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## Why Are Unemployment Insurance Claims So Low?

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# POLICY BRIEF

## Why Are Unemployment Insurance Claims So Low?

Christopher J. O'Leary, Kenneth J. Kline, Thomas A. Stengle, and Stephen A. Wandner

### BRIEF HIGHLIGHTS

- *Initial claims for unemployment insurance have fallen sharply over the past three decades, especially given the growth in the labor force, and even after adjusting for economic conditions.*
- *We investigate this phenomenon using a decomposition analysis, through which we try to explain the decline through changes in workforce characteristics and changes in how these characteristics affect claims.*
- *We find that changes in the industry and occupation mix of workers play an important role, as more people work in service jobs, which have lower historical claims rates.*
- *Changing demographics also matter—in particular, an older (and more job-stable) workforce.*
- *One of the most important factors, however, is the cut in UI generosity, both in the duration and the size of weekly benefits, as implemented by certain states after the financial crisis of 2007–2009.*

For additional details, see the full working paper at [http://research.upjohn.org/up\\_workingpapers/383](http://research.upjohn.org/up_workingpapers/383).

Why are weekly unemployment insurance (UI) claims so much lower now than 30 years ago? The dramatic decline in average weekly UI claims means the program now provides weaker wage insurance for unemployed workers and is less effective as an automatic macroeconomic stabilizer. Although the number of weekly initial UI claims remains a leading indicator of aggregate economic activity, its importance has diminished.

We use a statistical decomposition methodology to identify the main factors for the decline in weekly UI claims. This decomposition answers the following two questions: 1) What would the level of claims have been in recent years had the characteristics of workers and state UI programs remained as they were 30 years ago? 2) Alternatively, what would the level of claims have been recently if worker characteristics and UI programs changed, but their relationship with UI claims had stayed the same?

Our analysis of state-level data over the past three decades, with additional detail found in our Upjohn Institute [working paper](#), suggests that the decline in UI claims stems from three factors: 1) changes in both the industrial and the occupational mix of employment, 2) UI program changes made by individual states, and 3) the interactions of these factors. Specifically, declines in manufacturing employment—which historically has had high claims rates—and increases in the health care and education workforce—which have had relatively low claims—play a substantive role. However, state policy changes that have led to lower potential durations of UI benefits and reduced wage replacement rates also have contributed to the decline in claims. This decline could be offset by federal requirements for states to improve benefit access, wage replacement rates, and benefit durations. Such changes could restore the role of UI as meaningful social insurance against job loss and as a potent automatic stabilizer of the macroeconomy.

### Background

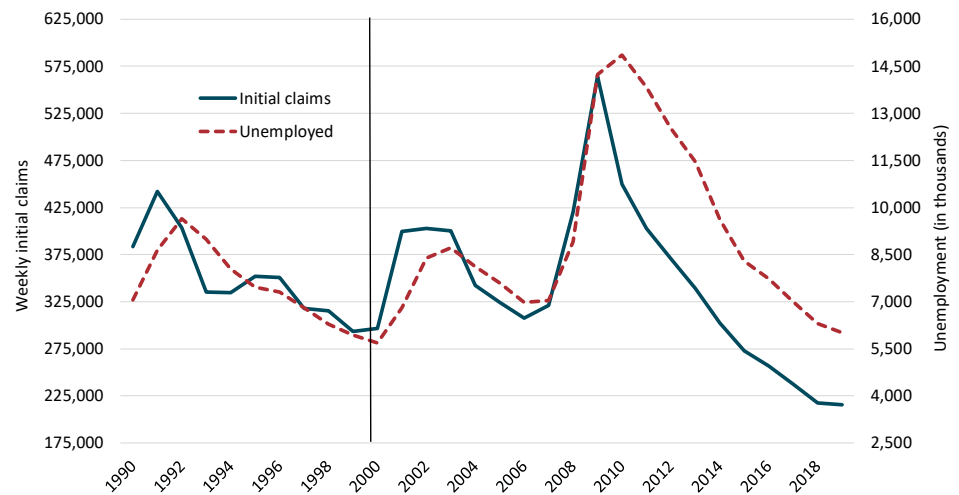
In the year 2000, with the unemployment rate at 3.9 percent and a labor force of 142.6 million workers, there were about 300,000 UI claims per week. In 2019, right before the pandemic, the unemployment rate held at 3.7 percent, the labor force had grown to 163.5 million workers, and UI claims averaged just over 216,000 per week. Although the labor force participation rate had declined from 67.1 percent to 63.1 percent over those 19 years, that decline cannot explain why weekly claims dropped 28 percent while the labor force *increased* by 15 percent and the unemployment rate was only a hair lower.

