



The Administration's "Return-to-Work Bonus" Is No Substitute For Enhanced Unemployment Benefits

Trump administration officials and congressional Republicans have vowed to let the \$600 per week supplemental unemployment benefits currently received by approximately 29 million American workers expire after July 31st. "I promise you over our dead bodies will this get reauthorized," said South Carolina Sen. Lindsey Graham.¹

Trump Administration officials claim that the supplemental benefits are too generous and that they encourage workers to remain unemployed. Instead, they have proposed replacing those benefits with a "return-to-work bonus" that is intended to provide extra incentive to get them to return to jobs or get hired. Larry Kudlow, head of the President's National Economic Council, told CNN:

I mean, we're paying people not to work. It's better than their salaries would get. And that might have worked for the first couple of months. It'll end in late July. I think that returning to employment, we are, in the administration, the president is looking at a reform measure that will still provide some kind of bonus for returning to work. But it will not be as large, and it will create an incentive to work.²

The Administration's support for replacing enhanced unemployment benefits with a return-to-work bonus stems from the President's false claims that the pandemic is under control at a time when the number of newly confirmed COVID-19 cases is increasing rapidly across the country.³ Workers should not be forced to choose between financial ruin and returning to jobs that put them and their families at risk.⁴ Instead, policymakers should ensure that basic economic support is available until workers are able to return to work safely and the economy improves.

Replacing enhanced unemployment benefits with a return-to-work bonus would be a poor policy choice since it would shift economic support from those who need it most—unemployed workers who generally receive insufficient unemployment benefits—to workers with jobs. There will be millions of unemployed workers this fall regardless of what happens with the supplement and replacing it with a return-to-work bonus would push many of them into poverty. And the incentive to return to work produced by replacing UI benefits with a return-to-work bonus is likely to be minimal while there are more than four unemployed workers for every job vacancy, COVID-19 cases are growing rapidly and many child care centers remain closed.

The Administration's goal of replacing the supplement to unemployment benefits—known as Federal Pandemic Unemployment Compensation or FPUC—with a return-to-work bonus would be a serious mistake. Instead, Congress should focus on extending the supplement as part of a broader fiscal package while working to tackle true barriers to reemployment such as the pandemic and disappearing child care options.

It is unlikely that a return-to-work bonus will substantially increase employment

Kudlow and other proponents of replacing the \$600 FPUC with a “return-to-work bonus” have claimed that it would create an “incentive” for Americans to work. But it is unlikely to significantly increase employment for three major reasons.

First, workers receiving unemployment benefits whose employers recall them to work full time are generally not eligible for unemployment benefits.⁵ The main exception is a narrow set of circumstances under the CARES Act specifically related to COVID-19 such as someone being diagnosed with COVID-19 or someone whose child’s school is closed because of COVID-19.

Second, the effect of unemployment insurance on how many people are unemployed is much smaller when the economy is weak; one study found that the effect of unemployment benefits on how long someone remains unemployed are 40 percent smaller during a period of high unemployment since so many workers are already applying for each job vacancy.⁶ This point has been made by former U.S. Department of Labor chief economist Heidi Shierholz who has said “it’s not true that there’s a pool of jobs out there that people would fill if they weren’t receiving unemployment benefits.”⁷

The major effect of a reduction in UI benefits and a return-to-work bonus in a demand-constrained economy will be more workers applying for each job opening without increasing the number of job openings and thus hiring. In April, there were 4.6 unemployed workers for every job vacancy.⁸ This will increase the bargaining power of employers when negotiating wages, benefits, and hours as millions of workers desperately apply for jobs to stay out of poverty without significantly increasing employment.

Third, the combination of reduced UI benefits and a return-to-work bonus will be especially unlikely to substantially increase employment given the specific barriers millions of workers face in this crisis. The virus is still rampant in many communities, with more than half of states reporting increases in new cases over the past week, and so a significant share of unemployed workers cannot safely return to work whether or not they receive a bonus.⁹ One study estimates that 4 in 10 adults (almost 93 million people) are at risk of developing a serious illness from COVID-19 as a result of their age or underlying health status. Almost half of those adults (about 41 million people) are between the ages of 18 and 64.¹⁰

