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Tackling COVID-19 Unemployment: Work Opportunities and Targeted Support Beat Windfall Bonuses

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KEY TAKEAWAYS

The $600 bonus benefit has made not working more lucrative than working for 70 percent of the unemployed, making it hard for businesses to get their employees back.

Extending this weekly benefit would hurt the recovery by reducing employment and output.

Policymakers should provide targeted unemployment support through a partial federal match and support job flexibility and work opportunities.

Responses to the COVID-19 pandemic turned what was record-low unemployment into record-high unemployment over the course of weeks, as about one in four workers filed for unemployment insurance benefits between March and June of 2020. Most of these layoffs were temporary and the most recent employment data from May was extremely encouraging. Yet some workers face prolonged unemployment as certain sectors of the economy will take longer to recover, and others have lost their jobs for good as some businesses have closed permanently. The federal government's expanded unemployment benefits included a problematic $600-per-week add-on benefit that has caused most unemployed workers to receive higher unemployment benefits than they did paychecks. This is weighing down the recovery because some businesses are having a hard time getting their employees to return to work. With the $600 benefit

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expiring on July 31, Congress is considering a variety of policies to extend or alter the $600 bonus. In no circumstance should unemployment benefits exceed workers' usual wages. Nor should taxpayers be required to pay unemployed workers to go back to work. Instead, policymakers should provide targeted support to workers who do not have job options, such as a temporary and partial federal match to state-based unemployment benefits. Even more important than unemployment support, however, is fostering job opportunities by replacing rigidity with flexibility and opening doors to employment opportunities for all Americans.

Pandemic Unemployment

In response to the COVID-19 pandemic and widespread business closures, Congress established a series of temporary federal unemployment insurance provisions through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Those included: extending eligibility for unemployment benefits to self-employed and other individuals who do not usually qualify for unemployment insurance; broadly expanding the qualifications for individuals to receive unemployment benefits (adding 11 new qualifications); reducing and eliminating certification standards to expedite the delivery of benefits; extending traditional unemployment insurance benefits by 13 weeks (to a total of 39 weeks through December 2020), and providing $600 per week in federal benefits in addition to state-level benefits[1] through July 31, 2020.[2]

High Unemployment, Unprecedented Benefit Levels. Over the past three months, 47 million Americans—about one in four workers—filed for unemployment benefits. Some states experienced a 100-fold increase in their claims levels, leading to significant delays in individuals being able to register for and receive benefits. Although it is early in the recovery process, the employment report for May was promising. The economy added 2.5 million jobs as local and state lawmakers eased economic restrictions and Americans showed their willingness to return to work, restaurants, and stores. Moreover, the figures indicate that Americans are weaning themselves off federal supports.[3]

While traditional unemployment benefits replace about 40 percent of workers' wages, the unprecedented increase in benefits—by $600 per week without regard to workers' previous earnings—has created a situation in which a majority of unemployed workers are receiving more from unemployment benefits than from their usual paychecks. An analysis by a group of professors at the University of Chicago estimated that 68 percent

TABLE 1

Paycheck vs. Unemployment Check

For a California worker with a gross $36,000 annual salary:

Tax type	Weekly Paycheck	Weekly UI* Benefit
Weekly Income	$692	$947
Federal Income Taxes	$51	$67
California income taxes	$14	$0
FICA Payroll Tax**	$53	$0
Total Taxes	$118	$67
Take-Home Pay	**$574**	**$880**
Bonus UI Benefit		+$306
UI Take-Home Pay vs. Employment Take-Home Pay		153%

* Unemployment Insurance ** Employee portion only

SOURCES: Author's calculations based on federal and California state income tax brackets and deductions for 2020, and California's unemployment benefits calculator. Calculations are based on average tax rates of about 7% at the federal level, 2% at the state level, and the 7.65% employee portion of the payroll tax.