To illustrate the decline in UI claims, we graph the annual average of weekly initial UI claims between 1990 and 2019, along with the annual average of the count of unemployed workers (Figure 1). The two curves moved together tightly (on different scales) until the financial crisis of 2007–2009, after which average weekly UI claims fell faster than unemployment. We confine our analysis of UI claims to the prepandemic years because of the major disruption in UI trends caused by the dramatic rise in layoffs and the introduction of UI pandemic programs in 2020. However, we note that by the

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The dramatic decline in average weekly UI claims means the program now provides weaker wage insurance for unemployed workers and is less effective as an automatic macroeconomic stabilizer.

**Figure 1 Regular UI Weekly Initial Claims and the Level of Unemployment for the 50 States plus the District of Columbia, 1990–2019**



SOURCE: Initial claims data: U.S. Department of Labor, Employment and Training Administration; downloaded from <https://oui.doleta.gov/unemploy/claimssum.asp>. Unemployed data: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; downloaded from <https://www.bls.gov/lau/data.htm>.

fall of 2022, weekly UI claims had declined below their level in 2019. In February 2023, after nearly a year of the Federal Reserve having steadily increased the target interbank lending rate, the seasonally adjusted four-week moving average of initial UI claims began to rise, reaching about 240,000 by the beginning of April. As of this writing, it is not clear whether the increase in claims—although still at historically low levels—is a trend or just a temporary blip.

### Reasons for the Decline in Average Weekly UI Claims

Our decomposition allows us to isolate how changes in *characteristics* of workers and the UI program affect UI claims with respect to the role of any changes in the *relationship* of those characteristics to claims. The left three columns of Table 1 summarize how average initial weekly claims in 2019 would be predicted to change if the *relationship* were held fixed at the 1990–2001 period but *characteristics* of workers and the UI program stayed at their 2019 levels. The right three columns of Table 1 show nearly the reverse: holding fixed the average *relationship* over 2002–2019 but simulating the *characteristics* of workers and state UI programs from 1990–2001. Each row shows the effect on predicted claims from changing one characteristic at a time.

The last row of Table 1 indicates that had the *relationship* between characteristics and claims stayed as it was in 1990–2001 but *characteristics* were held at 2019 levels, the number of average weekly UI claims would have been nearly 114,000 (or 53 percent) higher than it actually was. In contrast, had the overall *relationship* from 2002–2019 been held with *characteristics* from 1990–2001, average weekly claims would have been about 20,000 (or 9 percent) higher. Put differently, average weekly UI claims in 2019 would have been more than 133,000 higher if both the *relationship* and *characteristics* of workers and state programs had been as they were in the 1990s. The most important factors behind these changes are shifts in the *relationships* relating to industry and occupation, labor force demographics, and benefit generosity.

With regard to changes in industry shares of employment, the most notable factors are a substantial decrease in manufacturing (of 4.6 percent), which historically has a high claims rate, and increases in both health care and professional services (a combined 3.6 percent), which historically have lower claims rates. The relationships between claims

**Average weekly UI claims in 2019 would have been about 133,000 higher if both worker characteristics and the relationship between these characteristics and claims had been as they were in the 1990s.**

**Table 1 Simulating How Average Weekly Initial UI Claims for 2019 Would Change if Worker Characteristics and/or Relationships with These Characteristics Were Fixed at Earlier Periods**

Characteristic	Relationship from 1990–2001			Characteristics from 1990–2001		
	Predicted value	Change from baseline	Percent change	Predicted value	Change from baseline	Percent change
UI eligibility	227,055	13,955	6.5	220,738	7,639	3.6
UI generosity	273,509	60,410	28.3	233,068	19,968	9.4
Part-time employment	166,240	-46,860	-22.0	215,285	2,185	1.0
New or re-entrants to labor force	196,321	-16,779	-7.9	213,209	109	0.1
Industry and occupation	261,182	48,082	22.6	196,321	-16,779	-7.9
Labor force characteristics	267,960	54,860	25.7	219,659	6,559	3.1
Total from simulations		113,668	53.3		19,682	9.2

NOTE: Baseline 2019 prediction = 213,100. This number is based on a model described in more detail in the full paper.

SOURCE: O’Leary et al. (2023), Table 4.

and employment shares in manufacturing and health care both became more important over time, so that the decline in manufacturing employment reinforced the decline in UI claims, while growth in health care somewhat offset the decline.

For occupations, the shares of employment in transportation and sales declined (by a combined 6.0 percent), while growth occurred in occupations with relatively low historical claims rates, including services, education, and health care (by a combined 5.3 percent). Changes in the relationship between these occupations and UI claims were modest, although the association between health-care jobs and claims turned negative. This latter change, and health care’s growing share of employment, put downward pressure on UI claims.

