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Ending the \$600 Welfare Bonus Boosted the Economy. Ending the \$300 Bonus Will Do the Same.

Trevor Carlsen
Senior Research Fellow

KEY FINDINGS



CONGRESS'S UNEMPLOYMENT BONUS
HURT WORKERS, STRAINED BUSINESSES,
AND INVITED FRAUD.



MORE THAN FOUR MILLION AMERICANS
HAVE BEEN UNEMPLOYED FOR MORE
THAN HALF A YEAR.



WHEN CONGRESS'S FIRST UNEMPLOYMENT
BONUS ENDED, THE ECONOMY BOOMED.



CONGRESS'S \$300 UNEMPLOYMENT BONUS
THREW COLD WATER ON THE RED-HOT ECONOMY
AND REVERSED THE PROGRESS.



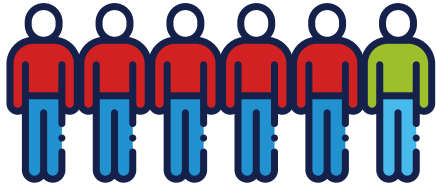
THE CURRENT RECOVERY CONTINUES TO
BE SLUGGISH AND AMERICANS CONTINUE
TO LANGUISH ON THE SIDELINES.

THE BOTTOM LINE:

STATES AND CONGRESS SHOULD PROTECT
WORKERS AND SMALL BUSINESSES BY ALLOWING THE
UNEMPLOYMENT BONUS TO EXPIRE.

Congress's knee-jerk reaction disincentivized work

To soften the blow from the unprecedented, government-imposed closure of the American economy in March of 2020, Congress instituted a \$600 weekly unemployment bonus.¹ The average benefit came close to \$1,000 per week, or roughly \$50,000 a year.² Suddenly, many Americans found themselves able to make more from unemployment than from working. Five out of every six unemployment recipients were receiving more than they could earn from work.³



FIVE OUT OF EVERY SIX UNEMPLOYMENT RECIPIENTS WERE RECEIVING MORE THAN THEY COULD EARN FROM WORK.

Congress also created a new federal unemployment program for people who do not traditionally qualify for benefits and vastly extended the length of time unemployed workers could stay on the program.⁴

Even as COVID-19 began to wane and states began to reopen, these radical expansions and extensions continued—and it quickly became clear that they were holding back the economic recovery and hurting the country in three specific ways.

Congress's rash response hurt workers, strained businesses, and led to skyrocketing fraud

One of the most devastating consequences of Congress's unemployment disaster is the impact on American workers. Traditionally, unemployment insurance keeps workers connected to the labor force by providing temporary benefits and requiring enrollees to actively search for work.⁵ This is by design. It maintains the program as a springboard, not a lifestyle, and keeps workers' skills fresh and sharp.

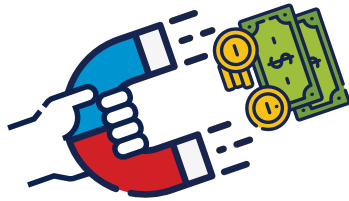
The longer someone stays on unemployment, the more difficult it becomes for them to ultimately rejoin the workforce—and their incomes can suffer as a result. That is why keeping the off-ramp short is vitally important.⁶

But Congress messed this up.⁷ By extending unemployment for more than a year and paying Americans more to stay home than to work, they told the whole country that long-term unemployment was a good thing. Now they are getting what they asked for.

By extension, keeping workers on the sidelines hurt businesses. Generally, people are required to be ready to and actively looking for work to be eligible for unemployment benefits. But absent a work search requirement and with a nice \$600 weekly bonus instead, people did not bother looking. Even as states were lifting restrictions and businesses were reopening, only a fraction of the people collecting unemployment were looking for work.⁸ And businesses struggled to staff up.

Across the country, business owners felt the strain of being understaffed and unable to serve their customers.⁹ A coffee shop in Kentucky went from having a surplus of applicants when they first opened to a staff reluctant to return.¹⁰ And employers in North Carolina and New York worried that they would be unable to meet the terms of their employee retention loans when workers refused to return.¹¹

Making matters even worse, Congress's destructive unemployment expansions made the unemployment system a more lucrative target for fraud rings.¹² These fraud rings stole Americans' identities to obtain the \$600 bonus and other unemployment benefits in a scheme that cost the unemployment insurance (UI) system billions of dollars.¹³ It is estimated that fraudsters stole \$36 billion in unemployment benefits.¹⁴



IT IS ESTIMATED THAT **FRAUDSTERS**
STOLE \$36 BILLION IN
UNEMPLOYMENT BENEFITS.

The good news is the \$600 unemployment bonus expired in July 2020. And what happened next provides a roadmap for the future.

Three signs the expiring boost was good for the economy

Despite dire predictions about the economy, when the \$600 bonus expired, the recovery kicked into overdrive.