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of unemployed workers are receiving more from unemployment than their usual wages, with the median benefit equal to 134 percent of previous wages.[4] Workers in the bottom 20 percent of earnings are receiving at least twice their previous wages from unemployment benefits.[5] A J.P. Morgan analysis, which estimated that between 65 percent and 75 percent of workers are receiving more from unemployment benefits, said that the significant increase in benefit levels could lead to "a remarkable 0.5% increase in personal disposable income in 2020."[6]

Excessive Benefits Incentivize Unemployment. While there is some evidence that the unprecedented level of unemployment benefits along with the increased eligibility criteria contributed to some businesses laying off workers that they otherwise might have kept employed, and allowed some workers to quit their jobs even as employers wanted them to continue working,[7] the overwhelming majority of workers who filed for unemployment benefits did so because their places of employment closed or significantly scaled back operations.

As most parts of the country have started gradual re-openings, however, the $600 weekly unemployment bonus has caused a not-insignificant number of businesses to have a hard time getting their employees to return to work. This is particularly true in lower-wage industries that have often been hardest hit by the pandemic. Moreover, the inability to hire workers has likely contributed to some permanent small business closures.

Changes in Certification Along with High Benefit Levels Contribute to Fraud and Abuse. According to a recent report from the Department of Labor's Inspector General, the Pandemic Unemployment Assistance program is "highly vulnerable to improper payments and fraud," which could cost taxpayers millions of dollars.[8] That is because, in addition to expanding eligibility and drastically increasing benefit levels, the CARES Act effectively eliminated most certification requirements. Typically, employers have to certify that an individual was laid off (as opposed to being fired for cause) in order for a worker to qualify to receive unemployment benefits. Under the CARES Act and the Department of Labor's guidance, however, no actual proof of eligibility or lost wages is necessary to receive initial benefits—individuals simply need to self-certify that they meet one of the 11 eligibility criteria and acknowledge that any intentional misrepresentation constitutes fraud.

The decision to grant initial benefits without requiring employer certification or self-submitted documentation allowed state unemployment offices to get benefits out the door more quickly as millions of individuals filed unemployment claims each week. Yet, the continuation of benefits without follow-up certification has proved problematic. As the Inspector General report noted, even if individuals fail to provide documentation within 21 days, they "could continue to receive an average of $775 per week based solely on an initial undocumented self-certification statement."[9]

With the additional $600 benefit available for up to 18 weeks, and regular unemployment benefits extended for 39 weeks, continued payment of potentially improper or fraudulent benefits could result is significant taxpayer costs. The Office of the Inspector General warned that taxpayers could lose millions of dollars if states do not require claimants to provide evidence of their eligibility, and recommended that the Labor Department's office of Employment and Training Administration seek additional guidance or clarification from Congress on continued eligibility of individuals to receive benefits without providing any documentation.

Already, Washington State appears to have amassed $650 million in fraudulent claims, of which it has been fortunate to recover $333 million.[10] Maine has already cancelled 12,000 claims due to fraud.[11] Oklahoma is investigating 4,200 fraudulent claims,[12] and the FBI is investigating fraudulent claims in Rhode Island.[13]

Proposals to Extend, Expand, or Alter Federal Unemployment Support

Recognizing both the problems within the current COVID-19 federal unemployment assistance programs as well as the improving, but still-high levels of unemployment that are likely to remain elevated beyond July 31 when the bonus $600 benefits expire, federal policymakers are exploring numerous changes to, and extensions of, unemployment insurance assistance. The massive increase in federal spending and unsustainably high level of federal debt, along with the individual and societal consequences of prolonged unemployment, necessitate that Congress focus on fostering employment opportunities and providing targeted unemployment assistance to individuals for whom work is not available, including those with elevated health risks. In no instance should policymakers incentivize unemployment by paying unemployment benefits that exceed wages, and any federal taxpayer support must be directed to individuals who do not have job opportunities, as opposed to paying workers to accept job offers.

