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Biden's Stimulus Plan Will Reduce Employment By Six Million Workers

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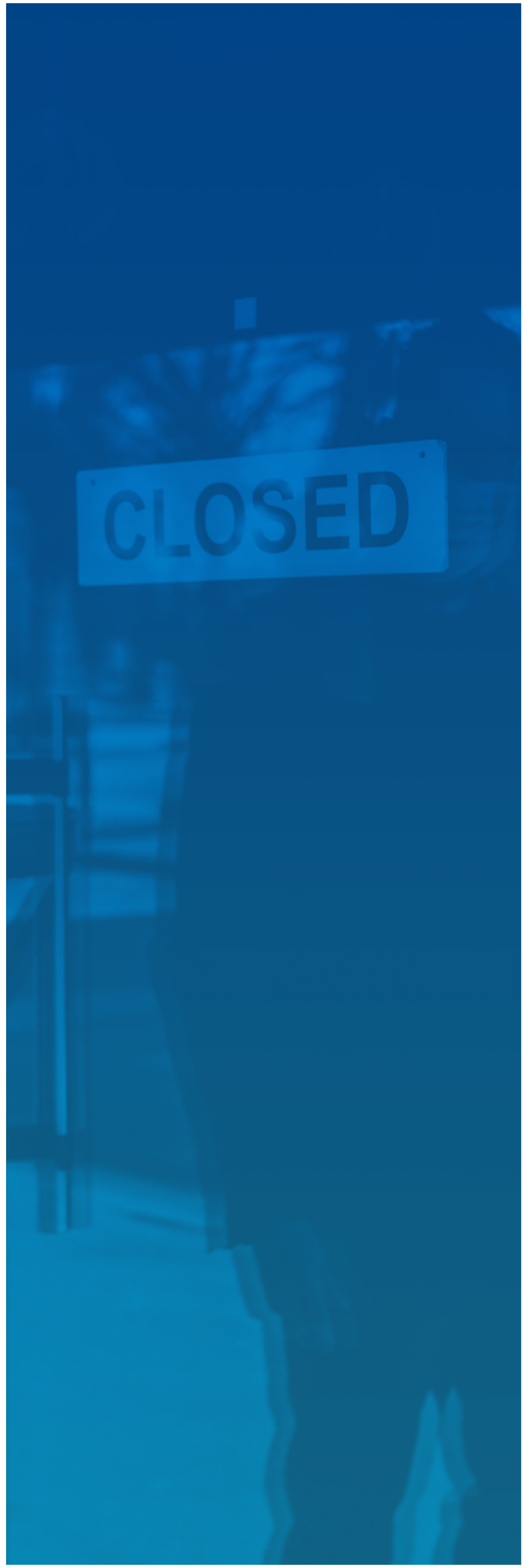

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Executive Summary

The U.S. House and Senate are very close to finalizing the details of Joe Biden's $1.9 trillion "COVID Relief" package. The Senate made some last minute amendments to that bill on March 6, and the House is expected to approve that version of the bill this week. President Biden says he will sign the bill.

Democrats say that the bill will "stimulate" the economy, reduce poverty rates, and put "America back to work." This study finds that the likely effect is the opposite.

The COVID relief bill (in combination with the $900 billion package signed into law back in December) contains the largest impediment to employment in modern times, if not in American history. We estimate that between 5 and 7 million *fewer* Americans will be employed over the next six months if the bill passes.

This is because the Covid-relief bill is one of the largest expansions in government welfare benefits – either for not working, or for benefits not related to working – since the modern day welfare state was created. There are numerous provisions of the bill that either pay people not to work or pay people money or government benefits that are not tied to whether they work. This bill actually weakens work requirements that were a hallmark of the Bill Clinton welfare reforms of 1996.

The provisions that discourage work incentives include:

- $300 a week supplemental unemployment benefits per unemployed worker, on top of normal benefits that can reach $400 to $600 a week depending on the state.
- a $3,000 per child credit
- expansion of food stamps
- rental assistance benefits
- $2,000 per person checks ($600 under Trump and $1,400 under Biden)
- expanded health care benefits including Obamacare subsidies that can reach families with incomes of up to $200,000.

There are other cash and benefit programs, such as the $21,000 paid-leave benefit for federal employees ($1,400 a week for 15 weeks), student loan write-offs, the elimination of federal income taxes applied to unemployment benefits (with certain income caps), and so on, that will disincentivize work.

