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Better leverage unemployment insurance and work sharing to boost employment and economic growth

Problem

While Indiana's labor market is recovering from the pandemic recession, the state's economy is likely to remain unpredictable through 2021. In fact, a variety of indicators, including lagging employment-to-population ratio and elevated levels of workers in involuntary part-time work, signal that the state will need to contend with continued labor market slack.

This labor market unevenness poses a challenge to getting back to strong growth and full employment: as the pandemic has continued for nearly a year, what were once temporary layoffs have turned into permanent dislocations.

In the face of these labor market challenges, Indiana can better leverage its unemployment insurance (UI) system to help mitigate further layoffs, better transition workers back into the labor force, fuel greater consumer demand, and generate more economic growth. And while Indiana's economy is now in recovery, these updates will further modernize Indiana's UI system to provide a crucial buffer during future downturns—an important safeguard given that the economy seems to be facing at least one major crisis every decade.

Background

Indiana continues to contend with a shortage of jobs and job openings. While data from the BLS indicates the state's economy had by November 2020 recouped nearly 87% of the jobs it lost between February and April. But even so, Indiana's total November employment was still 52,000 positions lower than its February 2020 level.

What's more, particular features of the pandemic job shortage have exacerbated the state's labor market challenges. The net loss of 32,000 manufacturing jobs since the crisis broke, to begin with, is a loss of thousands of what are frequently "good" jobs that are relatively good-paying, accessible to workers without a B.A., and well distributed around the state. At the same time, the state's sizable losses of jobs in accommodation and food service (12,600 positions), and in health care and social assistance (14,400 positions), are also problematic, as such positions are often mainstays of connection to the economy for young, less educated, or underrepresented workers, including women.

Uneven patterns of job losses and gains in the pandemic and recovery represent complications for worker adjustment to new conditions

Industry	February	November	Employment Change, Feb—Nov 2020	Percent Change, Feb—Nov 2020
Manufacturing	532,900	501,000	-31,900	-6.0%
Government Edu Services *	243,700	229,000	-14,700	-6.0%
Health Care - Social Assistance	420,700	406,300	-14,400	-3.4%
Accommodation and Food	263,800	251,200	-12,600	-4.8%
Educational Services	70,200	62,500	-7,700	-11.0%
Other Services	133,400	121,700	-5,700	-4.3%
Scientific and Tech Services	126,800	121,600	-5,200	-4.1%
Wholesale	121,700	116,500	-5,200	-4.3%
Information	28,400	24,800	-3,600	-12.7%
Real Estate	35,600	34,000	-1,600	-4.5%
Utilities	13,700	13,500	-200	-1.5%
Government excl. Edu**	198,000	197,800	-200	-0.1%
Management	34,200	34,200	0	0%
Mining	5,500	5,500	0	0%
Arts and Entertainment	36,400	36,700	300	0.8%
Finance	106,400	106,800	400	0.4%
Retail	310,600	313,200	2,600	0.8%
Transportation	145,600	155,700	10,100	6.9%
Construction	140,500	152,200	11,700	8.3%
Administrative Services	171,800	197,600	25,800	15.0%
Indiana (Total private)	2,698,200	2,661,000	-37,200	-1.4%
Indiana (Total nonfarm)	3,139,900	3,087,800	-52,100	-1.7%

Source: Brookings analysis of BLS data

Notes: Government estimates are combined with the total private estimates to obtain values for total nonfarm employment.

**Government Educational Services include workers in State Government Educational Services and Local Government Educational Services.*

***Government Excluding Educational Services includes Federal, State, and Local Government employees, excluding state and local schools.*

November data are preliminary estimates.

