense for the state to prohibit the replacement rate from ever exceeding 100 percent. Even if the federal government were to again pursue large supplemental benefit payments in the middle of a future crisis, Missouri would then either reject the supplemental payments (as long as the federal government does not make state participation mandatory), offset them on an individual-by-individual basis to ensure that nobody's replacement rate exceeds 100 percent, or tax the amount above that replacement rate (as long as Missouri continues to have an income tax). While some may object to not taking as much “free” money from the

federal government as possible, such money is never truly free, and in this case it comes with the heavy baggage of impeding the labor market.

Shorten Baseline Benefit Duration and Tie Extensions to Changes in Economic Conditions

During normal times when the labor market is healthy, Missouri should reduce the maximum duration of benefits from 20 weeks to 12, ensuring that workers have an adequate amount of time to find a new job when the labor market is healthy while minimizing the risk of long-term unemployment. Missouri should also codify that it will abstain from participating in optional federal benefit extensions except when the economy meets some predefined, objective benchmarks that indicate a serious deterioration in labor market conditions—for example, if the unemployment rate passes five percent in levels *and* rises by more than 0.5 percentage points over a three-month period. Conversely, Missouri should cease participation in federal benefit extensions if the labor market is rebounding—for example, if the unemployment rate falls by 0.5 percentage points over a three-month period. Conditioning unemployment benefit extensions on *only* the level of the unemployment rate creates a self-reinforcing cycle of longer benefit extensions, causing the unemployment rate to remain higher for longer, resulting in even more benefit extensions.⁶⁵ Missouri could also allow the replacement rate to respond to unemployment rate changes, with benefits increasing when the economy is deteriorating and decreasing when the unemployment rate is falling.

Require Immediate Reporting of Hires to the Department of Labor

To curtail unemployment insurance fraud, Missouri should require immediate reporting of all new hires and re-hired workers to the Department of Labor. In essence, as soon as an employee shows up on a firm's payrolls, the state unemployment office should be aware so that it can ensure that benefits adjust (in the case of partial unemployment insurance) or cease. Such a move would address unemployment insurance fraud coming from concealed earnings.

Reduce the Earnings Offset for Partial Unemployment

Insurance

Currently, Missouri reduces the benefits an unemployed or underemployed worker can receive by \$1 for each \$1 the worker earns above the (very low) disregard amount. This 100 percent implicit tax creates a strong disincentive to such workers earning any money while they look for new full-time employment. As a result, employers in a recession have more of an incentive to lay off workers entirely instead of keeping them on the payroll at reduced pay. Labor force attachment therefore suffers as more workers end up fully rather than partially unemployed. Missouri can address this impediment to labor force attachment by reducing the earnings offset to \$0.50 or less. Missouri could also raise the disregard in light of evidence that doing so tends to increase re-employment rates and reduce unemployment duration.⁶⁶

Streamline Short-time Compensation

To further strengthen labor market attachment and reduce the policy bias that all too often makes layoffs more cost-effective than work sharing, Missouri should fully automate approvals for participation in the state's "Shared Work" short-time compensation program. In particular, employers in good standing with their unemployment taxes should receive approval regardless of how they divide work across employees. In this way, short-time compensation and partial unemployment insurance should effectively be merged into a unified approach to encouraging firms in temporary distress to consider alternatives to layoffs.⁶⁷

Broaden and Index the Taxable Wage Base

Missouri should raise the ceiling for the taxable wage base to median state earnings and keep it indexed to wages going forward. In conjunction, the state should lower the SUTA payroll tax rate to ensure revenue neutrality. Such a base-broadening, rate-reducing reform would make unemployment insurance taxes less of a tax on employee head count, with the likely effect of reducing volatility in hires and layoffs. Missouri could also consider shifting its experience rating to a benefit-ratio system to improve the resilience of its trust fund in the aftermath of future recessions.⁶⁸

CONCLUSION

The United States economy as a whole, and Missouri specifically, remain in the midst of an unprecedented period of labor shortages that are contributing to the inflation crisis. Thus, it is of paramount importance to institute policy reforms to bring more economic supply online. That effort needs to occur on all fronts, ranging from tax and regulatory reform aimed at encouraging investment to pro-work safety net reforms. Unemployment insurance is arguably the most important recession stabilizer, and as this report indicates, there are many ways to keep its insurance provision properties while improving its pro-work incentives.