The relative financial advantage of unemployment benefits versus work is enhanced by the fact that payroll taxes are not applied to unemployment payments, but they are deducted from wages and salaries. This provides a 7.65% bump in after-tax income for the unemployment benefit option.

This study comes to four conclusions:

1) In many states, a family of four – two unemployed adults with two children – can qualify for benefits (on an annual basis) that will reach over $100,000. When comparing this with a similar person who has continued to work, and must pay 7.5% payroll tax on the earnings and incur other work-related expenses, the after-tax benefits of the welfare package in some states like California and Massachusetts can reach the equivalent of a between $100,000 to $150,000 in income from working.

2) In six states – Alabama, California, Montana, New Jersey, Pennsylvania, and Virginia – unemployment benefits are not subject to the state income tax, so many workers can take home tax-free twice the take home pay for working.

3) These benefits will have a substantial negative effect on employment. The benefits are currently scheduled to last until September and we estimate that over this six month period, national employment will be roughly 6 million below the baseline case without the benefits.

4) Roughly 5 to 7 million more Americans will sign up for these expanded government benefits, thus increasing the welfare rolls and dependency on government for at least six months.

In many ways this stimulus bill will stimulate more joblessness.

How the Biden Plan Discourages Work

Unemployment insurance (UI) compensation normally serves to tide over an individual who has lost his or her job due to circumstances outside of his or her control. The goal is for individuals to live off savings and UI compensation until a new job is found. Any amount of UI compensation eases the pain of unemployment and therefore discourages work; subsidizing anything always yields more of it. Nevertheless, the traditional government-provided safety net of UI has been to give approximately 50% of an individual's previous pay, paid out on a weekly basis. Each state determines a minimum and maximum amount that an individual can receive in UI compensation, with some states being substantially higher than others. In Massachusetts, for example, a family of four with two working adults can receive twice what they would in twenty other states, and three times what they would in five other states.

Normal wages are subject to a Medicare tax of 1.45%, with an additional 0.9% surcharge beginning at $200,000. Income up to $142,800 is subject to the Social Security tax of 6.2%. Unlike normal wages, however, UI compensation is not subject to these taxes. That means most people who receiving a weekly check are saving 7.65% in taxes, albeit on half the income. This increases the take-home pay of UI compensation.

While subject to federal income tax, each state can decide whether to levy state income taxes on UI compensation. Nine states have no income tax on wages and so they do not tax UI compensation, while thirty-five states tax both normal wages and UI compensation. That leaves the curious case of six states that tax wages but not UI compensation. As in the case of the payroll taxes above, this increases the take-home pay of UI compensation.

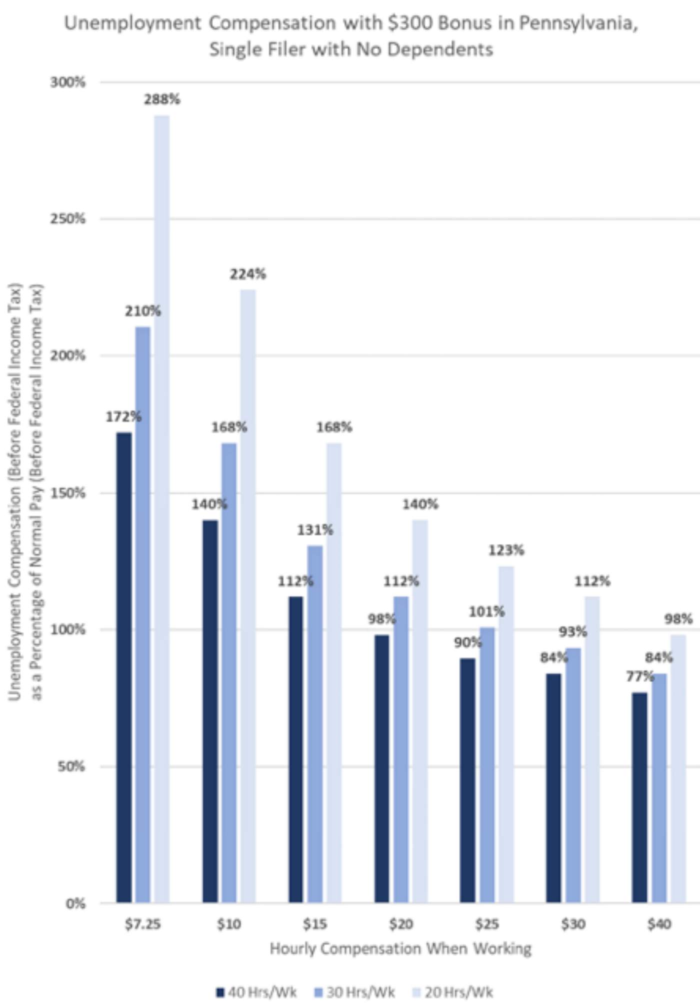
Pennsylvania is one such state and it has a flat income tax, making it a good example. Imagine a person working full time and earning $7.25 an hour who is laid off. They previously earned $290 per week before taxes. Payroll taxes and Pennsylvania state income tax reduce those earnings to $258.91 while employed. Normal UI compensation would pay about $145 per week, with no payroll or state income taxes to pay. This is still less than the individual received while working, but the proportion of take-home pay in both cases is higher than the proportion of pre-tax income – roughly 56% instead of 50%.