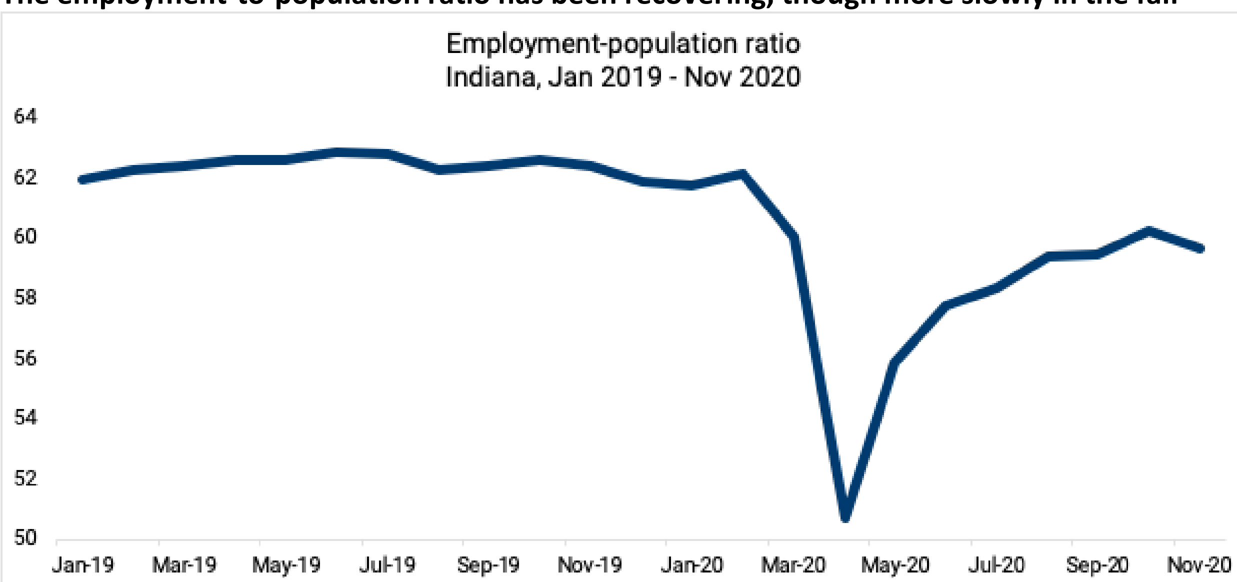
Other measures also suggest that the year’s lingering job losses could remain a problem for worker reconnection and adjustment in the coming year.

The state’s improved unemployment rate, for example—which has dropped from a historic high of 16.9% in April 2020 (the fifth-highest rate in the nation) to below 5% by November (the 15th-lowest)—nevertheless masks continued softness and unevenness in the labor market. For one thing, the unemployment rate varies widely across regions: While the Wabash Heartland region registered a November unemployment rate of just 4%, Northern and Northwest Indiana—which saw unemployment rates of 23.6% and 19.6%, respectively, in April—registered much improved but still elevated rates of 5.2% and 6.3% in November.

Individuals who drop out of the labor force, however, are not counted in the state's unemployment rate calculation, meaning that the unemployment rate largely leaves them out of the picture. Therefore, a more useful indicator during times of economic turbulence—when the number of people with jobs remains depressed and some job seekers are dropping out of the labor force entirely—is the state's employment-to-population (EPOP) ratio. This measures the ratio of a location's employed residents to the total working-age population, showing the share of the state's working-age population who have or do not have a job, regardless of whether or not they are actively looking for work. This metric combines the best elements of the unemployment rate measure with those of the labor force participation rate.

What does the EPOP ratio for Indiana say? The data shows that Indiana's EPOP ratio plunged from 61.8% in January to 50.7% in April, before reaching 60% in October and then slipping back to a still-weakened 59.7% in November. This is in contrast to the previous 12 months, when the EPOP ratio hovered fairly steadily around 62%. So, while the unemployment rate paints a fairly positive picture of Indiana recovery, scrutinizing the numbers shows that over 2% of Indiana workers—equivalent to more than 50,000 people—who had jobs in February 2020 remain out of work and potentially out of the workforce entirely.

