



Future of enhanced unemployment benefits uncertain as coronavirus resurges in US

Stephen Loiaconi

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As congressional leaders and the White House begin negotiations on the next round of coronavirus relief legislation, the debate continues over whether to extend enhanced unemployment benefits and the potential ramifications for those who are still out of work and for the American economy if lawmakers allow the benefits to lapse.

A report released Tuesday by the Center on Budget and Policy Priorities highlighted the financial challenges many households are still facing even as the economy begins to recover. Black, Latino, Indigenous, and immigrant families are struggling the most with the burdens of lost work and reduced wages due to the coronavirus outbreak.

Census bureau data for the week ending July 7 found more than 10% of adults in the U.S. reported their households sometimes or often having did not have enough to eat in the previous seven days. About 13 million adults were behind on rent, and renters living with children were more than twice as likely to have fallen behind than those without children.

The CBPP report recommended the next federal coronavirus stimulus package include several measures aimed at boosting those hit hardest by the pandemic, including increased food assistance, eviction protections, temporarily expanding the Earned Income Tax Credit, and relief for child care. It also called for extending both the expanded eligibility for unemployment assistance established by the CARES Act and enhanced benefits of \$600 a week set to expire next Friday.

“These expansions are particularly important for low-paid workers, disproportionately workers of color, who often are ineligible for standard unemployment benefits and receive low benefits when they do qualify,” the report stated.

Sharon Parrott, CBPP senior vice president for federal policy and program development, warned the hunger and housing challenges millions of Americans are experiencing could make it harder for adults to get back into the labor force and might “forever” change the life trajectories of children.

“The consequences of serious hardship are long-lasting,” Parrott told reporters.

More than 30 million people have been receiving an additional \$600 a week in Pandemic Unemployment Compensation on top of state unemployment benefits—which vary widely by state but typically only cover 30% to 55% of previous earnings. The Federal Reserve Bank of

Minneapolis estimated allowing the program to expire would pull \$19 billion a week out of the economy that the unemployed are currently using to make purchases and pay down debt.

“The fact that workers—especially those who are younger and in vulnerable occupations—will suffer income declines when PUC expires does not imply that PUC should be maintained in its current form indefinitely. But it is an important consideration for policymakers as they decide how to phase out PUC and other CARES Act provisions,” Minneapolis Fed Assistant Vice President Ryan Nunn wrote in an analysis last week.

The JPMorgan Chase Institute calculated that spending by the unemployed increased by 10% during the pandemic, while aggregate spending by the employed dropped by 10%. Analysts warned allowing the additional weekly payments to lapse could result in large spending cuts by households and negative impact on the economy.

“Having that fiscal stimulus flow through the economy is essential,” said Carl Van Horn, director of the John J. Heldrich Center for Workforce Development at Rutgers University.

However, Matt Weidinger, a fellow in poverty studies at the American Enterprise Institute, argued getting Americans back to work is also vital to strengthening the economy now that businesses in most states are open. He emphasized other forms of state and federal financial assistance would still be available to the unemployed if the enhanced benefits, which were always intended to be temporary, expired.

“If the bonuses are not extended, millions will continue to be eligible for weekly state unemployment insurance benefits, as well as unprecedented federal pandemic unemployment assistance benefits and federal extended benefits through the end of this year,” he said.

When most of the country was locked down to slow the spread of the outbreak and the federal government did not want nonessential employees working, many argued replacing full income for many Americans made sense. The flat \$600 payment was seen as the fastest way to get funds to those in need, and lawmakers had concerns about outdated state unemployment systems being able to process a more targeted program.

Months later, without the threat of a full-blown economic crisis hanging over the country, some experts say a more measured approach to augmenting unemployment benefits is preferable to tacking on an arbitrary dollar amount across the board.

“The problem with the enhanced benefits is you actually can earn more money by being unemployed than working,” said Michael Tanner, a senior fellow at the Cato Institute and author of “The Inclusive Economy: How to Bring Wealth to America’s Poor.”

In a report released last month, the Congressional Budget Office estimated five out of six benefit recipients would receive more per week than they would earn by returning to work if the enhanced amount was extended through the end of the year. The CBO projected spending and economic output would be higher for the next six months as a result, but output and employment in 2021 would be lower than if the benefits were not extended.

“An extension of the additional benefits would boost the overall demand for goods and services, which would tend to increase output and employment,” CBO analysts wrote. “That extension would also weaken incentives to work as people compared the benefits available during

unemployment to their potential earnings, and those weakened incentives would in turn tend to decrease output and employment.”

