

Intergenerational Effects of Unemployment Insurance: Evidence from Tax Data

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Abstract:

Parental job loss can negatively affect children in a number of ways, but little is known about whether unemployment insurance (UI) helps insulate children from some of these harms. UI generosity is determined based on state-level policies and whether unemployment rates exceed predetermined thresholds. We estimate the effect of increased UI generosity on the long-run education and labor market outcomes for the children of displaced workers using detailed administrative tax records. Increasing maximum total UI benefits for parents increases their children's earnings and tax liability. Much of the cost of expanding UI is recouped from children's future tax payments. We find that increasing UI generosity protects children from the harm of parental job loss and has important consequences for children's long-run outcomes.