The employment-to-population ratio has been recovering, though more slowly in the fall



Source: Brookings analysis of BLS data

This near-term shortage of work also means that some workers are being forced into part-time arrangements even when they'd prefer to work full time. The incidence of involuntary part-time work in Indiana has increased by 57%—or over 40,000 workers—from the four-quarter average ending in the fourth quarter of 2019 to the one ending in the third quarter of 2020.[i]

So, with fewer jobs to go around (at least for now), the state must contend with ongoing labor market imbalances and overall higher chances that many workers will struggle to locate work. A late-2021 economic surge may help such workers, but pockets of stress will likely remain. What's more, such softness in the labor market can be self-perpetuating, to the extent that reduced consumer spending depresses economic activity and, in turn, hiring.
This continued labor market softness, meanwhile, is creating negative spillover effects throughout the economy, particularly in the form of reduced consumer spending.[ii] A study from the National Bureau of Economic Research estimated that losing the extra $600 in unemployment insurance benefits reduces local spending by 44%.[iii] And while the December 2020 relief bill will mitigate some of this loss, local spending may still remain as much as 20% below earlier levels. The state's uneven labor market is not only bad for the workers who are unemployed then, but for the prospects of workers throughout the economy who rely on consumer spending.

Indiana has two good options for changing these labor market trends: increase employment growth or spread work opportunities among more workers. While the state can, and should, pursue vigorous growth opportunities in the forms of advanced sector investment, entrepreneurship support, and high-tech investment, the job creation impacts of those policies may take several years to come to full fruition. Likewise, if trends from previous recoveries repeat, and absent significant intervention they are likely to, Indiana will lag other states, both peer states and the U.S. as a whole, in job growth.

Labor saving policies like work share, on the other hand, can save jobs now. In a period of unpredictable job growth, like the current one, work sharing can bring a state closer to full employment, even as economic output continues to lag its potential.

There are other policy options that the state can pursue to help heal its labor market more quickly. For example, because there are fewer full-time jobs available in Indiana, many workers' only options are to take part-time, gig, or contingent work. However, Indiana currently does little to encourage workers to take on part-time employment rather than remain fully unemployed. While Indiana allows workers to take partial unemployment benefits, under current law when a worker starts at a new employer, they have a 1-to-1 phaseout after earning more than 20% of their weekly unemployment insurance benefit amount (and this phaseout starts immediately if they take on part-time work with their existing employer). For a worker who receives the maximum benefit of $390, the phaseout begins at just $87. In other words, after a worker's first $87 of earnings at a new employer (which is less than 6 hours of work at the state's median wage), they lose a dollar of partial UI benefits for every additional dollar that they make. This is a strong disincentive to take on part-time work. So while Indiana may not want to encourage workers to return to work during the height of a deadly pandemic, once the disease is eliminated the state should mitigate these disincentives to get workers into jobs, even if part-time, rather than having them remain fully unemployed.

Recommendation

Fortunately, Indiana has a ready-made tool to help counter these trends and mitigate the most costly and difficult aspects of economic reallocation: its unemployment insurance system. While UI is typically leveraged only for passive income support, if properly utilized it can also be a significant asset to reduce permanent dislocations, help firms stay connected to workers, and encourage smoother transitions and worker adjustments. By making better use of its UI system, Indiana could reduce layoffs by incentivizing firms to keep workers on part-time; encourage workers to rejoin the labor market, even if part-time employment is their only option; and increase economy-rejuvenating consumer spending across the state.

To achieve these goals, the state legislature should enact three UI-focused reforms that will help bolster growth even as the economy remains weak:

- Establish a work share program in the state to reduce layoffs while supporting the health of the Indiana UI trust fund
- Modify the phaseout of partial unemployment insurance to encourage workers to take part-time employment where possible
- Raise the state's UI replacement rate and increase the weekly maximum unemployment insurance benefit to further encourage part-time work and support greater consumer spending

This agenda will increase the overall number of jobs in Indiana at a critical time; encourage more workers to take on employment, even if it's only available part-time; and generate greater consumer spending and economic activity across the state.

Implementation Specifics

First, Indiana's state legislature should enact a work share program to help reduce layoffs while supporting the health of the UI trust fund. How does a work share program work? In a work share program, if a firm's revenue declines, they can choose to reduce workers' hours rather than lay them off outright. For example, if a firm were to lay off 20% of its workforce, it can reduce its workers' hours by 20% instead. Those workers can then leverage partial unemployment insurance and claim 20% of their allowed weekly benefit to help fill the gap in salary.