1. UNEMPLOYMENT DOVE

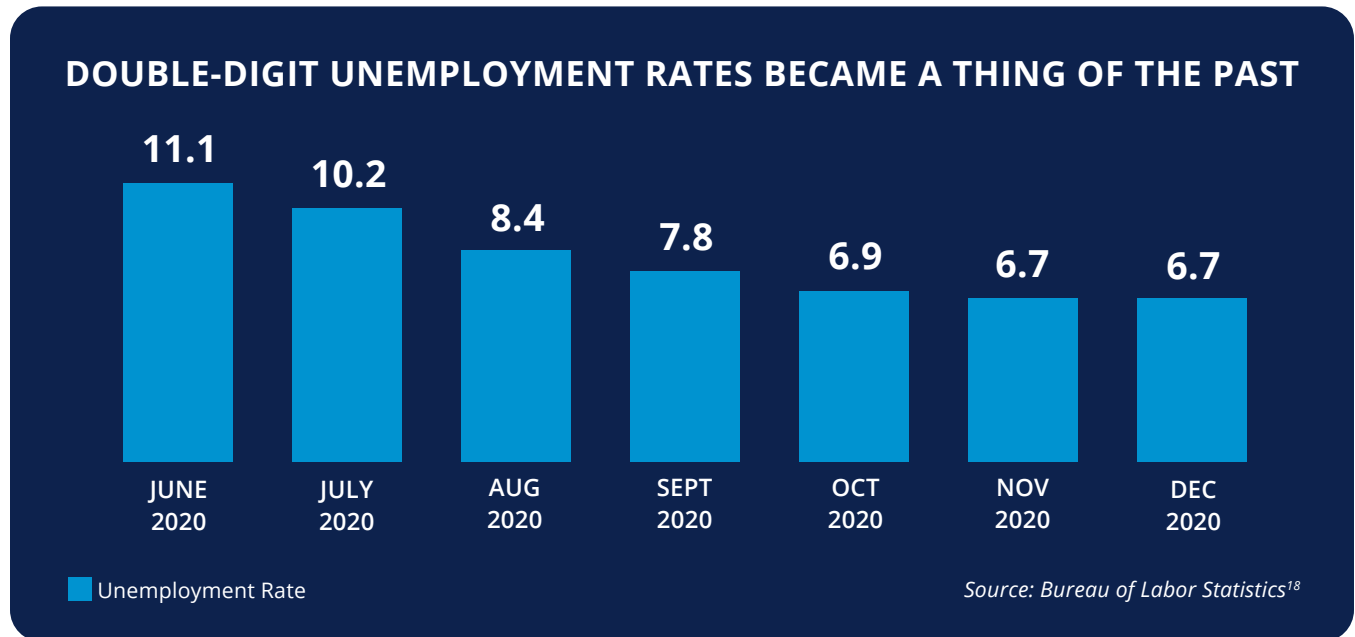
After the \$600 bonus expired, the number of people collecting unemployment plummeted, a clear indication that the extra cash was a driving force behind keeping people home.

After just two weeks, the number of people on regular state unemployment dropped by nearly two million, and claims fell below 15 million for the first time since the pandemic.¹⁵ After a month without the bonus, the number of people collecting unemployment had fallen by roughly 3.5 million.¹⁶



AFTER A MONTH WITHOUT THE BONUS, THE
NUMBER OF PEOPLE COLLECTING UNEMPLOYMENT
HAD **FALLEN BY ROUGHLY 3.5 MILLION.**

The number of workers filing new unemployment claims also dove as the bonus expired. Initial regular claims fell by more than 200,000 in a week and dropped below one million for the first time during the pandemic.¹⁷



Clearly, Americans were ready to get back to work. Ending the unemployment bonus took away their only reason to stay home instead.¹⁹

2. EMPLOYMENT SKYROCKETED

After the unemployment bonus expired, workers started to get back in the game. Since it was no longer more profitable to remain on unemployment, work once again became an attractive source of income. Open jobs had been generating for months.²⁰ But as millions of Americans re-entered the workforce in August, some of those openings began to be filled.

The number of openings declined by an estimated 266,000 in that first month, the first-time job openings declined since the pandemic hit.²¹ That rebound signaled an opportunity for business creation and resulted in more than 1.5 million new businesses during the third quarter of 2020.²²

