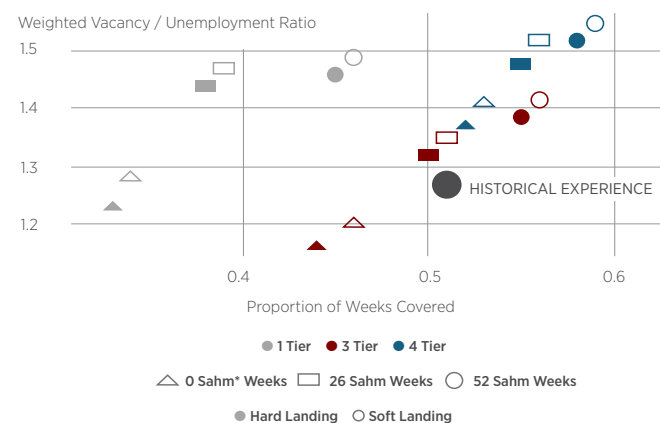


Should We Have Automatic Triggers for Unemployment Benefit Duration and How Costly Would They Be?

Based on BFI Working Paper 2022-12, “[Should We Have Automatic Triggers for Unemployment Benefit Duration and How Costly Would They Be?](#)” by Gabriel Chodorow-Reich, Harvard University; Peter Ganong, University of Chicago’s Harris Public Policy; and Jonathan Gruber, MIT

This work finds that compared to ex post policy, the cost of common proposals for automatic triggers is close to zero.

Figure 1 • Coverage Versus Targeting



*The Sahn Rule (Sahn, 2019) identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate rises by 0.5 percentage points or more relative to its low during the previous 12 months.

Notes: This figure shows the trade-off between covering more of the long-term unemployed (shown on the x-axis) and targeting extended benefits to periods of worse labor market health (shown on the y-axis). The authors compare several policy options for automatic triggers to historical experience of actual extensions for 2001-2015. The policy options are the number of tiers of extended benefits (in gray, red, and blue), the availability of additional weeks of benefits from a national Sahn trigger (different shapes), and whether additional benefits are available after a tier turns off.

By construction, additional tiers cover more long-term unemployed covered, as shown by the rightward shift of the grey to the blue and the red frontiers. The large black circle shows the actual historical experience. Historical coverage is comparable to the four-tier policy without a Sahn trigger or the three-tier policy with a 26-week Sahn trigger. Moreover, that the black circle lies below the alternative policy indicators means that Congress has extended benefits in periods when the labor market was on average weaker than what would have occurred under the automatic policies considered, holding fixed total cost.

Unemployment Insurance (UI) is a significant part of the social insurance safety net in the United States and around the world. The experience of COVID-19 illustrates the critical role that UI can play in the face of enormous aggregate shocks. It also highlights an issue that has been a perennial focus of UI policy: how the duration of benefits should depend on the state of the economy.

UI benefits in the United States are currently set to 26 weeks in most states. Extended benefits (EB) begin if a state’s insured or total unemployment rate exceeds legislated thresholds, with additional duration of 13 or 20 weeks. The current EB system has two potential shortcomings. First, the stringency of the trigger thresholds (including allowing states to opt out of the less stringent triggers) means that the system rarely actually triggers. Second, the additional 13 or 20 weeks may provide inadequate coverage during severe recessions. In response, Congress has enacted temporary additional extensions during each recession over the past 40 years, with extensions on 5 separate occasions ranging from 6 to 53 weeks.

For decades, economists have recommended replacing a system where extended durations of UI benefits are decided by legislative fiat to a more systematic linkage between benefit durations and economic conditions. However, the actual design of such automatic

extensions has not been the subject of much previous analysis. In this paper, the authors develop a simulation model to analyze the tradeoffs inherent in different extension policies, and they reach three conclusions:

- Policies designed to trigger immediately at the onset or even before a recession starts result in benefit extensions that occur in less sick labor markets than the historical average for benefit extensions.
- Ad hoc extensions in past recessions compare favorably ex post to common proposals for automatic triggers, with one important disclaimer: Past behavior is no guarantee of future legislative performance and there may be other benefits to automating policy.
- Finally, compared to ex post policy, the cost of more systematic policy is close to zero.

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