Similarly, workers with children are not going to be able to work regardless of any bonus if schools remain closed or child care is unavailable. Almost 4.5 million child care slots are at risk of disappearing without sufficient federal support, which would directly prevent millions of Americans—especially women—from returning to work.¹¹ Estimates show that the nation's child care infrastructure—essential to helping parents return to work—will need at least \$9.6 billion a month given child care providers’ loss in revenue.¹²

Finally, even if replacing enhanced unemployment benefits with a return-to-work bonus does increase employment somewhat, it would do so by undermining one of the key economic functions of unemployment insurance: helping unemployed workers take the right job instead of the first job they are offered. Evidence shows that workers who exhaust or are close to exhausting unemployment benefits receive lower wages upon reemployment than workers who

receive extended benefits.¹³ This “liquidity effect,” where workers delay finding a job until they find the right job, is responsible for most of the effect of unemployment insurance on how long someone stays unemployed.¹⁴

Replacing enhanced UI benefits with a return-to-work bonus will increase poverty

More important than the incentive effects of replacing FPUC with a return-to-work bonus is shifting support from unemployed Americans, most of whom have no option to safely return to work, toward newly employed Americans.

This will increase poverty, given that millions of Americans will be unemployed when the FPUC expires and that the portion of income that UI replaces is low without a federal supplement. The Congressional Budget Office (CBO) estimates that the unemployment rate will be 11.5 percent in the fourth quarter of 2020 and 17 million fewer Americans will be employed than in the fourth quarter of 2019.¹⁵ Importantly, CBO already assumes that the FPUC expires at the end of July so these estimates effectively already assume that this supposedly major impediment to bringing Americans back to work will already have expired.

Americans receiving UI benefits will be forced to live on the typically insufficient regular benefits, which replaced less than 40 percent of workers’ wages on average in 2019. In 12 states and the District of Columbia, these benefits are especially meager and replace less than one-third of workers’ wages.¹⁶ In Florida, for example, the maximum benefit is just \$275 per week – the equivalent of about \$15,000 per year and below the poverty line for a family of two. The consequence of replacing the FPUC with a return-to-work bonus would be dramatic reductions in income for these families, pushing many into or deeper into poverty.

FPUC has been a remarkable success at preventing double-digit unemployment from translating into an enormous increase in poverty. A recent study by the Columbia Center on Poverty and Social Policy found that the combination of enhanced unemployment insurance and Recovery Rebates from the CARES Act may have prevented poverty from rising or even *reduced* poverty, depending on the assumptions of how many families actually received benefits.¹⁷ Replacing the FPUC with a return-to-work bonus would undermine the critical work Congress has done to cushion American workers from the economic devastation caused by the coronavirus pandemic.

Suggested Reading

Michele Evermore, "The Unemployment Pandemic: Addressing America’s Job Crisis," June 18, 2020, <https://docs.house.gov/meetings/VC/VC00/20200618/110811/HHRG-116-VC00-Wstate-EvermoreM-20200618.pdf>

Zachary Parolin, Megan A. Curran, and Christopher Wimer, "The CARES Act and Poverty in the COVID-19 Crisis, " Columbia Center on Poverty and Social Policy, June 2020, <https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/5eefa3463153d0544b7f08b4/1592763209062/Forecasting-Poverty-Estimates-COVID19-CARES-Act-CPSP-2020.pdf>

Ryan Tracy, "Kudlow Urges Replacing Unemployment-Benefit Boost with Return-to-Work 'Bonus'," *The Wall Street Journal*, June 14, 2020, <https://www.wsj.com/articles/kudlow-urges-replacing-unemployment-benefit-boost-with-return-to-work-bonus-11592151941>

¹ Kayla Epstein, "'Over our dead bodies': Lindsey Graham vows Congress won't extend additional \$600 coronavirus-related unemployment benefits, as US death toll crosses the 60,000 mark," *Business Insider*, April 30, 2020, <https://www.businessinsider.com/lindsey-graham-congress-coronavirus-unemployment-benefit-over-our-dead-bodies-2020-4>

² CNN State of the Union, "Interview With National Economic Council Director Larry Kudlow; Interview With Rep. Ilhan Omar (D-MN); Interview With Rep. James Clyburn (D-SC); Interview With Sen. James Lankford (R-OK). Aired 9-10a ET," June 14, 2020, <http://transcripts.cnn.com/TRANSCRIPTS/2006/14/sotu.01.html>.