A well-structured work share program can be a win-win-win for employers, workers, and the state. Employers are able to reduce their labor costs to compensate for reduced demand but keep their workers on staff. This means they don't need to hire and train new workers when economic conditions improve, reducing their overall cost of doing business. Workers are allowed to stay on the job, meaning that, between partial wages and partial unemployment benefits, they will take home more money than they would if they were fully unemployed. Not only that, but they can maintain access to their benefits such as employer-sponsored health insurance. Finally, the state could save money because it only needs to provide partial unemployment benefits to workers, rather than full unemployment benefits.

And with the passage of the December 2020 relief bill, employers will be able to take advantage of the extra $300 in temporary unemployment insurance benefits. If the Biden Administration's proposed relief bill passes, temporary unemployment benefits will be increased further to an extra $400 per week and extended through the end of fiscal year 2021 (September 30). This federal top-up would allow firms to reduce workers' hours when needed with no negative impact on many workers' wages for the next several months.

There are significant resources for states looking to establish work share programs. For example, the National Conference of State Legislatures has enacting legislation and resources used by over two dozen states to establish their respective programs.[iv] They also have a significant collection of federal resources and research on work sharing. Indiana lawmakers could leverage those resources to craft legislation that fits the state's needs.

One argument frequently levied against work sharing programs is that they are only helpful for large firms. In fact, evidence suggests that small and medium-sized businesses actually stand to benefit from work sharing as much as large firms, but they often are less likely to be aware of work sharing, or may otherwise find it difficult to use.[v] Given that, the state should be sure to take several provisions to help increase small and medium sized businesses' visibility of, and access to, work share.

First, Indiana lawmakers should set the minimum firm size to a very low number in order to ensure companies of any size can access work share. For example, Maryland sets its minimum firm size at two employees, and even that minimum can be waived during the pandemic.[vi] If Indiana set its minimum firm size to just one or two employees, it would ensure nearly all companies in the state could access work sharing.

Next, Indiana lawmakers should also adopt a provision created in Kansas, which allows employers to submit initial and continuing work sharing partial UI claims in batch form on behalf of workers.[vii] This has the dual benefit of getting partial UI benefits to employees in work share programs faster, and also reduces strain on the state's UI application system for workers who are laid off or otherwise need to file for unemployment benefits on their own.

In order to help manage the work share program, the Indiana Department of Workforce Development (DWD) should either hire several new staff members or reallocate existing staff members to serve as dedicated work share specialists. This would help ensure that the program is efficiently run and can remain separate from the standard UI program.

Finally, DWD should conduct an outreach campaign to increase awareness in partnership with business organizations such as the Indiana Chamber of Commerce, regional organizations such as the Central Indiana Corporate Partnership, and local Chambers of Commerce. Evidence shows that information campaigns can have significant positive effects on work share take-up.[viii] Outreach efforts could include mailings, emails, webinars, online advertising, inserts in tax and unemployment insurance communications, and cross-government initiatives to make staff in other relevant state agencies aware.

Second, given the continued weakness in the Indiana labor market, Indiana should modify the phaseout of partial unemployment insurance to encourage workers to take part-time employment where possible. States can leverage partial UI not just to keep workers on the job, but also to smooth workers' transitions back into the labor force. Unfortunately, Indiana's UI system currently isn't effective at doing so.

As mentioned, if a worker is laid off and then takes part time work at another firm, they lose $1 in earnings for every $1 they earn through employment, exempting an amount equal to just the first 20% of the worker's unemployment benefit—only $78 for a worker receiving the maximum UI benefit (and less for workers not at the maximum). This low "disregard rate," or the amount of earnings that are "disregarded" before a worker starts losing UI benefits, effectively forces workers to choose between accepting a part-time job that may pay just a fraction more than their unemployment benefits or remaining fully unemployed. Not surprisingly, unemployed workers anticipating steep benefit cuts may choose to remain fully unemployed while they search for full-time work. In short, the financial risk outweighs the incentive to take on part-time employment.[ix]

However, other states structure their partial unemployment benefits in a way that encourages workers to take on part-time employment. For example, Idaho is seen as one of the strongest models for partial UI benefits. Several characteristics make Idaho's partial unemployment benefits model more conducive to facilitating workforce transitions than Indiana's:

- Idaho has a much higher disregard rate: it disregards earnings worth half of the worker's weekly UI benefit, rather than just 20% like in Indiana.

