Racial Inequality in the U.S. Unemployment Insurance System
(with Ioana Marinescu and Maxim Massenkoff)

Abstract

While unemployment insurance (UI) could help attenuate racial income disparities in the U.S., Black unemployed workers seem to receive less UI benefits than White ones. To understand why, we analyze administrative data from random audits on UI claims in all U.S. states. We first document a large racial gap in the UI that unemployed workers receive after filing a new claim: Black claimants receive a 18:28% (6:51ppt) lower replacement rate (i.e. benefits relative to prior earnings) than White claimants. In principle, the replacement rate of each claimant mechanically depends on her work history, and on the rules prevailing in her state. Since we observe claimants' UI-relevant work history and state, we are in a unique position to decompose the causes of the racial gap among UI claimants. First, we show that racial differences in work history prior to unemployment create a 10:16% gap (3:62ppt); second, differences in rules across states create an 8:45% gap (3:01ppt); finally, we find no residual racial gap, once we account for state rules and work history differences. Thus, the decentralized design of the UI system generates new gaps in income between Black and White claimants, even when they have the same work history. Our results highlight that, even in the absence of individual discrimination, institutions can perpetuate racial inequality.