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NOTES

1. Unemployment rate: <https://fred.stlouisfed.org/series/UNRATE>
2. Unemployed persons relative to job openings: <https://fred.stlouisfed.org/graph/?g=p9aA>
3. Real GDP: <https://fred.stlouisfed.org/series/GDPC1>; labor productivity: <https://fred.stlouisfed.org/series/PRS85006091>
4. Labor force participation rate: <https://fred.stlouisfed.org/series/CIVPART>
5. <https://socialwelfare.library.vcu.edu/social-security/social-security-unemployment-insurance/>
6. <https://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf>
7. Ganong, Peter and Pascal Noel. “Consumer Spending during Unemployment: Positive and Normative Implications.” 2019. American Economic Review. Vol. 109(7), pp. 2383–2424.
8. <https://www.aeaweb.org/articles?id=10.1257/aer.20151655>
9. The absence of a robust market for private unemployment insurance is not for lack of trying: https://www.nytimes.com/2009/08/08/your-money/08money.html?_r=0 and <https://www.nytimes.com/2016/05/28/your-money/finally-private-unemployment-insurance-but-will-anyone-buy-it.html>
10. Martin Feldstein, former Chair of President Reagan’s Council of Economic Advisers, makes similar arguments here: <https://www.aeaweb.org/articles?id=10.1257/0002828053828545>.
11. <https://www.mo.gov/work/unemployment/>
12. See table 3-5 of <https://oui.doleta.gov/unemploy/pdf/uilawcompar/2021/complete.pdf>.
13. See <https://labor.mo.gov/des/unemployed-workers/help-topics#parttime> or the calculator at <https://labor.mo.gov/des/unemployed-workers/partial-benefit>.
14. See table 4-6 of <https://oui.doleta.gov/unemploy/pdf/uilawcompar/2021/complete.pdf>.
15. See <https://oui.doleta.gov/unemploy/extenben.asp> and
16. See <https://crsreports.congress.gov/product/pdf/R/R46687> for more details.
17. See figure 1 in <https://crsreports.congress.gov/product/pdf/R/R46687>.
18. See tables 2-1 and 2-2 of <https://oui.doleta.gov/unemploy/pdf/uilawcompar/2021/complete.pdf>.
19. <https://oui.doleta.gov/unemploy/content/sigpros/2020-2029/July2022.pdf> and <https://labor.mo.gov/des/employers/tax-rates>
20. Nekoei, Arash and Andrea Weber. “Does Extending Unemployment Benefits Improve Job Quality?” 2017. American Economic Review. Vol. 107(2), pp. 527–561).
21. <https://fred.stlouisfed.org/series/LNS13025703>
22. See, for example, Katz, Lawrence F. and Bruce D. Meyer. “Unemployment Insurance, Recall