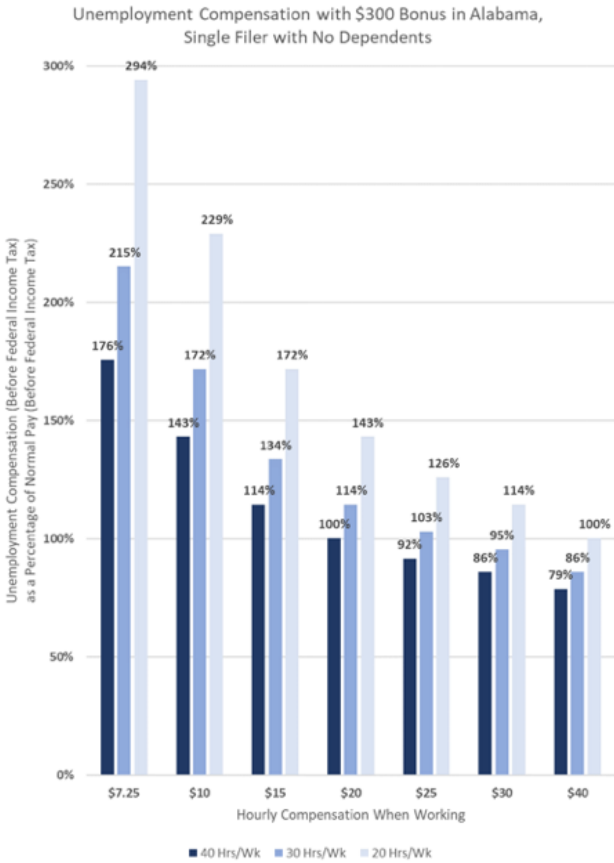
The current proposal in Washington is to give an extra $300 per week in UI compensation. This substantially increases the amount most unemployed people will receive. In the case of the Pennsylvania worker above, the unemployment bonus alone is larger than his or her regular income while working. On top of that, this unemployed person will still receive the regular UI compensation, and none of it is subject to payroll taxes nor Pennsylvania income tax. Take-home pay (before considering federal income tax) rises dramatically, going from $258.91 to $445, a 72% increase. Just to be clear, this person's income has risen 72% by virtue of the fact that he or she is now unemployed. Staying home and not working pays more than having a job. It is difficult to overstate how much this disincentivizes working. Now imagine a Pennsylvanian who earned the same wage of $7.25 per hour, but only worked part time, averaging 20 hours per week. His or her take-home UI compensation would be 288% of what he or she made while employed. This person could nearly triple his or her income by losing a job.

The math is similar in the other five states that do not tax unemployment benefits: Alabama, California, Montana, New Jersey, and Virginia. In fact, in all six of these states, a person earning $40 an hour and working part time will receive at least 98% or his or her take-home income while receiving UI compensation. Someone earning the median household income will receive at least 86% of his or her previous take-home pay. In fact, a person earning $40 an hour and working full time ($83,200 per year) will receive at least 77% of his or her take-home pay in each of these six states. In some cases, people will receive 297% of their normal take-home pay. These increases are not from stellar performance reviews at work or excelling on the job; they are from losing a job.