- Idaho lets workers earn up to 1.5 times their maximum weekly UI benefit amount and still count as partially unemployed. In Indiana, workers earning any amount more than their maximum weekly UI benefit are ineligible for partial UI.

As a result, Idaho's program provides workers with the opportunity to take home over $100 more per week from taking on partial unemployment than Indiana. For example, take a look at how much money a worker making $300 in part-time earnings and eligible for a weekly UI benefit of $390 would make in Indiana vs. Idaho:

- In Indiana, the worker would lose a dollar of UI benefits for every dollar they earn, after the first $78. As a result, they will make $168 in partial UI benefits, plus their $300 in earnings, for a **total of $468 per week**.

- In Idaho, the worker would not start losing partial UI benefits until they earned $195—half of their weekly benefit amount. As a result, they would make $285 in partial UI benefits, plus $300 in earnings, for a **total of $585 per week**.

This difference is even more dramatic when a worker makes more than their weekly benefit amount. Take for example a worker making $400 in part-time earnings per week with a maximum benefit eligibility of $390. That worker would not be eligible at all for partial UI in

Indiana. In Idaho, they would still be eligible, because $400 is less than 1.5 times as large as $390. In this case:

- In Indiana, the worker would receive $0 in benefits, earning a **total of $400 per week**.

- In Idaho, the worker would earn $185 in partial UI benefits plus $400 of earnings, for a **total of $585 per week** (at this point, the worker in Idaho would have hit the state's 1-to-1 phaseout)

Given this more useful structure, Idaho is held up as an example of a best-practice state that others should emulate.

And as with the workshare program, restructuring Indiana's partial UI program will be even more useful in early 2021, as workers will not lose any of the extra $300 provided by the federal government (which will increase to $400 if the Biden Administration's proposed relief plan passes) if they take on part-time work. This could create an even stronger incentive for workers to take on part-time work, because they could earn several hundred additional dollars per week working, while still retaining the vast majority of their unemployment benefits. However, workers will not do so if they are afraid that they will lose unemployment benefits entirely if they have even modest amounts of earnings.

Third, Indiana lawmakers should raise the state's UI wage replacement rate and increase the weekly maximum unemployment insurance benefit to further encourage part-time work and stimulate greater consumer demand across the Indiana economy.

A state's wage replacement rate, or the share of lost worker wages that are replaced by unemployment insurance, is an important tool for balancing maintaining a healthy economy while encouraging workers to find employment. While states typically avoid setting replacement rates too high, to encourage workers to seek out new jobs, setting them too low can have negative impacts on families' wellbeing and dampen overall consumer spending in the state. And Indiana's replacement rate is among the lowest in the country: just five states have replacement rates lower than Indiana's 47%.

While the December 2020 relief bill effectively raised the replacement rate and weekly maximum benefit by $300 in every state, those changes are only temporary. Even if the Biden relief plan expands UI benefits further and extends them until later in 2021, significant labor market churn will likely continue in Indiana well into 2022, providing an impetus for state-level action as well.

Raising the replacement rate would stimulate crucial consumer spending at a critical time for the economy, as well as help unemployed workers better make ends meet. As shown in the following table, increasing the replacement rate by 10%, to bring it in line with Iowa, could provide the average unemployed worker with an extra $50 per week in spending power.

CY2019 impact of raising wage replacement rate to various levels:

State	Replacement Rate	Average weekly benefit	Average weekly Increase	CY2019 cost ($M)
Kentucky (62%)	62%	$334	$81	$56
Iowa (57%)	57%	$307	$54	$37
Michigan (53%)	53%	$285	$32	$22
Wisconsin (52%)	52%	$280	$27	$19
Ohio (50%)	50%	$269	$16	$11
Indiana (47%)	*47%*	*$253*	$0	$0

Source: Brookings analysis of data from US Department of Labor; Indiana Department of Workforce Development; and Gannog, Noel, & Vavra.