- Expectations, and Unemployment Outcomes.” 1990. *Quarterly Journal of Economics*. Vol. 105(4), pp. 973–1002; and Meyer, Bruce D. “Unemployment Insurance and Unemployment Spells.” 1990. *Econometrica*. Vol. 58(4), pp. 757–782.
23. See Hansen, Gary D. and Ayse Imrohoroglu. “The Role of Unemployment Insurance in an Economy with Liquidity Constraints and Moral Hazard.” 1992. *Journal of Political Economy*. Vol. 100(1), pp. 118–142.
 24. See Kroft, Kory and Matthew J. Notowidigdo. “Should Unemployment Insurance Vary with the Unemployment Rate? Theory and Evidence.” 2016. *Review of Economic Studies*. Vol. 83(3), pp. 1092–1124.
 25. Chetty, Raj. “Moral Hazard versus Liquidity and Optimal Unemployment Insurance.” 2008. *Journal of Political Economy*. Vol. 116(2), pp. 173–234.
 26. See, for example, Mitman, Kurt and Stan Rabinovich. “Do Unemployment Benefit Extensions Explain the Emergence of Jobless Recoveries?” 2022. Working Paper; and Hagedorn, Marcus, Fatih Karahan, Iourii Manovskii, and Kurt Mitman. “Unemployment Benefits and Unemployment in the Great Recession: The Role of Equilibrium Effects.” 2019. Working Paper.
 27. Hagedorn, Marcus, Iourii Manovskii, and Kurt Mitman. “The Impact of Unemployment Benefit Extensions on Unemployment: The 2014 Employment Miracle?” 2016. Working Paper.
 28. See Johnston, Andrew C. and Alexandre Mas. “Potential Unemployment Insurance Duration and Labor Supply: The Individual and Market-Level Response to a Benefit Cut.” 2018. *Journal of Political Economy*. Vol. 126(6), pp. 2480–2522; and Karahan, Fatih, Kurt Mitman, and Brendan Moore. “Micro and Macro Effects of UI Policies: Evidence from Missouri.” 2022. Working Paper.
 29. See Kroft, Kory, Fabian Lange, and Matthew J. Notowidigdo. “Duration Dependence and Labor Market Conditions: Evidence from a Field Experiment.” 2013. *Quarterly Journal of Economics*. Vol. 128(3), pp. 1123–1167.
 30. There is a broad literature on wage scarring from unemployment, one such paper being Schmieder, Johannes F., Till von Wachter, and Stefan Bender. “The Effect of Unemployment Benefits and Nonemployment Durations on Wages.” 2016. *American Economic Review*. Vol. 106(3), pp. 739–777.
 31. See Lusher, Lester, Geoffrey C. Schnorr, and Rebecca L.C. Taylor. “Unemployment Insurance as a Worker Indiscipline Device? Evidence from Scanner Data.” 2022. *American Economic Journal: Applied Economics*. Vol. 14(2), pp. 285–319.
 32. See Duggan, Mark, Audrey Guo, and Andrew C. Johnston. “Would Broadening the UI Tax Base Help Low-Income Workers?” 2022. Working Paper.
 33. See Topel, Robert H. “On Layoffs and Unemployment Insurance.” 1983. *American Economic Review*. Volume 73(4), pp. 541–559.
 34. See Albertini, Julien, Xavier Fairise, and Anthony Terriau. “Unemployment Insurance, Recalls, and Experience Rating.” 2021. Working Paper; and Graves, Sebastian, Jonathon Hazell, Walker F. Lewis, and Christina Patterson. “Unemployment Insurance Financing as a Uniform Payroll Tax.” 2022. *American Economic Review Papers and Proceedings*, and Ratner, David. “Unemployment Insurance Experience Rating and Labor Market Dynamics.” 2014. Working Paper.
 35. See Lachowska, Marta, Wayne Vroman, and Stephen A. Woodbury. “Experience Rating and the Dynamics of Financing Unemployment Insurance.” 2020. *National Tax Journal*. Vol. 73(3), pp. 673–698.
 36. See <https://sgp.fas.org/crs/misc/R40689.pdf>. Interestingly, STC as a fraction of total STC + UC payments is the highest in Missouri but still below 10 percent.
 37. See <https://labor.mo.gov/shared-work> for details on Missouri’s shared work program.

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39. See Auray, Stephane and David L. Fuller. "Eligibility, Experience Rating, and Unemployment Insurance Take-Up." 2020. *Quantitative Economics*. Vol. 11, pp. 1059–1107.
40. Data source: <https://oui.doleta.gov/unemploy/btq/btqrpt.asp>.
41. In Q1 2021, 48 percent of initial claims nationwide came from workers with earnings under the minimum qualification threshold: <https://www.city-journal.org/fixing-unemployment-insurance>.
42. See <https://www.city-journal.org/fixing-unemployment-insurance> and <https://crowe.wisc.edu/the-poor-performance-of-the-unemployment-insurance-system-during-covid-19-in-the-united-states-and-especially-wisconsin/>.
43. See <https://fred.stlouisfed.org/series/LNS13025703>.
44. See <https://crowe.wisc.edu/wp-content/uploads/sites/313/2021/08/emp-early1b.pdf>.
45. See <https://www.jpmorganchase.com/institute/research/household-income-spending/household-pulse-cash-balances-through-june-2022> for
46. See <https://fred.stlouisfed.org/series/LNS11300060>.
47. See, for example, Shavell, Steven and Laurence Weiss, "The Optimal Payment of Unemployment Insurance Benefits Over Time." 1972. *Journal of Political Economy*. Vol. 87(6), pp. 1347–1362; Lindner, Attila, and Balázs Reizer. 2020. "Front-Loading the Unemployment Benefit: An Empirical Assessment." *American Economic Journal: Applied Economics*, 12 (3): 140-74;
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49. See Li, Rui and Noah Williams. "Optimal Unemployment Insurance and Cyclical Fluctuations." 2022. Working Paper.
50. See Davidson, Carl and Stephen A. Woodbury. "The Displacement Effect of Reemployment Bonus Programs." 1993. *Journal of Labor Economics*. Vol. 11(4), pp. 575–605; and Meyer, Bruce. "Lessons from the US Unemployment Insurance Experiments." 1995. *Journal of Economic Literature*. Vol. 33(1), pp. 91–131.
51. See Kroft, Kory, Fabian Lange, and Matthew J. Notowidigdo. "Duration Dependence and Labor Market Conditions: Evidence from a Field Experiment." 2013. *Quarterly Journal of Economics*. Vol. 128*3), pp. 1123–1167.
52. See Mitman, Kurt and Stanislav Rabinovich. "Whether, when and how to extend unemployment benefits: Theory and application to COVID-19." 2021. *Journal of Public Economics*. Vol. 200.
53. See Kroft, Kory and Matthew J. Notowidigdo. "Should Unemployment Insurance Vary with the Unemployment Rate? Theory and Evidence." 2016. *Review of Economic Studies*. Vol. 83(3), pp. 1092–1124.
54. See Fuller, David L., B. Ravikumar, and Yuzhe Zhang. "Unemployment Insurance Fraud and Optimal Monitoring." 2015. *American Economic Journal: Macroeconomics*. Vol. 7(2), pp. 249–290.
55. See Meyer, Bruce. "Lessons from the US Unemployment Insurance Experiments." 1995. *Journal of Economic Literature*. Vol. 33(1), pp. 91–131.
56. Manoli, Dayanand S., Marios Michaelides, and Ankur Patel. "Long-Term Effects of Job-Search Assistance: Experimental Evidence Using Administrative Tax Data." 2018. Working Paper.
57. See Ratner, David. "Unemployment Insurance Experience Rating and Labor Market Dynamics." 2014. Working Paper.