Extending $600 Bonus Benefits into 2021 Will Cost Jobs and Reduce Output. House Democrats passed the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, including a six-month extension of the $600-per-week bonus through January 31, 2021, with additional extensions through March 31. This could bring maximum eligibility to a full year of benefits, meaning unemployed workers could receive up to $31,200 in bonus benefits regardless of their previous income levels, and a worker who usually makes $30,000 a year would receive roughly $43,200 from unemployment benefits. This massive unemployment incentive would hurt, not help, individuals and the economy.

The Congressional Budget Office (CBO) analyzed the impact of the proposal to extend the $600 bonus benefit into 2021 and found that it would reduce employment in 2020 and 2021—and after resulting in a short-term boost in output at the end of 2020 (because of the additional cash sent to, and spent by, unemployed households), it would cause output to be *lower* in 2021, as the negative impact of lower employment would outweigh the substantial boost to incomes.[14] The CBO estimated a disproportionate impact on lower-income workers, as five out of six workers who remained unemployed beyond July 31 would receive more in unemployment benefits than their usual wages.[15]

As many small businesses are struggling to survive, the fact that some are having to compete with excessive unemployment benefits to get their employees to come back is making it even harder for them to stay afloat and recover.[16] As the CBO noted, by reducing the level of employment, extending the $600 unemployment benefit would make it "more costly for businesses to produce goods and provide services." The CBO explains a variety of responses to higher costs:

> Some businesses set wages higher than they would have without the benefits. Some businesses reduce their output and raise their prices above what they would otherwise have been, and others close. Over the longer term, some businesses begin to use machinery and equipment that allows them to use less labor.[17]

There are also potential short-term and long-term consequences for individuals who would remain unemployed longer because of the $600 benefits, including declines in physical and mental well-being, fewer opportunities, and lower incomes.[18]

Return-to-Work Bonuses Would Introduce Inequity and Inefficiency. In an effort to overcome the unemployment incentive created by the $600 bonus, a number of proposals seek to encourage individuals to go back to work with re-employment bonuses.

The Jump-Start the American Economy Act proposes to give states the flexibility to allow workers to continue to receive the federal $600 unemployment bonus even *after* they go back to work.[19] Workers would be eligible for up to six weeks ($3,600) of additional benefits through July 31. A similar idea has been floated by Senator Rob Portman (R–OH), with individuals who return to work receiving $450 per week instead of $600.[20]

Related to the proposal to continue to pay workers unemployment benefits when they are no longer unemployed, Representative Kevin Brady's (R–TX) Reopening America by Supporting Workers and Businesses Act of 2020 would provide one-time $1,200 bonuses to unemployed workers who return to work before July 31 when the $600 bonus benefit expires. Although similar in effect, a one-time payment (depending on the time of enactment) would likely impose a smaller cost on taxpayers.

While the flawed program that Congress passed in the CARES Act, allowing a majority of individuals to receive more income from unemployment than if they were working, is hurting businesses and the recovery, the solution is not to layer on another problematic benefit. It is irrational to consider paying individuals potentially thousands of dollars to accept a job when the high level of unemployment is such that Americans should be clamoring for jobs. Just as doctors and insurance companies do not pay individuals to take their medicine, policymakers should not pay people to accept jobs.

It is also unfair that individuals who were unemployed and who return to work should receive a bonus for doing so, while individuals who remained employed during the crisis—many of them working day-in and day-out on the front lines—receive nothing.

Back-to-work bonuses could also introduce further misuse and abuse. For example, employers and workers could game the system by laying off workers for one week and then rehiring them—perhaps at a temporarily lower, agreed-upon wage to also benefit the business—so that workers could receive the bonus payments.

Giving Businesses a Rehiring Bonus Would Provide Marginal Benefits at Significant Cost. Some organizations have discussed the idea of providing what would amount to a wage, or rehiring, subsidy to employers who rehire workers. While this could help some struggling businesses to regain their footing and offer more employees jobs, it would likely provide only marginal benefits at significant cost. A short-term subsidy, lasting only a month or so, is unlikely to cause employers to rehire workers who they cannot keep on their payrolls long term. Moreover, such employer subsidies would provide significant windfall benefits to companies that would already be hiring workers. Without any rehiring subsidies, the economy already added 2.5 million jobs in May, and large gains are expected in June and July. It is not an effective use of taxpayer money to provide windfall benefits to employers who would have rehired workers anyway.

