

Effects of Unemployment Insurance for Self-Employed and Marginally-Attached Workers

Based on BFI Working Paper No. 2025-12, “Effects of Unemployment Insurance for Self-Employed and Marginally-Attached Workers,” by Emilie Jackson, Michigan State University; Dmitri Koustas, University of Chicago; Andrew Garin, Carnegie Mellon University

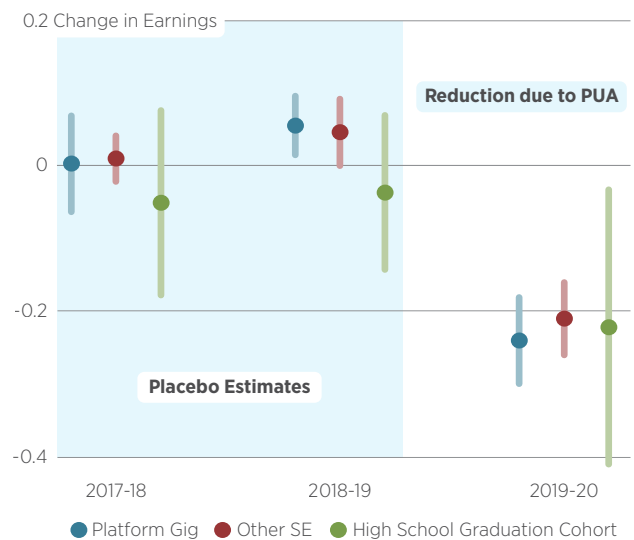
Expanding unemployment insurance through Pandemic Unemployment Assistance led self-employed individuals, gig workers, and new labor market entrants to reduce their earnings by \$0.30, \$0.48, and \$0.22 for every additional dollar of UI received, respectively. UI benefits reduced mortality among older gig workers.

Unemployment insurance (UI) serves as a critical social safety net, benefiting both private and social welfare. However, traditional UI programs exclude several vulnerable worker groups, including the self-employed, gig workers, and new labor market entrants. Extending UI to these workers presents challenges, particularly in distinguishing voluntary from involuntary job separations. For instance, a self-employed worker might reduce work hours strategically to qualify for UI benefits, raising concerns about **moral hazard**.

This paper examines the largest expansion of UI coverage since the program’s inception in 1935: Pandemic Unemployment Assistance (PUA), which extended UI benefits to self-employed

moral hazard: in this context, a situation where a worker changes their work or job search behavior due to the availability of benefits

Figure 1 • Earnings Response to \$1 Increase in UI Benefit



Note: This figure shows the change in total earnings in response to a \$1 increase in UI benefit, unadjusted for differences in UI take-up, where the outcome in each regression is calculated over the years indicated on the x-axis.

individuals, gig workers, and recent high school graduates entering the labor force during the COVID-19 pandemic. The authors use cross-state variation in PUA implementation to assess its effects on labor market earnings, education choices, and mortality using a **spatial regression discontinuity** design. They find the following:

- Every additional dollar of UI benefit for self-employed workers reduced earnings by \$0.21. After accounting for differences in UI take-up rates, self-employed workers reduced their earnings by \$0.30, with even larger reductions among gig workers (\$0.48). Recent high school graduates reduced their earnings by \$0.22 for every additional dollar of UI received.
- Self-employed workers in industries less impacted by the pandemic exhibited larger earnings reductions, suggesting that UI expansion may have incentivized some individuals to withdraw from the labor force.
- UI had notable health effects: an additional \$5,000 in PUA benefits reduced mortality by 0.36 percentage points among older gig workers. There were no effects on mortality outside the gig economy and no effects on college attainment.

spatial regression discontinuity: a research design that exploits differences across geographic borders to estimate causal effects while holding local economic conditions constant

The findings underscore the trade-offs involved in expanding UI to non-traditional workers. While PUA provided an essential safety net during the pandemic, it also altered labor market participation, particularly among workers with flexible employment arrangements. Policymakers should consider targeting future UI expansions based on industry conditions to minimize moral hazard while maintaining essential protections for workers facing economic shocks.

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