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How massive expansion of coronavirus unemployment benefits could backfire

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When both the Republican and Democratic establishments came together to pass a $2.2 trillion coronavirus relief bill, signed into law by President Trump at the end of March, long-term impact and unintended consequences weren't exactly top of mind — merely satisfying the urge to "do something!" in response to the coronavirus crisis was the real goal for most nervous politicians fearing backlash at home.

This is not exactly a recipe for sound policymaking.

The bill included a $260 billion expansion of unemployment benefits for the first four months of unemployment, adding $600 to the relatively modest weekly sums states already pay out to the unemployed. It also makes self-employed entrepreneurs and contractors eligible for unemployment benefits, potentially adding many new groups of workers, such as Uber drivers, to the welfare rolls.

The intent here is noble. But as is always the case with generous unemployment benefits — Europe has persistently roughly double the unemployment levels the United States has in part due to its massive unemployment welfare programs — it may quickly backfire and discourage employment.

Several experts I spoke to shared the concern that expanding unemployment benefits may backfire, especially if extended long term.

"Overly generous unemployment insurance benefits, combined with the risks inherent in going out to work right now, really do produce a disincentive to reenter employment," the Cato Institute's Ryan Bourne told me. "That harms our near-term adjustment to the crisis, not just the pathway to normality once lockdowns are relaxed."

"Companies such as Amazon, CVS, supermarkets, and other delivery firms are actively hiring thousands of workers right now in light of increased demand," the economist continued. "An unemployment insurance system that's undergirded by more generous support than previous market wages reduces the willing supply of workers for these firms."

Some under these new rules are already finding that staying home and collecting benefits will pay more than going to work. The *Dispatch*'s Declan Garvey reported on this phenomenon, interviewing several individuals who have found themselves in such a situation.

"My last paycheck for Hobby Lobby for two weeks was about $1,000," one former Hobby Lobby staffer explained. "And I'm looking at the stimulus plus unemployment, all this. And it's almost $1,000 a week if my calculations are right. So, I'm getting a pay raise by being unemployed, if everything comes through like I expect it to."

Another Wisconsin resident told Harvey that his job paid him roughly $1,000 bi-weekly, but over that same time period, he could collect $1,760 in government benefits by not working.

These individual examples are confirmed by the objective data. According to the New York Department of Labor, a New Yorker who regularly earns a salary of $36,000 is now eligible for weekly unemployment benefits of $946. Annualized, that is equivalent to a roughly $49,000 salary. For someone whose regular salary is $18,000, current benefits offered to them, annualized, amount to $40,196 — basically a massive raise for not working.

See the potential problem yet?

Americans aren't lazy, and most do want to work, but workers also aren't stupid. It's not rational to work if you can make more money not working. And for now, that's fine — we want lots of people to *not work*. But this could mean sitting out of the workforce even once it's safe to return, further dooming our economy. Even more worryingly, we could see essential workers such as delivery drivers, grocery store clerks, and others choosing the risk-free government check over keeping our economy alive.

Thankfully, this hasn't materialized en masse so far.

"The structuring of unemployment insurance in the [coronavirus relief bill] definitely isn't ideal, but it also probably isn't too big of a concern in the immediate term," the R Street Institute's Jonathan Bydlak told me.

"I don't think we'll see many workers changing their preference for work based on benefits that they expect to be temporary, which makes us unlikely to see a long-term deterrent to work," the fiscal policy analyst concluded. "Of course, we should look out for and oppose any effort to extend this aid past the point of immediate crisis."

Bydlak rightly notes that the bill does make these expanded benefits "temporary," set to run out after four months. This mitigates the problem substantially — if viewed with a healthy dose of optimism, something rarely called for in analyzing government actions. It's quite possible the benefits are expanded to six, eight, or even 10 months in future coronavirus relief bills. Before we know it, they might just become yet another part of our massive welfare state, which rarely shrinks once it has been expanded.

The idea of a “temporary” expansion in the welfare state is a bit like a unicorn — I’ll believe in it when I see it. If these disincentives to employment eventually become permanent, we’ll almost certainly pay for them with skyrocketing unemployment levels in the long run.