A man in a dark suit and light shirt walks on a train platform, carrying a briefcase. The background shows a modern train station with a glass and steel structure. The image is overlaid with a blue tint.

Why any unemployment bonus would threaten America's economic recovery

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KEY FINDINGS

1

CONGRESS'S \$600-PER-WEEK UNEMPLOYMENT BONUS IN RESPONSE TO THE COVID-19 PANDEMIC MADE UNEMPLOYMENT MORE LUCRATIVE THAN WORK.



2

THE ECONOMIC RECOVERY HAS KICKED INTO OVERDRIVE SINCE THE UNEMPLOYMENT BONUS EXPIRED.



3

EVEN A SMALLER UNEMPLOYMENT BONUS WOULD DISCOURAGE WORK.



4

CREATING A NEW UNEMPLOYMENT BONUS WOULD STIFLE THE ECONOMIC RECOVERY.



BOTTOM LINE:

CONGRESS SHOULD PROTECT THE ECONOMIC RECOVERY & NOT ENACT ANOTHER UNEMPLOYMENT BONUS.

Background

In March 2020, Congress enacted a series of bills, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to respond to the COVID-19 pandemic and economic shutdowns. These bills drastically expanded the nation's unemployment insurance (UI) program by adding newly eligible individuals to the program, suspending work search requirements, increasing the duration of benefits, and adding a weekly \$600 boost to those receiving UI.¹⁻³

Unfortunately, as UI claims skyrocketed across the country, this unemployment bonus discouraged many individuals from working—even as the country began to reopen.⁴ Stay-home pay had actually become more appealing than take-home pay for most workers.⁵⁻⁶ Although this UI boost expired at the end of July—helping to reignite the economic recovery and encourage a return to work—Congress is still considering reviving the unemployment bonus or creating a new one altogether.⁷

The creation of a new UI boost of any amount would have severe and negative impacts on the American economy. It would immediately stifle the progress towards recovery, cause new UI claims to spike, and further drain states' dwindling trust funds. Even a small boost would discourage individuals from returning to work, unnecessarily keeping the economy in a precarious situation for even longer.

Congress should reject calls to renew the \$600-per-week unemployment bonus or to create a new UI boost at any level.

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The \$600-per-week unemployment bonus made unemployment more lucrative than work

Since mid-March, nearly 60 million Americans have filed new claims for unemployment benefits.⁸ Nearly all—roughly three-quarters—of these claims were filed while the \$600 UI boost was in place.⁹

The reason is simple: For millions of Americans, work had suddenly become less appealing than unemployment. By effectively tripling unemployment benefits, more than three-quarters of UI recipients collected more on unemployment than they did in their previous jobs.¹⁰ One in five received more than double their previous earnings.¹¹ Indeed, the average unemployed worker was taking home the annual equivalent of more than \$50,000 by remaining unemployed.¹²

Unsurprisingly, this massive spike in UI claims also led to a sharp spike in unemployment fraud across the nation—both in the form of identity theft, but also in the form of “refusals to work” as employers reopened and attempted to call back their laid-off employees.¹³

The Department of Labor estimated that waste, fraud, and abuse related to the CARES Act alone would hit \$26 billion, a tenfold increase over improper spending in 2019.¹⁴ This is roughly what the entire UI system cost in 2019.¹⁵ As fraud ran rampant and claims skyrocketed, UI trust funds across the nation plummeted by more than 96 percent through mid-August.¹⁶

As unemployment fraud from work refusals and other sources skyrocketed across the country, small businesses trying to stay afloat or reopen their doors were crushed.¹⁷ Despite their geographic differences, small businesses in Kentucky, Vermont, South Carolina, and more suddenly had one thing in common: They were all struggling to compete with the government’s UI program.¹⁸ As businesses in low-wage sectors began to reopen, they faced a grim reality that the UI boost had made it nearly twice as lucrative to remain on unemployment than return to work.¹⁹

Simultaneously, these small businesses desperately trying to rehire their workers were marred by bureaucratic red tape when they attempted to report refusals to work.²⁰ Many small business owners sighed in relief when the unemployment bonus expired in July, pushing the economic recovery into overdrive.