CBO Grassley Letter on Enhanced Unemployment Benefits by Stephen Loiaconi on Scribd

Experts at the Becker Friedman Institute for Economics at the University of Chicago calculated two-thirds of unemployed workers are receiving benefits that exceed their lost earnings because of the enhanced payments, and about one-fifth are making at least double what they did when they were working. If the enhanced benefit were reduced to \$300 a week, 42% of unemployed workers would still be receiving more than their lost wages, but one-quarter of recipients would be getting less than 60% of their previous earnings.

Research released by the Federal Reserve Bank of Chicago last month concluded those receiving unemployment benefits are generally not disincentivized from looking for work, and they typically search for jobs more intensely than those whose benefits have expired. However, that conclusion was based on data from 2013 to 2019 and did not account for those whose current benefits exceed their lost wages.

Former Treasury Department economist Ernie Tedeschi recently analyzed flows in and out of the labor market in May and June and found no evidence the enhanced unemployment benefits were holding back hiring, even for those receiving more than 100% of their pre-pandemic salary. He estimated allowing the benefits to expire could cost 1.7 million jobs by the end of the year by reducing economic activity.

Evidence of workers refusing to return to the labor force because unemployment is too lucrative is so far largely anecdotal. Still, Weidinger noted even Democratic Gov. Ned Lamont of Connecticut recently acknowledged the possibility the enhanced benefits would keep workers out of the labor force.

“Reducing or tying the bonus to prior wages would certainly alleviate some of the work disincentive effects of the current flat \$600 bonus,” Weidinger said. “But any flat amount would continue some work disincentive.”

Leaders in both parties seem to agree some form of enhanced unemployment assistance is still justified, but they disagree on how much it should be. While many Democrats back extending the \$600 benefit through the end of 2020, most Republicans are adamant that no unemployed workers should get more than they would earn on the job.

"We're going to make sure that we don't pay people more money to stay at home than go to work," Treasury Secretary Steven Mnuchin said Monday, suggesting any further aid should be structured differently. "We want to make sure that people who can go to work safely can do so."

In a Senate floor speech about the Republican stimulus proposal Tuesday, Majority Leader Mitch McConnell, R-Ky., made no mention of extending unemployment benefits, focusing instead on new incentives to get people back to work. Democrats maintain there are simply not enough jobs available at this stage in the recovery and the enhanced benefits would provide a boost to the whole economy.

"This is urgent," House Speaker Nancy Pelosi, D-Calif., said last week. "They need to buy food. These are necessities. And when people use that money for necessities, they inject demand into the economy and create jobs."

Republicans have argued record job growth in May and June suggests the economy is rebounding already and the unemployed should be returning to work. However, millions who had jobs before the pandemic hit are still out of work, unemployment is higher than at any point during the Great Recession, and the monthly data does not account for a surge in new coronavirus infections since mid-June and some states scaling back reopening plans as a result.

More than 1 million people have been filing initial unemployment claims each week, and experts warn more businesses could face closures or layoffs as stimulus programs expire. As new coronavirus infections rise in most states, the timeline for a full recovery is uncertain.

“The stop-start motion of the reopening of the economies in different states means we’re going to see a spike in unemployment,” Van Horn predicted.

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With restaurants and bars in some states being forced to close again or reduce capacity, the entertainment and hospitality sectors of the economy could take another hit. Tanner warned extending the enhanced benefits could discourage those whose jobs that are not coming back from changing professions to meet the needs of the post-pandemic economy.

“We want people to be able to adapt to the economy as it changes, and the enhanced benefits are essentially freezing the economy where it was in March,” he said.

Pelosi and Mnuchin have said they hope to have an agreement on a stimulus package by the end of next week, but Democrats and Republicans are trillions of dollars apart on how much to spend and where the priorities should be. With election-year politics bearing down on both sides, there is no guarantee a compromise will be reached before Congress leaves town for its August recess.

The U.S. Chamber of Commerce is advocating a proposal by a bipartisan group of former White House economists that would cap benefits at \$400 per week but not replace more than 90% of a worker’s prior salary. States that are unable to process that formula would provide a flat \$200 a week, and benefits would be phased out as state unemployment rates fall.

“With the benefit of our experience to date and fresh data, Congress should enact proposals that are timely, temporary, and targeted to current needs,” Chamber of Commerce CEO Thomas Donohue wrote in a letter to President Trump and congressional leaders last week. “The Chamber urges policymakers to be judicious in their approach.”

According to Van Horn, such a program would be logistically and technically difficult to administer, and it might leave some households short on cash and unable to spend, leading to cascading effects across the economy. Despite legitimate questions about whether the enhanced benefits impede the recovery, he argued the unemployment rate is still too high to slash payments without creating new economic risks.

“I think they should be extended at the current level,” he said. “That will ensure support for those who are still struggling. It also provides the macro-economic stimulus effect, meaning everyone who is currently working and selling goods and services will have customers to buy them.”