58. See Johnston, Andrew. “Unemployment Insurance Taxes and Labor Demand: Quasi-Experimental Evidence from Administrative Data.” 2021. *American Economic Journal: Economic Policy*. Vol. 13(1), pp. 266–293.
59. See Lachowska, Marta, Wayne Vroman, and Stephen A. Woodbury. “Experience Rating and the Dynamics of Financing Unemployment Insurance.” 2020. *National Tax Journal*. Vol. 73(3), pp. 673–698; and Duggan, Mark, Audrey Guo, and Andrew C. Johnston. “Would Broadening the UI Tax Base Help Low-Income Workers?” 2022. Working Paper; and Graves, Sebastian, Jonathon Hazell, Walker F. Lewis, and Christina Patterson. “Unemployment Insurance Financing as a Uniform Payroll Tax.” 2022. *American Economic Review Papers and Proceedings*.
60. This idea has been explored by several papers, including Feldstein, Martin. “Rethinking Social Insurance.” 2005. *American Economic Review*. Vol. 95(1), pp. 1–24; Stiglitz, Joseph E. and Jungyooll Yun. “Integration of unemployment insurance with retirement insurance.” 2005. *Journal of Public Economics*. Vol. 89, pp. 2037–2067; von Wachter, Till. “Unemployment Insurance Reform.” 2019. *The Annals of the American Academy*; and Johnston, Andrew. “Unemployment Insurance Taxes and Labor Demand: Quasi-Experimental Evidence from Administrative Data.” 2021. *American Economic Journal: Economic Policy*. Vol. 13(1), pp. 266–293.
61. Another policy option is to reset negative account balances to zero after some period of time of employment to ensure that workers always have the incentive to build a positive account balance. Otherwise, if workers with frequent long unemployment spells accrue an inordinately large negative balance, they may conclude that returning to a positive balance is impossible, which would weaken the positive incentive effects of the accounts.
62. See Altman, Daniel and Martin Feldstein. “Unemployment Insurance Savings Accounts.” 2007. *Tax Policy and the Economy*. Vol. 21.
63. See Setty, Ofer. “Unemployment Insurance and Unemployment Accounts: The Best of Both World.” 2017. *Journal of the European Economic Association*. Vol. 15(6), pp. 1302–1340.
64. See Ganong, Peter, Pascal Noel, and Joseph Vavra. “US unemployment insurance replacement rates during the pandemic.” 2020. *Journal of Public Economics*. Vol. 191.
65. See Mitman, Kurt and Stanislav Rabinovich. “Whether, when and how to extend unemployment benefits: Theory and application to COVID-19.” 2021. *Journal of Public Economics*. Vol. 200.
66. See, for example, McCall, Brian P. “Unemployment Insurance Rules, Joblessness, and Part-Time Work.” 1996. *Econometrica*. Vol. 64(3), pp. 647–682.
67. See Stiepelmann, Gero. “Optimal Short-Time Work Policy in and outside Recessions.” 2022. Working Paper.
68. See Lachowska, Marta, Wayne Vroman, and Stephen A. Woodbury. “Experience Rating and the Dynamics of Financing Unemployment Insurance.” 2020. *National Tax Journal*. Vol. 73(3), pp. 673–698.



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