



The Daily Dish

Wyden-Schumer and the Labor Market

DOUGLAS HOLTZ-EAKIN | JULY 20, 2020

Eakinomics: Wyden-Schumer and the Labor Market

The future of the \$600 per week federal bonus to unemployment insurance (scheduled to expire July 31) is one of the key elements under negotiation for the next round of legislation to respond to the COVID-19 recession. I don't know what will happen. But I do know that what should not happen is the proposal by Senators Wyden and Schumer (WS).

Under WS, the \$600 would stay in place as long as a state's unemployment rate stayed above 11 percent. If the rate fell below 11 percent, but above 10 percent, the bonus would fall to \$500. If the unemployment rate fell another point, the bonus falls to \$400, and so forth until the bonus is finally eliminated when the state unemployment rate drops under 6 percent.

On top of that, states would be divided into four tiers. Tier 1 states have an unemployment rate between 5.5 and 6.5 percent; Tier 2 states between 6.5 and 7.5; Tier 3 between 7.5 and 8.5; and Tier 4 states have unemployment rates above 8.5 percent. Not only are the bonus payments continued, eligibility to receive them is extended by 13 weeks in Tier 1 states, 26 weeks in Tier 2 states, 39 weeks in Tier 3 states, and 52 weeks (which is a full year last time I checked) in Tier 4 states.

In short, lots of federal bonus dollars being received for a long time.

How many dollars? To get a ballpark estimate, I used the most recent Congressional Budget Office (CBO) economic [projections](#) for unemployment. Admittedly, this misses the state-by-state variation but it provides a rough guide. The CBO does not anticipate that the unemployment rate will get under 11 percent until the 4th quarter of 2020, or under 6 percent until the 3rd quarter of 2024. Clearly WS is not really a temporary emergency response.

How many people will receive benefits? To gauge this, I put current receipt at 30 million individuals (it is a bit higher) and diminished the participation in the bonus at the same percentage decline in the overall number of employed. Finally, one has to allow for the fact that some individuals will exhaust their eligibility – not many, as it turns out, because of the generosity embedded in the Tier 1–Tier 4 structure.

Adding it all up yields a budget cost of roughly \$580 billion in calendar 2020, \$270 billion in 2021, and smaller amounts in 2022, 2023, and 2024. The overall cost is roughly \$960 billion. That's a big budget cost but it would be defensible if it was an essential part of economic recovery. It is far from that.

The main reason not to extend that \$600 bonus is that [63 percent of workers](#) would make more on unemployment insurance than at their previous job. There is good reason to fear that unemployment will stay high *because* of the bonus. Indeed, cutting it to \$300 still means that 45 percent of workers receive more on

unemployment insurance. Even at \$100, the fraction falls only to 26 percent. But states differ, and the fraction affected could be as high as 45 percent. More generally, there will be big differences across urban and rural areas, across educational attainment, and across racial minorities. WS is a recipe for sustained labor market dysfunction.

There is a more subtle concern that may be even more important. Under a system like WS (and there are many proposals for such systems), it will be the case that for millions government aid will be more generous than labor market earnings for years. As such individuals eventually return to the labor market, I fear the conclusion will be that market work “does not pay” and this will generate pressure for even broader government interventions. WS will undercut the private sector labor markets.

One can anticipate that some will argue that simply getting rid of the \$600 bonus will be too big a shock to household incomes. Perhaps, and it is a fair concern. But unemployment insurance is not the only way to provide income to households. The best way would be to rapidly return to work and have private payrolls pick up the slack. If that proves too slow, there are other ways (e.g., checks) to provide supplements to income. But in any event, the assistance should be provided in a pro-work fashion.

WS is another of those instances where the best of intentions is just outweighed by the foreseeable damages.