Overview

The financial consequences of unemployment for families can vary widely. In this paper, we examine factors that drive the spending response to job loss using a dataset covering over 2 million events spanning the Great Recession, the expansion, and the COVID-19 recession. The report focuses on the role of unemployment insurance (UI) and answers the following research questions:

1. How has the impact of unemployment on spending decisions varied over time?
2. What is the influence of wealth, liquidity, and income level on spending outcomes in the wake of a job loss event?
3. What racial disparities are evident in the spending response to unemployment, and what explains these differences?

Findings

Finding One (see upper right figure): UI supplements implemented during COVID-19 prevented spending declines for the majority of people who lost their job, providing valuable support to the economy as overall demand was contracting sharply. This pattern contrasts with the sizable spending cuts observed for households experiencing unemployment in the Great Recession and subsequent expansion.

Finding Two: Estimates of the propensity to spend out of UI payments are relatively stable over different economic environments. (See page 2.)

Finding Three: By contrast, we find stark differences in the spending response to income changes across households with different liquidity buffers; households with lower cash balances are more likely to experience sharp spending drops after job loss. (See page 2.)

Finding Four: Black and Latinx households cut their spending to a greater extent than White families when faced with job loss, partially explained by their lower cash buffers and indicators of wealth. (See page 2.)

Implications

UI policy serves a critical role in the government’s provision of insurance for households that lose their job. In addition to its role limiting the welfare costs of labor market volatility, UI provides a venue through which fiscal stimulus can be targeted towards households that are more likely to spend.

- Countercyclical UI benefit levels may offer an effective means of stabilizing demand.
- Targeting income supports with consideration to wealth inequality and racial equity can limit welfare losses in the face of job loss and stimulate the economy.
- Efficient delivery of benefits can avoid sharp spending declines for the most financially vulnerable.
Regression estimates suggest relatively stable propensity to spend out of UI across eras (Finding 2)

We find a relatively stable relationship between spending and income changes over different economic environments in our sample—through time and geography. During COVID-19, the MPC was only modestly smaller—approximately 3 cents per dollar—despite the sweeping changes affecting daily life, generous UI benefits and stimulus payments, and the rise in aggregate household savings.

Higher income and higher liquidity predicts lower income sensitivity (Finding 3)

We find that for every dollar decline in income, a typical household with high income and liquid assets cuts spending by approximately 24 cents, versus over 50 cents for households with lower income and financial buffers.

Black and Latinx households cut their spending more than White families when faced with job loss, partially explained by their lower cash buffers and wealth (Finding 4)

Expanded UI benefits during COVID provided support for all, but the supplement mattered more for Black and Latinx households, given their lower incomes.