³ Some legislators, via a bill by Rep. Kevin Brady and statements by Sen. Rob Portman, have called for allowing workers who have been hired to continue to receive some portion of the \$600 for some period through July 31st when the \$600 supplement expires. These proposals say nothing about the important question of how to support workers *after* July 31st.

⁴ Some legislators such as Rep. Kevin Brady and Sen. Rob Portman have called for allowing workers who have been hired to continue to receive a portion of the \$600 for some period through July 31st when the \$600 supplement expires. These proposals say nothing about the important question of how to support workers *after* July 31st.

⁵ Annelies Goger, Tracy Hadden Loh, and Nicole Bateman, "Debunking myths about COVID-19 relief's 'unemployment insurance on steroids'," *The Brookings Institution*, May 12, 2020, <https://www.brookings.edu/research/debunking-myths-about-covid-19-reliefs-unemployment-insurance-on-steroids/>

⁶ Ioana Marinescu, "The General Equilibrium Impacts of Unemployment Insurance: Evidence from a Large Online Job board," *Journal of Public Economics* 171 (2019): 70-85.

⁷ Elisabeth Buchwald, "The extra \$600 Americans get in weekly unemployment benefits ends next month — here's what lawmakers are proposing to replace it," *Marketwatch*, June 13, 2020, <https://www.marketwatch.com/story/the-extra-600-americans-get-in-weekly-unemployment-benefits-ends-next-month-heres-what-lawmakers-are-proposing-to-replace-it-2020-06-09>

⁸ Nick Bunker, "April 2020 Job Openings and Labor Turnover Survey," *Indeed Hiring Lab*, June 9, 2020, <https://www.hiringlab.org/2020/06/09/april-2020-jolts/>

⁹ *Washington Post*, "Live updates: 29 states report coronavirus spikes as government prepares for possible second wave," June 22, 2020, <https://www.washingtonpost.com/nation/2020/06/22/coronavirus-live-updates-us/>

¹⁰ Wyatt Koma et al, "How Many Adults Are at Risk of Serious Illness If Infected with Coronavirus? Updated Data," *Kaiser Family Foundation*, April 23, 2020, <https://www.kff.org/coronavirus-covid-19/issue-brief/how-many-adults-are-at-risk-of-serious-illness-if-infected-with-coronavirus/>

¹¹ Steven Jessen-Howard and Simon Workman, "Coronavirus Pandemic Could Lead to Permanent Loss of Nearly 4.5 Million Child Care Slots," April 24, 2020, Washington, DC: Center for American Progress, <https://www.americanprogress.org/issues/early-childhood/news/2020/04/24/483817/coronavirus-pandemic-leadpermanent-loss-nearly-4-5-million-child-care-slots/>

¹² Rebecca Ulrich and Aaron Sojourner, "Child Care is Key to Our Economic Recovery," *National Women's Law Center and Center for Law and Social Policy*, April 2020.

¹³ Arash Nekoei and Andrea Weber, "Does Extending Unemployment Benefits Improve Job Quality?," *The American Economic Review*, 107 (2) (2017): 527-561; Marco Caliendo, Konstantinos Tatsiramos, and Arne Uhendorff, "Benefit Duration, Unemployment Duration, and Job Match Quality: A Regression Discontinuity Approach," *Journal of Applied Econometrics*, 2012.

¹⁴ Raj Chetty, "Moral hazard versus liquidity and optimal unemployment insurance," *Journal of Political Economy* 116 (2) (2008): 173-234.

¹⁵ Congressional Budget Office, "Interim Economic Projections for 2020 and 2021," May 19, 2020, <https://www.cbo.gov/publication/56351>

¹⁶ U.S. Department of Labor Employment and Training Administration, "UI Replacement Rates Report," https://oui.doleta.gov/unemploy/ui_replacement_rates.asp

¹⁷ Zachary Parolin, Megan A. Curran, and Christopher Wimer, "The CARES Act and Poverty in the COVID-19 Crisis," Columbia Center on Poverty and Social Policy, June 2020, <https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/5eefa3463153d0544b7f08b4/1592763209062/Forecasting-Poverty-Estimates-COVID19-CARES-Act-CPSP-2020.pdf>