The Resurgent

When Your Employees Hate You For Saving Their Jobs

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The Paycheck Protection Program is designed to help businesses keep their empoyees on the payroll. One spa owner in Washington State was excited to be approved for the program so that she didn't have to lay off employees. She was shocked when her employees angrily told her that they would rather collect unemployment.

CNBC reports that Jamie Black-Lewis was upset when her two nonessential businesses had to close during the shelter-in-place. She had to stop paying 35 employees – including herself – at her two spas.

Soon she found salvation in two forgivable loans from Paycheck Protection Program. The loans, one for $177,000 and the other for $43,800, would be used to meet payroll and pay other business expenses until she could reopen.

Black-Lewis excitedly held a virtual meeting of her employees to give them the good news, but, instead of finding relief and gratefulness, she says, "It was a firestorm of hatred about the situation."

The problem, as the employees saw it, was that they would make more money if they collected unemployment than if they collected their regular paychecks. The CARES Act added a flat $600 weekly benefit to state unemployment payments. In Washington, where the minimum wage is $12 per hour, a 40-hour week for a minimum wage worker pays $480 before taxes. The $600 bonus is like an extra week's pay for many people even though unemployment benefits normally pay only a percentage of lost wages.

"It's a windfall they see coming," Black-Lewis said . "In their mind, I took it away."

"I couldn't believe it," she added. "On what planet am I competing with unemployment?"

The unwillingness of employees to stay on the payroll now creates a problem for Black-Lewis. The relief bill allows business loans to be forgiven under certain conditions. Among the requirements are that most of the funds have to go toward payroll, salaries must remain intact, and the number of employees cannot decrease. Businesses have until June 30 to rehire workers who have already been laid off.

The wording of the CARES Act creates what economists call a perverse incentive. A law that was intended to help keep workers on the job, when put into practice, is encouraging employees to ask to be laid off.

This is not a new phenomenon. A Cato Institute study from 2013 found that when all forms of government assistance were taken into account, welfare paid more than minimum wage jobs in 35 states.

I have even had experience with this problem myself. In 2004, I was a pilot for Independence Air. Independence had been borne of a regional airline, Atlantic Coast Airlines, that operated as both United Express and Delta Connection. After United's post-September 11 bankruptcy, ACA lost its contract with United and tried to make a go as an independent low-fare carrier similar to Southwest and JetBlue.

The attempt did not go well, thanks in large part to the spike in fuel prices that occurred at the same time. I was furloughed (laid off in airline speak) in 2005 and went on unemployment with a wife and new baby to support.

I immediately started looking for a new job and found one after only a few weeks at Delta's Atlantic Southeast Airlines subsidiary. The only problem was that thanks to a super-low probationary pay scale in ASA's pilot contract, I made less as an employee than I did on unemployment.

With a new baby in the house, it was difficult to give up the extra money. However, I saw that the pay cut would be a temporary setback. Before long, I would be making more money working than not working. It was a no-brainer.

For workers who have been locked into low-paying jobs for long periods, however, the choice might not be so easy. This is especially true when the unemployment benefits continue for an extended period, such as the 26 weeks granted in Washington. The difference in take-home pay would be YUGE for a low-income worker who earns an extra several hundred dollars per week on COVID unemployment for six months. It isn't a matter of being lazy, it's a sound financial choice, at least in the short-term.

And the fact that it's a short-term choice is the real problem. When unemployment runs out, these workers will be looking for jobs in an economy that may very well be in a recession. Their original jobs may be long gone, either taken by someone else or eliminated, and new jobs may be scarce.

The other problem with staying on unemployment is that it doesn't take raises, promotions, and benefits into account. Workers who come back on the job would be eligible for raises and promotions to better-paying jobs. This was what happened to me after I had worked at ASA for a while. Longevity on the job meant that I was entitled to higher pay rate. I also got promoted to a larger airplane which included a pay bump as well.

People who stay on unemployment also forgo the fringe benefits that come with jobs. These often include health insurance, which should be considered a must-have in the Coronavirus era. Likewise, unemployment does not come with a 401k to help save for retirement.
Finally, working at a job, even a low-paying one, is a stepping stone to better things. Building a resume helps workers become qualifed for better jobs that come with higher pay and more benefits.

On the other hand, long gaps of unemployment are a red flag to employers. Business owners like Black-Lewis may think twice about rehiring workers who would rather sit home on unemployment than come to work. In a job market with millions of unemployed people looking for jobs, it should be easy to replace workers who don't demonstrate a good work ethic.

Workers would be well-advised to forgo the unemployment "windfall" and hang on to their full-time jobs for many reasons, but the fundamental problem of government benefits that are too generous is one that won't go away with the pandemic. While unemployment benefits are well-intended, if they encourage people not to work, employers end up competing with the government for workers. If a program encourages workers to collect benefits rather than work, it has not been well-designed.

President Trump recently signed an Executive Order suspending immigration for 60 days, claiming that the move was needed to get Americans back to work. In reality, the competition for jobs is not between American and foreign workers. It's between businesses and the government.