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The economic recovery has kicked into overdrive since the unemployment bonus expired

Since the unemployment bonus expired in July, the American economic comeback has kicked into overdrive. The number of new unemployment claims has fallen by nearly 35 percent since July, reaching new lows not seen since the pandemic began.²¹ In some states, the number of people filing new claims for unemployment benefits has fallen by more than 76 percent.²²

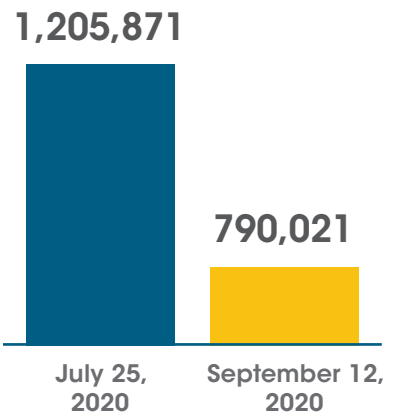
Not only are fewer people filing new claims for unemployment benefits, but more people are leaving unemployment and returning to work. Since July, the number of people collecting unemployment has fallen by more than 3.5 million people.²³ Better still, nearly three times as many Americans returned to work in August than in July.²⁴

Other economic indicators affirm the nation's movement toward recovery. The Federal Reserve Bank of Atlanta's real-time estimate of GDP growth has nearly tripled since July 31.²⁵ The National Association of Home Builders Housing Market Index (HMI) reached its highest level in history in August, matching its record from more than two decades ago.²⁶ Both the S&P 500 and the NASDAQ have reached all-time highs in recent weeks.²⁷ And private-sector economic activity spiked in August as activity in both manufacturing and services saw their steepest increases since early 2019.²⁸

Despite the American economy roaring back to life since the unemployment bonus ended, calls to revive it are still present in the halls of Congress. Even a much smaller boost would discourage work and threaten to slow down or unravel the American recovery.

NEW UNEMPLOYMENT CLAIMS HAVE FALLEN BY NEARLY 35 PERCENT SINCE JULY

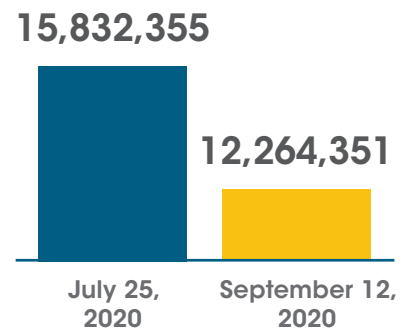
Initial unemployment claims filed, by week



Source: U.S. Department of Labor

MORE THAN 3.5 MILLION AMERICANS HAVE MOVED OFF UNEMPLOYMENT SINCE JULY

Continuing unemployment claims, by week



Source: U.S. Department of Labor

Even a smaller unemployment bonus would discourage work

Congressional Democrats have put forward legislation that would reimplement the full \$600 boost into 2021.²⁹ Others have suggested creating a new unemployment bonus ranging anywhere from \$200 to \$500 per week.³⁰ However, any boost in unemployment benefits would have a detrimental impact on employment, especially in low-wage sectors of the economy.

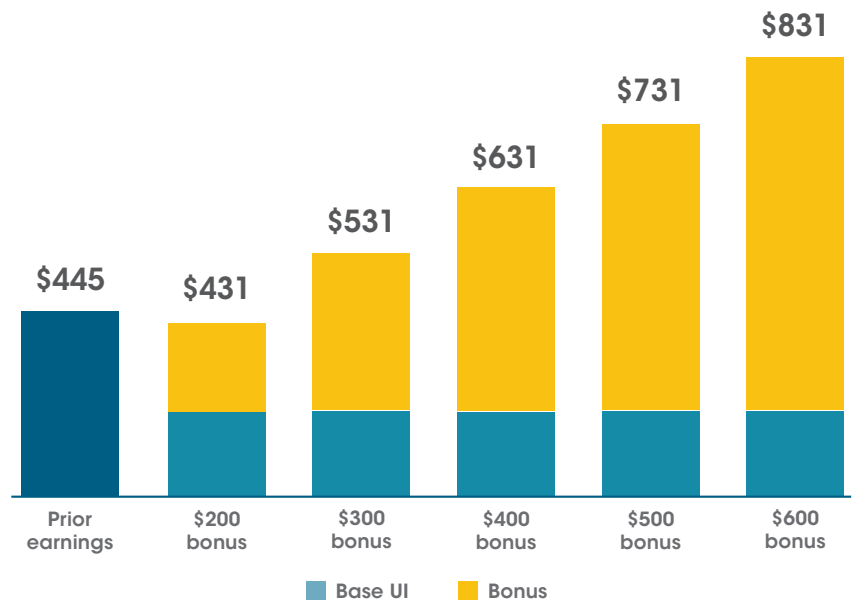
Unemployment benefits are designed to provide a temporary and partial replacement of wages while workers look for new jobs.³¹ This was not the case under the \$600 boost: The average low-wage worker collected nearly double their prior earnings.³² It is obvious and clear that paying individuals more to stay home than to work is a strong disincentive to work. In fact, even smaller UI boosts would discourage work.

A \$400 weekly UI boost, for example, would pay low-wage workers 42 percent more to stay home than return to work.³³ Even a \$200 weekly bonus would mean unemployed workers would be collecting nearly as much on unemployment as they would earn by working.³⁴

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Any boost in unemployment benefits would have a detrimental impact on employment, especially in low-wage sectors of the economy.”

