

# How Unemployment Benefits Have Become the New Welfare—And How To Fix It



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# KEY FINDINGS

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THE LEFT HAS BEEN PUSHING TO KEEP MORE AMERICANS TRAPPED IN THE CYCLE OF GOVERNMENT DEPENDENCY BY EXPANDING THE UNEMPLOYMENT INSURANCE PROGRAM.

2



UNEMPLOYMENT BENEFITS WERE ORIGINALLY DESIGNED TO BE A TEMPORARY, PARTIAL INCOME REPLACEMENT.

3



UNEMPLOYMENT INSURANCE WAS NEVER INTENDED TO BE A LONG-TERM BENEFIT TO REPLACE WORK.

4



THE COVID-19 CHANGES TO THE UNEMPLOYMENT INSURANCE SYSTEM HAVE TURNED THE PROGRAM INTO A NEW WELFARE TRAP.

5



LAWMAKERS CAN TAKE STEPS TO REALIGN THE UNEMPLOYMENT INSURANCE PROGRAM WITH ITS ORIGINAL PURPOSE.

## THE BOTTOM LINE:

STATES SHOULD REJECT FEDERAL OVERREACH,  
REALIGN THE PROGRAM WITH ITS ORIGINAL PURPOSE,  
AND GET PEOPLE BACK TO WORK.

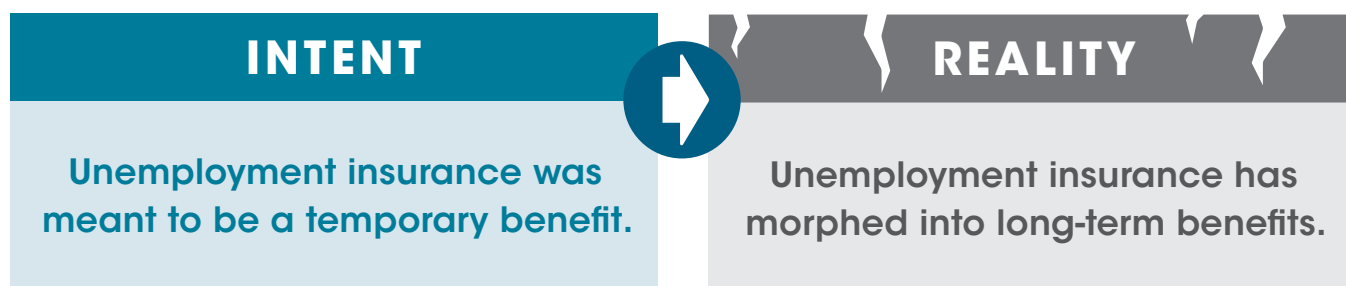
## Unemployment insurance was designed for a single purpose: Re-employment

For decades, the Left has been pushing to keep more Americans trapped in the cycle of government dependency through expansive government programs, ensuring it is more lucrative to stay home than to work. This increases government dependency, catching people in the welfare trap. Unfortunately, recent changes to the unemployment system in response to COVID-19 have presented a new opportunity for the Left to trap Americans at home.

In response to the pandemic, the federal government relaxed unemployment eligibility rules, extended the number of weeks an individual could receive unemployment insurance benefits, and provided an additional bonus payment each week.<sup>1-3</sup> Though these programs are supposed to expire, they have been extended several times.<sup>4</sup> And Democrats have sought to make these changes permanent, attempting to make unemployment insurance yet another part of the welfare package.<sup>5</sup>

Unsurprisingly, these changes are well outside of the original intent of the unemployment insurance program. This program was never meant to be a long-term substitute for work. And yet, in a matter of just a few months, Congress transformed it into just that.

This should concern all Americans, not only because of the long-term repercussions on individuals but also because of how this transformation threatens the program's continued survival.



Congress established the unemployment insurance system during the New Deal era.<sup>6</sup>

Unemployment insurance was meant to be a temporary supplement for a portion of wages to workers who have lost their job through no fault of their own.<sup>7</sup>

The idea was to give Americans—who are actively in the workforce—a temporary lifeline in between jobs.<sup>8</sup> Indeed, the 1935 committee report explains that the expectation is that unemployment benefits will last for a *limited* period of time because the worker will soon be reemployed.<sup>9</sup>

In addition, the Executive Director of the Social Security Board at the time said unemployment benefits were “*never intended* to provide for all the want caused by unemployment.”<sup>10</sup>



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Instead, unemployment benefits were meant to temporarily tide over the average worker.<sup>11</sup>

But unfortunately, due to the recent COVID-19-related changes, unemployment insurance has been morphed into more of a long-term benefits program. The Pandemic Emergency Unemployment Compensation program now extends unemployment insurance by an additional 53 weeks.<sup>12</sup> That is more than a year.

These changes move unemployment insurance away from being a temporary supplement and toward a long-term benefits program.

## INTENT

Unemployment insurance was meant to be a partial wage replacement.



## REALITY

Unemployment now pays better than work.

The unemployment insurance program was designed to be a partial income replacement.<sup>13-14</sup> Since 1935, the purpose has been clear: The committee report on the legislation that established the unemployment insurance program specified, “Unemployment insurance cannot give complete and unlimited compensation to all who are unemployed . . . It can give compensation only for a limited period and for a percentage of the wage loss.”<sup>15</sup>

But a lot has changed in 86 years. With the COVID-19-related changes, unemployment now pays better to stay at home than return to work.<sup>16</sup> These federal changes include providing an extra \$300 per week on top of traditional unemployment insurance.<sup>17-18</sup>

For example, an individual can receive nearly \$3,700 a month—or more than \$44,000 a year—by staying at home.<sup>19</sup> On top of tax credits, food stamps, and state unemployment benefits, an individual can receive an additional \$1,300 per month with the \$300 weekly unemployment bonus.<sup>20</sup>



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Unfortunately, expanded unemployment insurance keeps people from working as it provides a disincentive to return to work. Not only are there spillover effects of pushing more people into welfare, but this is yet another way the unemployment system has been altered from its original intent. Rather than partial wage replacement, unemployment has become *job replacement*.



The unemployment insurance system was set up as a safeguard for workers who lost their job through no fault of their own.<sup>21</sup> And employers pay federal and state taxes on behalf of their employees in order to fund the program.<sup>22</sup> Under the original design, self-employed workers, independent contractors, and gig economy workers were generally ineligible to receive program benefits.<sup>23-25</sup> And for good reason: These workers do not have employers to pay into the system for them, nor do they pay into the system themselves.

But in response to COVID-19, the federal government expanded unemployment eligibility allowing traditionally ineligible people to collect unemployment insurance.<sup>26</sup> This means that people are now able to collect unemployment benefits even though money has not been paid into the system on their behalf. The expansion of eligibility goes well beyond the original program design.

## Bottom line: It is time to restore unemployment to its original purpose and get Americans off the sidelines.

Fortunately, states are taking steps to realign the unemployment insurance program with its intended purpose. For example, most states have reimposed the work search requirement to collect unemployment.<sup>27</sup> This means that individuals must search for a job in order to collect unemployment benefits. Moreover, 26 states have opted out of the federal unemployment bonus, rejecting the additional \$300 per week.<sup>28</sup>

Congress also has a role to play in realigning unemployment insurance with its original design, by allowing the unemployment extensions to expire as scheduled.

Earning more by staying at home discourages individuals from work. And the changes to the unemployment program have transformed an important, temporary safety net for active workers into a welfare-style handout.

By rejecting federal overreach and helping Americans get back to work, states can restore the unemployment insurance program to its original design and ensure its sustainability for the future.

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