Increasing the state's replacement rate and maximum benefit in the state would also have further valuable effects for workers on partial unemployment. For example, under current Indiana law, the average Indiana unemployment insurance recipient receives $253 in benefits per week. That means if they make $300 per week in part-time employment, they are no longer eligible for partial UI, because they are making more than their weekly benefit amount. However, if the replacement rate was raised to 57%, that same worker may make $307 in UI benefits per week. In that scenario, they could make $300 per week in part-time employment, and still be eligible for partial UI, because $300 is less than their weekly benefit amount of $307.

And the problems created by Indiana's low replacement rate are further exacerbated by the state's low maximum weekly benefit. Currently Indiana's maximum weekly benefit of $390 is among the lowest in the region. For comparison, the maximum is $667 in Illinois (which includes a dependents' allowance for workers with children), $598 in Ohio (also including a dependents' allowance), and $552 in Kentucky.[x] Indiana lawmakers should raise the state's maximum benefit amount to bring it more into line with these peer states.

To illustrate why increasing the maximum benefit would increase the incentive for part-time work, it's helpful to compare again Indiana against regional peers. As previously mentioned, a part-time worker making $300 a week in Indiana who was eligible for the state's maximum benefit of $390 could make $468 per week in wages in partial UI benefits. In Kentucky though, a part-time worker eligible for the state's maximum benefit of $552 who was earning $300 per week would make $662 in wages and partial UI benefits. In Ohio, a worker eligible for the maximum benefit of $598 earning $300 would make $717 per week. And in Illinois, a worker eligible for the maximum benefit of $667 earning $300 would make $967 per week.

In short, the combination of higher replacement rates, maximum benefits, and disregard rates in other states mean that part-time work can be substantially more worthwhile to take on elsewhere than it is in Indiana. At a time of elevated part-time work nationwide, this gives lawmakers an even stronger incentive to raise both the state's replacement rate and weekly maximum UI benefit to bring it into line with other peer states.

Budget Implications

Due to how it is structured, **a work share program should have only modest net new costs for the state**. If a firm cut 100 employees' hours by 20% rather than laying off 20 workers, then the state would pay 20% benefits to 100 workers instead of paying 100% of benefits to 20 workers, resulting in no net new spending. However, some companies currently do, even in the absence of a work share program, reduce their employees' hours and wages to prevent layoffs. Those companies may choose to enroll in a work share program to help soften the blow of the reduction in hours, which could create net new costs for the UI system.

Enacting a work share program would also have some modest administrative costs. Depending on how many firms adopt work share, the **administrative costs could range from a low of less than $1 million per year to more than $4 million per year**. However, here most of the costs would simply be a shift of existing costs away from running the state's traditional UI program and toward the work share program. Not only that, but because of the CARES Act there will be **significant federal funding available to cover state administrative costs for enacting a work share program**, and to promote and enroll employers in work share, until the end of 2023.[xi] Congress is also considering additional funding to help states modernize their UI systems, including a $500 million effort to create a federal "modular" unemployment system, which states would be free to adopt and customize to fit their needs.[xii] These federal policies would mitigate the direct costs to Indiana.

In addition, **enacting a work share program could actually save the state money**. By helping keep workers on company payrolls, a work share program would increase the number of workers who continue paying state payroll and income taxes. This would bolster state revenues during times of weak labor force participation, when employment and income tax collections are down, and public assistance spending is up. Work share will likely save the state money on administrative costs too. For example, if employers are able to submit employees' applications by batch, administrators will no longer have to verify the requirement for recipients to look for work as they are already employed. The state will also save money on career services including job training and matching by reducing unemployment.

Not only that, but if Indiana had enacted a work share program at the start of the COVID-19 recession, the federal CARES Act would have fully funded the program for 2020. A conservative estimate that assumes a state work share program made up 0.9% of UI benefits (the national average of states with a program in 2015), and that no workers utilized the program in March and April (when many firms shut down entirely to control the virus), finds that Indiana would have received **an additional $11 million in federal funds in 2020.** A more robust estimate, which assumes that Indiana had a work share program that was as expansive as Missouri (where work share made up about 9.5% of UI benefits in 2015), but that still excludes all March and April UI claims, finds that the state would have **received about $116 million in additional federal funds in 2020**.