Such employer subsidies would also be subject to fraud and abuse. For example, employers may fire and then rehire the same workers, or fire existing workers and rehire new ones. Other policies, such as limiting liability for businesses and workers who follow guidance from the Centers for Disease Control and Prevention (CDC) in good faith, are better solutions to reducing barriers to re-opening society and providing work opportunities.

Immediate Caps on Unemployment Benefits Would Reduce Disincentives to Work. To end the unemployment incentive, the Getting Americans Back to Work Act—introduced by Representatives Ted Budd (R–NC) and Ken Buck (R–CO)—would immediately cap unemployment benefits at no more than 100 percent of workers' previous wages.[21] This would not impose undue hardship on unemployed workers, as they would still receive as much or close to their previous earnings, even if they remain unemployed. By addressing the root of the problem, this option would reduce unemployment incentives; help struggling businesses get back on their feet; expand the economic recovery; and minimize the physical, mental, and financial consequences for individuals of long-term unemployment.

TABLE 2

Unemployment Benefit Proposals for COVID-19 Recovery

Proposal	Targeted?	Equitable?	Encourages work?	Aids recovery?	Respects taxpayers?
Extend $600 bonus	No	No	No	No	No
Worker bonuses	No	No	Yes	Yes	No
Employer bonuses	—	—	Yes	—	No
Cap benefits	Yes	Yes	Yes	Yes	Yes
Partial federal match	Yes	Yes	Yes	Yes	Yes

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A Temporary and Partial Federal Match Would Provide Targeted Support and Flexibility for States. If Congress decides to provide additional unemployment insurance support beyond that established in the CARES Act, lawmakers should consider providing a partial federal match to boost state-provided benefits, including for states that have "short-time" compensation programs that provide partial unemployment benefits to workers who are rehired with reduced (or "short") hours and incomes.

A partial match could begin in August with the federal government providing an additional 40 percent of what state-level benefits provide, with the match declining by 10 percent each month thereafter and ending in December. The CBO analysis of the $600 benefit noted that it is more efficient for benefits to equal a portion of workers earnings because it reduces the unemployment incentive:

> If, for instance, the addition to unemployment benefits was proportional to previous earnings up to some maximum amount rather than a fixed dollar amount…the effects on output and employment would probably be more positive because a proportional benefit would not create especially weak incentives to work for people with low potential earnings.[22]

A partial federal match should be easy for states to implement. After calculating individuals' state-based benefits as they already do, they would simply multiply those benefits by a specified factor (for example, by 1.4 for a 40 percent match). Instead of a one-size-fits-all benefit, a partial federal match would give states more autonomy to meet the unique needs of their populations.

Balancing the Benefits and Consequences of Unemployment Extensions and Expansions

When a recession—or in this case, a global health pandemic—results in widespread unemployment, so-called automatic stabilizers, such as unemployment insurance, can help to reduce the breadth and depth of a downturn by providing a cushion for individual and family finances. Historically, the federal government has financed extended periods of unemployment insurance benefits during recessions to help the high number of people seeking a small number of available jobs.

While unemployment-benefit extensions provide valuable income support to individuals and families who face limited or no job opportunities, they also lead to longer durations of unemployment and reduced economic output. In part, this is because individuals are more likely to accept job offers—even subpar ones—in the weeks right before their unemployment benefits are set to expire. Researchers at the New York Federal Reserve[23] estimated that the unprecedented expansion in the duration of unemployment benefits (up to 99 weeks) during the Great Recession reduced employment by 4.6 million jobs in 2010 and by 3.3 million in 2011.[24]