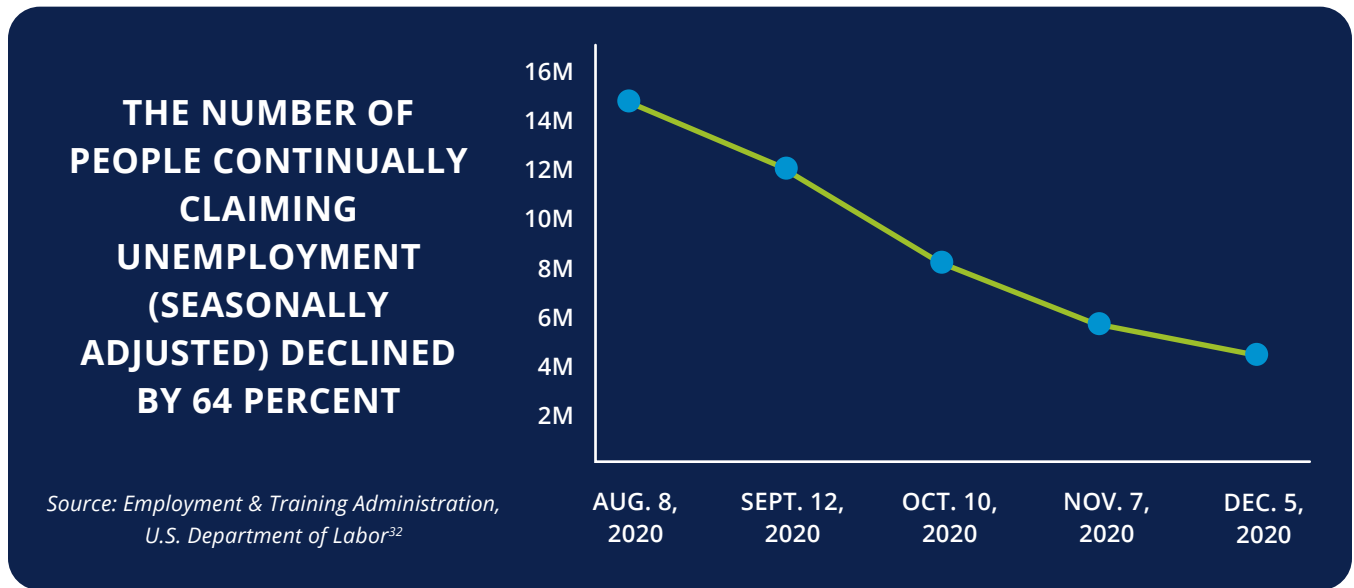
Altogether, nearly three million Americans went back to work in August.²³

3. THE ECONOMY KICKED INTO OVERDRIVE

Some political commentators predicted terrifying economic effects of ending the unemployment bonus.²⁴ Instead, economic indicators were strong across the board and remained positive in the absence of the unemployment bonus.

In the quarter after the bonus expired, nominal gross domestic product grew by a whopping 38 percent.²⁵⁻²⁶ Business creation continued to boom, with nearly three million businesses filing applications in the last half of the year.²⁷⁻²⁸ Retail sales continued to increase in August and September and construction spending rebounded from pandemic-induced declines.²⁹⁻³⁰

This was not a fluke: This trend continued and, by year's end, the number of people claiming unemployment was down 64 percent from when the bonus expired.³¹



All indications were that the economy was on the mend.³³ Economic activity, supported by people returning to work, created economic growth. Millions were given the opportunity to work, no longer forced to depend on welfare.

But unfortunately, Congress could not stay out of the way.

Congress's new \$300 unemployment bonus poured water on the roaring recovery

In late 2020, Congress threw water on the red-hot economy with a new \$300 unemployment bonus and a further extension of program eligibility.³⁴⁻³⁵ Economists warned this would reduce employment by between three and four million workers, but Democrats were undeterred. They extended the bonus again, now set to expire in September 2021.³⁶

Now, once again, the economy is paying the price.³⁷

Economists were harboring expectations of one million new jobs created in April, but the reality of Congress's unemployment policy dampened those high hopes.³⁸ The jobs report missed the mark and the Labor Department had to revise down the March estimate.³⁹

Workers are now spending more time unemployed. Long-term unemployment has increased by 2.9 million

LONG-TERM UNEMPLOYMENT HAS INCREASED BY 2.9 MILLION SINCE JUST BEFORE THE START OF THE PANDEMIC.

since just before the start of the pandemic.⁴⁰ These former workers now account for **more than 40 percent of all unemployed individuals**.⁴¹ Eighty-nine percent of businesses have reported some level of difficulty hiring workers.⁴² The number of open jobs stands at more than nine million.⁴³

Congress has made it impossible for businesses to compete with government benefits—despite record-high wages in every sector of the American economy.⁴⁴

BOTTOM LINE: It is time to end the destructive \$300 unemployment bonus

Thankfully, states are leading the way and not waiting on Congress to fix their mess. More than half the states have charted a new path and are rewarding work by opting out of the \$300 bonus.⁴⁵ And, unsurprisingly, they are starting to replicate the same story the country experienced when the \$600 weekly bonus expired last summer—more work, less unemployment, and booming economies.⁴⁶

Now it is Congress's turn. They must do their part to replicate this success story across the country. All they have to do is let the bonus—and all the destructive unemployment extensions—expire as scheduled in September. This is truly the shot in the arm that American small businesses and workers need.

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15275 Collier Boulevard | Suite 201-279
Naples, Florida 34119
(239) 244-8808

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