SMALLER UNEMPLOYMENT BONUSES WOULD STILL PAY PEOPLE MORE TO STAY HOME THAN RETURN TO WORK

Average weekly unemployment benefits for low-wage workers, by bonus levels



Source: Authors' calculations

In some states, the situation would be even worse. In Kentucky, for example, a renewed \$600 weekly UI bonus would mean low-wage workers would collect more than double their prior earnings to stay unemployed.³⁵ In Georgia, a \$400 weekly boost would pay enrollees 58 percent more in unemployment benefits than they would earn working.³⁶ And in Louisiana, even a \$200 weekly UI bonus would mean low-wage workers would collect 10 percent more in unemployment funds than they were making on the job.³⁷

STATES COULD SEE DRAMATIC DISINCENTIVES TO WORK WITH PROPOSED UI BOOSTS

Average wage replacement rate for low-wage workers, by boost level

	LOUISIANA	GEORGIA	KENTUCKY	NEW MEXICO
Base UI	60%	62%	60%	53%
\$200 Boost	110%	110%	112%	111%
\$300 Boost	135%	134%	138%	141%
\$400 Boost	160%	158%	164%	170%
\$500 Boost	185%	182%	190%	199%
\$600 Boost	210%	207%	216%	228%

Source: Authors' calculations

Compared to the \$25 weekly UI boost given as part of the 2009 stimulus package in the Great Recession, these proposed UI boosts look like winning the lottery.³⁸ In short, even if Congress enacted a smaller UI boost, the unemployment system would discourage work—especially for those in low-wage sectors of the economy.



EVEN IF CONGRESS ENACTED A SMALLER UI BOOST, THE UNEMPLOYMENT SYSTEM WOULD DISCOURAGE WORK

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Creating a new UI boost would stop the economic recovery in its tracks and reverse the positive momentum that has been building since the boost expired in July.

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Creating a new unemployment bonus would stifle the economic recovery

The economy is beginning to make a strong rebound to its red-hot, pre-COVID-19 levels. Unemployment is falling, employers are rehiring and expanding, Americans are returning to work, and millions of new businesses are starting up. Creating another unemployment bonus would discourage work and shrink the economy.

The Congressional Budget Office, for example, estimates that extending the CARES Act’s UI boost would result in five of six UI enrollees collecting more on unemployment than they would earn by returning to work, with lower employment levels persisting into 2021.³⁹ Lower employment would slam the brakes on the economic recovery, slowing growth and leaving the economy worse off.

Bottom line: Congress should not enact another unemployment bonus

The devastation caused by states’ economic shutdowns and the CARES Act’s UI boost has already wreaked havoc on the economy—directly causing mass unemployment, business closures, and a spike in UI fraud. Thankfully, the economic recovery has taken off and shattered previous records since the unemployment bonus expired in July.

Creating a new UI boost—even at a lower amount—would recreate the same disincentives to work that existed under the CARES Act’s bonus. It would stop the economic recovery in its tracks and reverse the positive momentum that has been building since the boost expired in July.

Congress must reject further efforts to implement a devastating UI boost, thereby securing a strong economy and a return to prosperity.

APPENDIX 1

NEW UNEMPLOYMENT CLAIMS HAVE FALLEN NEARLY 35 PERCENT SINCE THE UNEMPLOYMENT BONUS ENDED

Initial unemployment claims filed the weeks ending July 25, 2020, and September 12, 2020, by state

STATE	JULY 25, 2020	SEPTEMBER 12, 2020	CHANGE
Alabama	17,437	8,848	-49%
Alaska	6,069	3,593	-41%
Arizona	19,063	9,979	-48%
Arkansas	15,257	4,585	-70%
California	244,653	226,004	-8%
Colorado	8,037	5,171	-36%
Connecticut	11,181	5,175	-54%
Delaware	2,563	1,598	-38%
District of Columbia	2,712	1,460	-46%
Florida	91,462	37,265	-59%
Georgia	84,984	42,085	-50%
Hawaii	5,885	7,307	24%
Idaho	4,703	3,672	-22%
Illinois	33,230	27,384	-18%
Indiana	20,129	13,245	-34%
Iowa	6,970	4,652	-33%
Kansas	10,462	15,022	44%
Kentucky	21,041	8,672	-59%
Louisiana	18,511	16,182	-13%
Maine	2,014	1,435	-29%
Maryland	13,038	7,858	-40%
Massachusetts	19,646	18,388	-6%
Michigan	23,219	19,571	-16%
Minnesota	15,311	11,181	-27%

