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No, Generous Unemployment Benefits Are Not Driving the Labor Shortage

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Connecticut has 103,000 fewer jobs now than it did before the pandemic. At the same time, “help wanted” signs seem to be in the windows of every store and restaurant. Conventional wisdom blames this labor shortage on overly generous federal unemployment benefits. Such benefits can pay nearly as much as an hourly worker’s salary but are taken away upon accepting a job, making it reasonable to believe they could discourage a return to work. However, recent research shows that the impact of these benefits is likely small.

The idea that unemployment benefits discourage work is an old one that economists have considered for decades. Businesses provide a range of anecdotes about workers turning down job offers. Even Democratic Gov. Ned Lamont was skeptical about re-authorizing \$600 federal unemployment in July of last year because of worries it could hamper an economic recovery. He later offered \$1,000 to new hires on unemployment to provide an incentive for them to return to work.