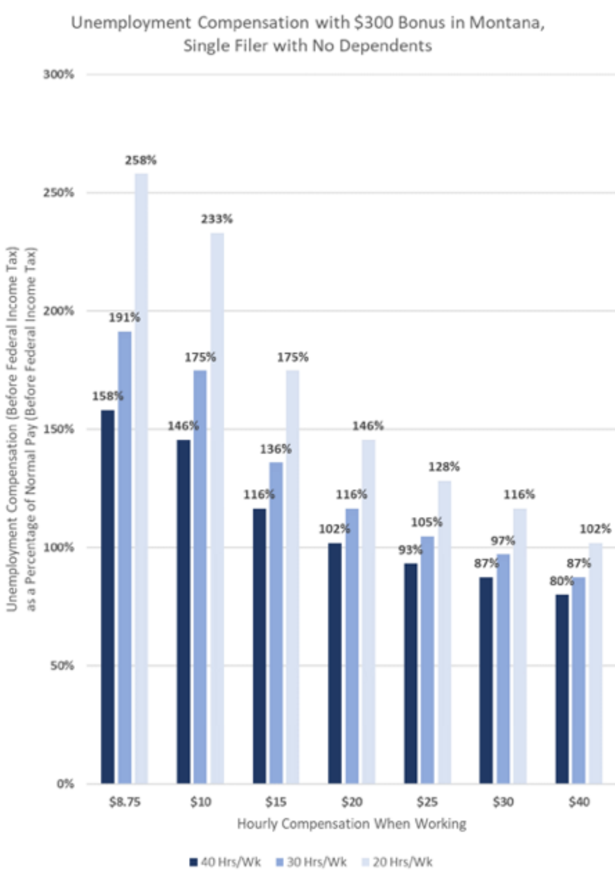
Normal UI provides an incentive to stay unemployed for longer because it effectively reduces the financial loss of being without a job by providing a relatively small income stream. The $300 bonus scheme greatly strengthens this incentive, but it creates an even more perverse incentive than not looking for a new job: it encourages losing a current job. Many people earning lower income, especially teenagers and those at their first job, will be paid more for not working than if they continued to be employed. While those receiving normal UI compensation also dis-save to make up for lost income, people who find themselves unemployed with this proposal could actually continue living as they have been, and save even more than before because their incomes have risen.

The Tables below show the impact of the UI benefits in various states versus the benefits of working and earning a wage/salary. Even in the poorest states, such as Mississippi, a family of four with kids could collect benefits of well more than $75,000 on an annual basis.