The December 2020 relief bill extended the deadline for the federal government to cover work share benefits to states. Under current policy, the federal government will fully fund state work share programs until April 19, 2020. If the Biden relief plan passes, it will likely extend 100%

federal coverage of work share through the end of the 2021 fiscal year (September 30). If Indiana enacts a work share program in March, it may still receive **additional federal funding of between $8 million** (with an adoption rate of 0.9%) **and $33 million** (with a program as expansive as Kansas, a 3.6% adoption rate) through the end of September 2021 compared to not enacting one. That number would be correspondingly larger with a higher work share adoption rate, and would be lower if Indiana's unemployment situation significantly improves during 2021.

Removing the current disincentive to seek part-time work will have minimal fiscal costs. Recipients are already receiving benefits—the change would incentivize them to also work part-time if possible. While there may be some UI recipients who are currently working part-time without increasing their own earnings, that number is likely low.

Raising the UI replacement rate and maximum will increase the cost of benefits. According to U.S. Department of Labor data, in 2019 Indiana compensated about 800,000 weeks through UI at an average weekly benefit of $253. As outlined above, raising the replacement rate from 47% to 57% could raise the average weekly benefit to $307, at an **estimated cost $37 million in 2019, a 15% increase over actual 2019 spending**. This cost estimate is likely high, because raising the replacement rate would cause some workers to hit the maximum weekly benefit, limiting their weekly benefit increase.

According to figures from DWD about 14% of recipients were at the maximum benefit amount of $390 per week in 2019. If increasing the maximum resulted in average benefits for these workers increasing by $100, then **UI benefits would have cost $12 million more in 2019**, an **increase of around 5% over actual 2019 spending**. Increasing it by $150 would have resulted in **$17 million** in new spending on UI benefits in 2019, around **a 7% increase** over actual spending. However, all of these new expenses could easily be offset by a modest increase in the state unemployment tax.

In 2020, those numbers would be significantly larger, as the state faced historic levels of unemployment. If the maximum was increased to result in average benefits increasing by $100, spending would have **increased by $93 million** the end of October 2020. While that number seems large, it is just **a 6% increase** over actual 2020 year-to-date spending. If it was increased by $150, it would have resulted in **$139 million** in new UI spending through October—again around just **a 9% increase**. However, these numbers should be looked at as an aberration due to the unique nature of COVID-19-required business closures, and so would not be typical—even in a significant recession. In this regard, the above 2019 number should be seen as a more accurate representation of what typical annual costs would be.

Moreover, as noted next, this new spending would spur a significant amount of new economic activity in the state.

Economic Implications

The key advantage to work share is maintaining the state's labor force, especially during recession. If Indiana had a work share program as expansive as Kansas (a 3.6% adoption rate) **in 2019, the state may have had an additional 2,500 to 3,000 jobs**.

However, 2019 was a tight labor market in the peak of an expansion. **In 2020, a work share program may have saved between 13,000 (with a program as expansive as Kansas) and 34,000 (with a program as expansive as Missouri, a 9.5% adoption rate) jobs**. And that is excluding March/April claimants, who likely could not have worked safely, and still-missing data for November and December.

Beyond the immediate effects, reducing unemployment has long term benefits for workers, including improved health and higher lifetime earnings. And by reducing employee turnover, work sharing also allows firms to save money on search and training costs.

The phaseout change may also have a positive effect on employment. Those already working part-time will also be incentivized to work more, making both workers and firms better off.[xiii] The incentive to pursue part-time employment while receiving benefits eases the transition to full-time work as well.[xiv]

Finally, increasing the replacement rate and maximum UI benefit closer to neighbors like Ohio or Kentucky would provide a boost to consumption—especially critical during a recession. According to estimates by the Center for Equitable Growth, unemployment insurance has an economic multiplier of at least 1.7 times the amount invested.[xv] So increasing the state's replacement rate by 10 percentage points could have had a **positive economic impact of $63 million in 2019**. And increasing the unemployment insurance benefit by an average of $100 for those at the current maximum level of $390 could have had a **positive economic effect of $20 million in 2019**, and raising it by $150 could have **generated an economic impact of $30 million** that year.