While the federal government has never increased the level of unemployment benefits in the past, the short-term nature (particularly as it was considered at the outset) of COVID-19 shutdowns contributed to policymakers' decision to increase unemployment benefits as a way to bridge what they expected to be a short-term gap. Higher unemployment benefits have certainly alleviated individual and family hardships and prevented a deeper and more prolonged downturn, but they have almost certainly contributed to higher unemployment levels and increased unemployment durations. Evidence from other countries that have altered unemployment-benefit levels shows that higher benefits lead to more unemployment claims[25] and longer durations of unemployment.[26] These studies suggest that the $600 bonus could increase the number of initial unemployment claims by 69 percent to 117 percent, and increase the average duration of benefits by 97.5 percent, from 21.3 weeks to 42.1 weeks.[27]

Additional unemployment benefits are also costly, and the U.S. debt and fiscal outlook was already more precarious, pre-COVID-19, than at the height of World War II and following a decade of economic depression. Now, the federal responses to COVID-19 have added more debt in a shorter period of time than ever before. This makes it all the more important that policymakers focus on creating employment opportunities and providing only temporary and targeted unemployment supports.

Policies to Foster Flexibility and Employment Opportunities for All Workers

Unemployment insurance benefits can alleviate the symptoms of unemployment, but job opportunities provide the cure. Thus, it is crucial that lawmakers enact policies that attract and enable work opportunities for all Americans. Congress should:

- Provide a safe-harbor liability protection for businesses and workers that follow CDC guidance in good faith;
- Clarify and harmonize the government's multiple definitions of "employee" versus "contractor;"
- Codify the direct-control definition of a joint employer;[28]
- Repeal work restrictions, such as California's Assembly Bill 5 (AB5) law, and should not enact the Protecting the Right to Organize (PRO) Act;
- Not drive up the cost of employment through artificially high minimum wages;
- Give workers the choice of whether to join a union;
- Make full expensing permanent in order to boost investment and productivity;
- Enact a "physical presence" standard to reduce burdens for struggling small businesses;
- Repeal the Davis–Bacon Act and its flawed, cost-increasing restrictions;
- Roll back the recent increases in the overtime-rule threshold;[29] and
- Allow hourly workers to choose paid time off.[30]

In addition to these steps that Congress can take, state and local lawmakers should eliminate burdensome licensing requirements, end "certificate of need" laws, reduce barriers to accessible and affordable child care, treat pandemic-caused remote work as office work for tax purposes, and remove barriers to home-based businesses.

Conclusion

Unemployment is likely to remain high for some time as some businesses have closed and ongoing health concerns will prevent certain sectors of the economy from returning to pre-COVID-19 operations until a vaccine is developed and sufficiently distributed. Meanwhile, the U.S. debt and fiscal outlook are more dire than ever before. While the optimal policy responses do not depend on the level of U.S. debt, the precarious fiscal situation of the federal government increases the risks of using future taxpayer dollars for counterproductive or ineffective purposes, such as incentivizing unemployment or paying individuals to accept job offers.

The most important step to addressing unemployment does not require any additional federal funds, but involves replacing rigidity with flexibility, and opening doors to income and work opportunities for all Americans. Policymakers can reduce barriers to employment by allowing safe re-openings of society, providing limited liability for workers and businesses that follow CDC guidance, respecting individuals' right to work, repealing wage restrictions that reduce jobs, and ending restrictions that limit workplace flexibility. These are the types of policies that led to a 50-year record-low unemployment rate, and they are the same policies that will help America return there.

Congress should immediately stop paying unemployment benefits that exceed workers' previous wages. Any additional funds that Congress provides should be temporary and targeted to individuals who do not have job options and to those who have substantially reduced hours and incomes. This could include allowing states some flexibility, via partial federal matches of state-based benefits, so that states can more effectively address their unique unemployment situations without undue administrative burdens.

By coupling employment opportunities and flexibility with temporary and targeted unemployment supports, federal, as well as state and local, policymakers can help to limit the economic damage and personal hardships of COVID-19 and set the stage for a solid economic and labor market recovery.

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Endnotes

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