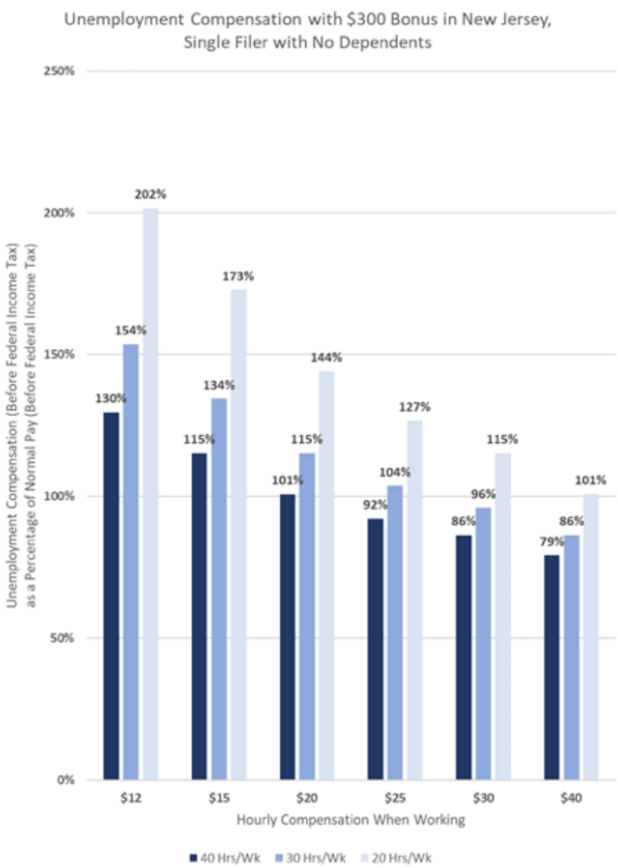


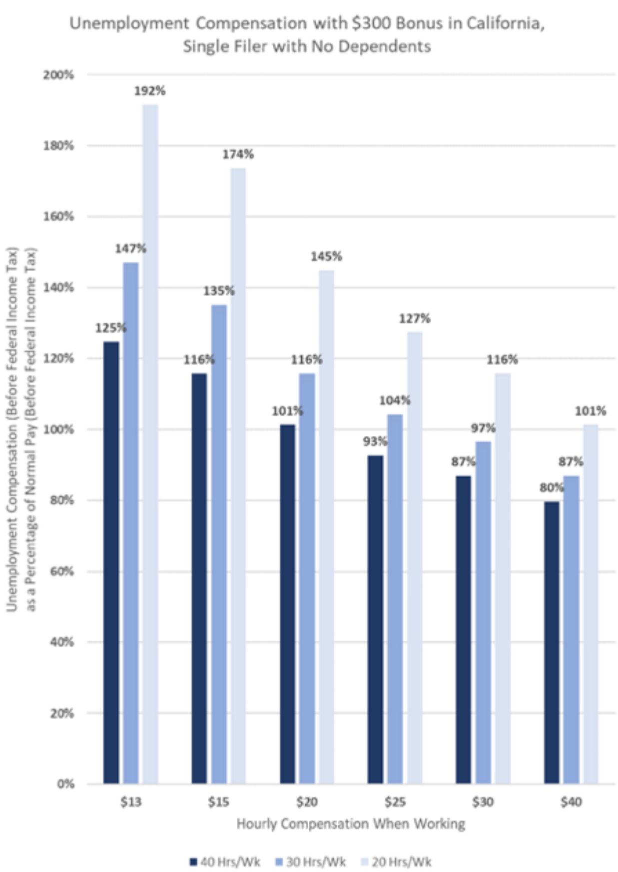


Unemployment Compensation with $300 Bonus in Alabama, Single Filer with No Dependents
Unemployment Compensation (Before Federal Income Tax) as a Percentage of Normal Pay (Before Federal Income Tax)
300%
250%
200%
150%
100%
50%
0%
294%
215%
229%
176%
172%
172%
143%
143%
134%
126%
114%
114%
114%
100%
103%
100%
92%
95%
86%
86%
79%
$7.25
$10
$15
$20
$25
$30
$40
Hourly Compensation When Working
40 Hrs/Wk
30 Hrs/Wk
20 Hrs/Wk



Unemployment Compensation with $300 Bonus in Montana, Single Filer with No Dependents
Unemployment Compensation (Before Federal Income Tax) as a Percentage of Normal Pay (Before Federal Income Tax)
300%
250%
200%
150%
100%
50%
0%
258%
233%
191%
175%
175%
158%
146%
146%
136%
128%
116%
116%
116%
102%
105%
102%
93%
97%
87%
87%
80%
$8.75
$10
$15
$20
$25
$30
$40
Hourly Compensation When Working
40 Hrs/Wk
30 Hrs/Wk
20 Hrs/Wk


Unemployment Compensation with $300 Bonus in New Jersey, Single Filer with No Dependents
Unemployment Compensation (Before Federal Income Tax) as a Percentage of Normal Pay (Before Federal Income Tax)
250%
200%
150%
100%
50%
0%
202%
154%
130%
173%
134%
115%
144%
115%
101%
127%
104%
92%
115%
96%
86%
101%
86%
79%
$12
$15
$20
$25
$30
$40
Hourly Compensation When Working
40 Hrs/Wk
30 Hrs/Wk
20 Hrs/Wk


Unemployment Compensation with $300 Bonus in California, Single Filer with No Dependents
Unemployment Compensation (Before Federal Income Tax) as a Percentage of Normal Pay (Before Federal Income Tax)
200%
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
192%
147%
125%
174%
135%
116%
145%
116%
101%
127%
104%
93%
116%
97%
87%
101%
87%
80%
$13
$15
$20
$25
$30
$40
Hourly Compensation When Working
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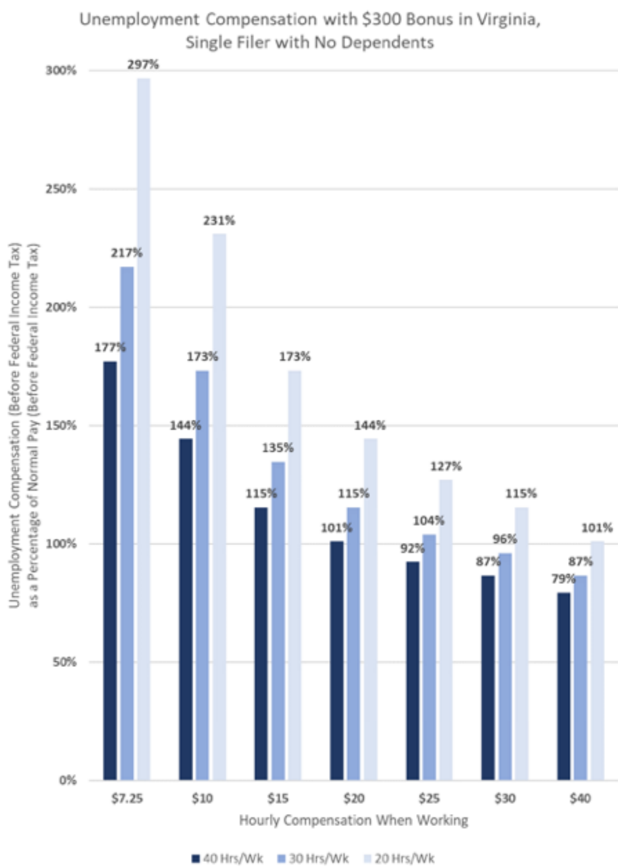
30 Hrs/Wk
20 Hrs/Wk