In 2020, those impacts could have been significantly larger. For example, an increase in the maximum benefit could have a **$157 million in economic impact** if maximum benefits were increased by $100 (from $93 million in spending), and **$236 million in economic impact** if benefits were increased by $150 (from $138 million in spending). But as with the above spending numbers, these estimates are a historic aberration, and would be coming in the unique context of pandemic-induced business closures.

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[i] Brookings analysis of BLS Local Area Unemployment Statistics Alternative Measures of Labor Underutilization for States data. BLS uses four-quarter moving averages to increase the reliability of Current Population Survey estimates, which are based on relatively small sample sizes at the state level, and to eliminate seasonality. In the four-quarter average that encompassed all of 2019, there were 72,400 Indiana workers who involuntarily entered into part-time employment. In the four-quarter average from the fourth quarter of 2019 to the third quarter of 2020, that number rose to 114,000 workers.

[ii] While consumer spending was buoyed during the first few months of the pandemic by the additional $600 in federal unemployment insurance benefits provided to workers by the CARES Act, the subsequent loss of those benefits has resulted in a significant negative hit. For example, JPMorgan Chase estimated that unemployment benefit recipients actually *increased* their spending by 10% when they were receiving the extra $600 in benefits,

which was essential for keeping the downturn from getting even worse. Workers who saw a delay in receiving benefits, on the other hand, reduced their consumer spending by 20%. See: Diana Farrell and others, "Consumption Effects of Unemployment Insurance during the COVID-19 Pandemic." (New York: JPMorgan Chase, 2020).

[iii] Miguel Garza Casado and others, "The Effect of Fiscal Stimulus: Evidence from COVID-19," Working Paper No. 27576, (Cambridge, MA: National Bureau of Economic Research, 2020).

[iv] National Conference of State Legislatures, "Work Share Programs," https://www.ncsl.org/research/labor-and-employment/work-share-programs.aspx.

[v] David Balducchi and others, "Employer Views about the Short-Time Compensation Program: A Survey and Analysis in Four States" (Columbia, Md.: IMPAQ International, 2016); see also Brent Parton, "We Have a Powerful Tool to Flatten the Unemployment Curve" (Washington: New America, 2020).

[vi] See https://www.dllr.state.md.us/employment/worksharing/uiwsempfaqs.shtml#:~:text=What%20is%20the%20minimum%20and,in%20a%20Work%20Sharing%20plan.

[vii] David E. Balducchi and Christopher J. O'Leary, "Streamlining Administration of Short-Time Compensation: What's Right with Kansas?" (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2020).

[viii] O'Leary, Christopher J. and Susan N. Houseman, "Outreach campaigns boost awareness of work-sharing program" (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2017).

[ix] Rick McHugh and others, "Updating Partial Benefits to Encourage Work by Claimants and Fairness for Part-Time Workers," in "Unemployment Insurance Policy Advocate's Toolkit" (New York: National Employment Law Project, 2015).

[x] Employment & Training Administration, "Comparison of State Unemployment Laws 2020, Chapter 3: Monetary Entitlement," (Department of Labor), pages 3-11 to 3-14.

[xi] *Coronavirus Aid, Relief, and Economic Security Act*, Sec. 2110. Grants for short-time compensation programs, Public Law No: 116-136, 116 Cong. 2 sess. (Government Printing Office, 2020).

[xii] Tony Romm, "Tech meltdowns kept millions from obtaining unemployment aid last year. Now, a senator has a $500 million plan to fix it." *Washington Post*, February 10, 2021.

[xiii] Thomas Le Barbanchon, "Optimal Partial Unemployment Insurance: Evidence from Bunching in the U.S." (Madrid, Spain: Center for Monetary and Financial Studies, 2014).

[xiv] Anna Godøy and Knut Røed, "Unemployment Insurance and Underemployment" (Bonn, Germany: Institute for the Study of Labor, 2014).

[xv] Ioana Marinescu, "Moving from Federal Pandemic Unemployment Compensation to a job losers' stimulus program amid the coronavirus recession" (Washington: Center for Equitable Growth, 2020).