Among demographic groups, the shares of employment by Asians, Blacks, Hispanics, and workers aged 55 and above all increased, also putting downward pressure on UI claims, as these groups have lower-than-average claims behavior. Moreover, the relationship between most of these groups and claims became more negative over time, intensifying the decline. On the other hand, women’s share of employment increased slightly, as did the relationship between female employment and claims. This put upward pressure on claims, although not enough to offset the role played by changes in the other demographic groups.

Changes in state UI benefit generosity also significantly reduced UI claims (Table 1), a finding that supports the argument made by DeAntonio (2018). Immediately following the financial crisis of 2007–2009, nine states cut potential durations of UI from the common 26 weeks to shorter potential durations.<sup>1</sup> To illustrate how these cuts affected UI claims, Figure 2 plots indices (1990 = 1.00) of UI claims for this group of nine states and for all the other states. While UI claims rates declined in all states after 2011, the trend for states that had cut potential durations (solid blue line) shows a steeper fall.

We find that that a state’s potential duration of benefits is positively related to claims; however, our estimates suggest that declining wage replacement rates are a stronger factor in reducing UI claims. When we consider as a group the nine states that cut benefit duration, we estimate a larger but less precise effect for that group. Estimates are imprecise because potential duration and wage replacement rates tend to move together within states. That is, states that cut potential duration also had lower replacement rates. Thus, cuts to multiple dimensions of benefit generosity have played a role in the aggregate decline in UI claims.

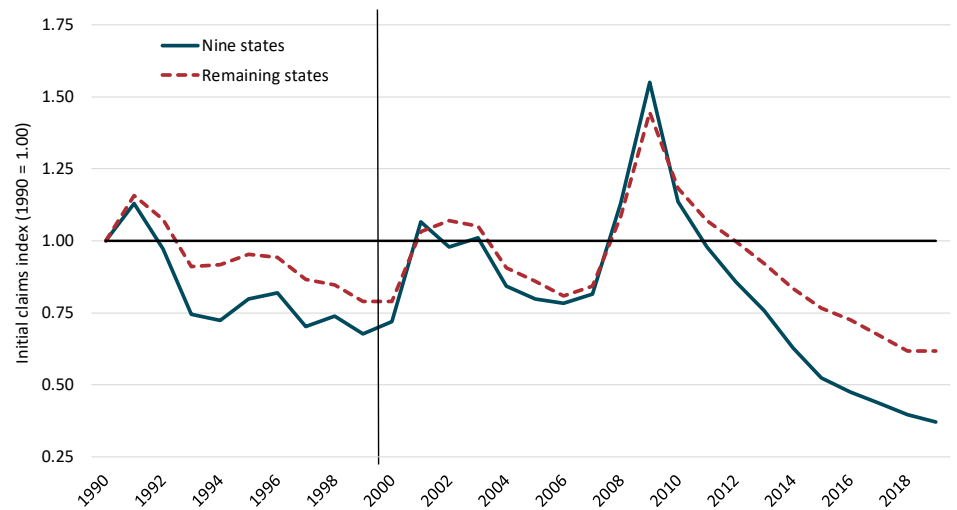
1. Nine states permanently cut potential durations in 2011 and 2012. The nine states, with their 2019 average potential UI durations in parentheses, are as follows: Arkansas (17), Florida (12), Georgia (14), Idaho (16), Kansas (15), Michigan (20), Missouri (20), North Carolina (12), and South Carolina (20). Many of these states also let weekly benefit replacement rates decline since 2012.



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The most important factors behind these changes are shifts in the relationships of claims to state benefit generosity, industry and occupation, and the demographics of the labor force.

**Figure 2 Regular UI Initial Claims Indexed to 1990 for the Nine States That Reduced UI Benefits after the Financial Crisis Compared with Those That Did Not, 1990–2001**



SOURCE: Initial claims data: U.S. Department of Labor, Employment and Training Administration; downloaded from <https://oui.doleta.gov/unemploy/claimssum.asp>.

## SUMMARY

In the nearly two decades between the “dot-com recession” in 2001 and the start of the COVID pandemic, average weekly UI claims dropped by about 80,000 per week, making the level about one-third less than the average of roughly 300,000 during the 1990s. In April 2023, weekly UI claims were still only 240,000, despite the labor force being 20 percent larger than at the turn of the century, and despite vigorous efforts by the Federal Reserve to raise interest rates to curb inflation.

Drawing on state-level data from the past three decades, our decomposition analysis finds that declines in UI claims are best explained by interactions between changes in worker and state-UI-program characteristics and changes in how these factors relate to claims. Specifically, three factors—1) reductions in UI generosity and access (both in weekly replacement rates and in maximum weeks of eligibility), 2) shifts in employment from higher-claims manufacturing to lower-claims services, and 3) demographic shifts of the population—have all played important roles.

Additional factors may also be important. Future research should investigate the roles of declining unionization rates and the possibly growing shift from wage and salary to contract employment.

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