APPENDIX 1 CONTINUED

STATE	JULY 25, 2020	SEPTEMBER 12, 2020	CHANGE
Mississippi	9,169	4,535	-51%
Missouri	14,938	8,936	-40%
Montana	2,388	2,985	25%
Nebraska	3,656	2,727	-25%
Nevada	18,390	8,332	-55%
New Hampshire	3,276	2,276	-31%
New Jersey	28,073	19,642	-30%
New Mexico	7,254	3,437	-53%
New York	85,049	61,897	-27%
North Carolina	26,995	13,437	-50%
North Dakota	1,203	719	-40%
Ohio	28,033	16,385	-42%
Oklahoma	8,927	5,596	-37%
Oregon	9,417	4,804	-49%
Pennsylvania	35,808	21,747	-39%
Rhode Island	3,635	3,026	-17%
South Carolina	12,195	4,261	-65%
South Dakota	808	376	-53%
Tennessee	20,091	11,316	-44%
Texas	76,804	49,386	-36%
Utah	3,709	2,283	-38%
Vermont	1,519	612	-60%
Virginia	42,966	10,100	-76%
Washington	30,653	21,168	-31%
West Virginia	3,123	1,881	-40%
Wisconsin	23,026	11,709	-49%
Wyoming	1,600	697	-56%
TOTAL	1,200,282	794,602	-34%

Source: U.S. Department of Labor

APPENDIX 2

VIRTUALLY ANY UNEMPLOYMENT BONUS WOULD PAY PEOPLE MORE TO STAY HOME THAN TO RETURN TO WORK

Average wage replacement rates for low-wage workers at specified bonus levels, by state

STATE	BASE UI	WITH \$200 BONUS	WITH \$300 BONUS	WITH \$400 BONUS	WITH \$500 BONUS	WITH \$600 BONUS
Alabama	54%	104%	129%	154%	179%	204%
Alaska	48%	90%	111%	132%	153%	174%
Arizona	52%	98%	120%	143%	166%	189%
Arkansas	48%	100%	127%	153%	179%	205%
California	50%	96%	118%	141%	164%	187%
Colorado	60%	102%	123%	144%	165%	186%
Connecticut	50%	93%	115%	137%	158%	180%
Delaware	57%	107%	132%	157%	182%	207%
Florida	50%	98%	122%	145%	169%	193%
Georgia	62%	110%	134%	158%	182%	207%
Hawaii	62%	105%	127%	149%	170%	192%
Idaho	50%	102%	129%	155%	181%	207%
Illinois	47%	93%	115%	138%	161%	184%
Indiana	45%	91%	113%	136%	159%	182%
Iowa	57%	103%	125%	148%	171%	194%
Kansas	55%	101%	123%	146%	169%	192%
Kentucky	60%	112%	138%	164%	190%	216%
Louisiana	60%	110%	135%	160%	185%	210%
Maine	59%	109%	134%	159%	184%	209%
Maryland	54%	92%	111%	130%	149%	168%
Massachusetts	48%	85%	104%	123%	141%	160%
Michigan	53%	95%	116%	137%	158%	179%
Minnesota	50%	93%	114%	136%	157%	178%
Mississippi	50%	105%	133%	160%	188%	216%
Missouri	52%	98%	120%	143%	166%	189%

APPENDIX 2 CONTINUED

STATE	BASE UI	WITH \$200 BONUS	WITH \$300 BONUS	WITH \$400 BONUS	WITH \$500 BONUS	WITH \$600 BONUS
Montana	50%	102%	129%	155%	181%	207%
Nebraska	48%	94%	116%	139%	162%	185%
Nevada	52%	98%	121%	144%	166%	189%
New Hampshire	50%	92%	113%	134%	155%	176%
New Jersey	58%	95%	114%	133%	151%	170%
New Mexico	53%	111%	141%	170%	199%	228%
New York	52%	93%	113%	134%	154%	174%
North Carolina	50%	100%	125%	150%	175%	200%
North Dakota	50%	96%	118%	141%	164%	187%
Ohio	48%	91%	112%	134%	155%	177%
Oklahoma	57%	107%	132%	157%	182%	207%
Oregon	62%	108%	130%	153%	176%	199%
Pennsylvania	51%	97%	119%	142%	165%	188%
Rhode Island	50%	91%	112%	132%	153%	173%
South Carolina	50%	96%	118%	141%	164%	187%
South Dakota	50%	98%	122%	145%	169%	193%
Tennessee	50%	96%	118%	141%	164%	187%
Texas	52%	98%	120%	143%	166%	189%
Utah	49%	95%	117%	140%	163%	186%
Vermont	58%	102%	124%	146%	168%	190%
Virginia	52%	98%	120%	143%	166%	189%
Washington	50%	87%	106%	125%	143%	162%
West Virginia	53%	110%	138%	167%	195%	223%
Wisconsin	52%	100%	124%	148%	172%	196%
Wyoming	52%	98%	121%	144%	166%	189%
TOTAL	52%	97%	119%	142%	164%	187%

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