The lower the wage, the greater the work disincentive. The Congressional Budget Office has found that roughly half of workers who have become unemployed during the era of COVID shutdowns receive more income from unemployment benefits than returning to their old job.

How Much Can a Family Collect in All Benefits Under the Biden Plan

We examined several of the benefit increases in the Biden plan, plus current law welfare benefits to calculate how much families could collect if they are a family of four with two dependent children. In this base case, here is what we find for three sample states, Massachusetts (one of the richest states), Kansas (average income state), and Mississippi (the poorest state) and assuming $300 a week bonus unemployment benefits:

Families of four from across America, Husband and wife out of work

	Federal transfers, at annual rates				
Type of family	UI	Stimulus	Child credit	ACA	Combined
MA, each earned $94K on previous job	122,720	8,000	6,000	3,129	139,849
MS, each earned state median	55,640	8,000	6,000	11,603	81,243
KS, each earned U.S. median	83,338	8,000	6,000	10,736	108,075

These are income levels that would be equivalent to the top 10% of wage earners in each state. In other words, about 9 of 10 households would earn after-tax, less than the family with two adults earning unemployment payments and other benefits.

Impact of the Stimulus Bill on Work

Almost all Americans are in favor of a safety net to protect the well-being of workers who lose their jobs, but benefits this high are unfair to those who are working 40 hours a week, but getting paid less than those on government assistance.

The Congressional Budget Office warned earlier this year that supplemental UI bonus benefits in the range of $400 a week will offer roughly two of three unemployed workers more money for not working than for returning to the job they left. During the last serious recession in 2009, the supplemental benefits under the Obama stimulus were $25 a week.

In an earlier CTUP report, we predicted that when the original CARES act passed Congress in early 2020, the $600 UI benefits would reduce employment by millions when jobs came back. Sure enough the Department of Labor statistics verified that in the summer months of last year, millions of jobs went unfilled even as unemployment was historically high.

What will happen this time around with benefits of $300 a week but the addition of other government benefits? The analysis is shown below:

Families of four from across America, Husband and wife out of work

Policy area	
UI bonuses	-3.0
Rental assistance	-1.1
"Stimulus" checks phased out	-0.5
Enhanced food stamps	-0.5
Health insurance subsidies	-1.4
All six policy areas	-6.4

Notes: Expansion of child and earned income tax credits will increase marginal tax rates for some households and decrease them for others. We assume these offset. We assume zero effect of sick leave expansion, because for many jobs it is moot due to unemployment benefits and vaccination. Our model assumes that the phase out of personal checks follows the House bill.

Conclusion

We recognize that many Americans will always choose the dignity of work over handouts from government. But the Biden benefit package would literally make going back on the job a money-losing proposition for millions of Americans. We predict that if the Biden bill becomes law, by this summer as jobs come back due to the vaccine distributions and the re-opening of American businesses, we will still have millions of unemployed workers, and now we will have millions more "help wanted" signs. Already, the number of unfilled jobs in America is more than 6 million and this bill almost guarantees that the job vacancies will rise.

Economics isn't complicated. If you tax something, you get less of it. And if you subsidize something you get more of it. We have argued for more than a year that the best "jobs program" would be to suspend payroll taxes for jobs that pay $100,000 a year or less. This would provide an immediate 7.5% boost in income for working, and would cut employer costs of hiring back unemployed workers by 7.5%. This would cost the government *less* than $1.9 trillion.

Instead, Biden's bill provides the largest subsidy for not working perhaps in the history of the United States. It will make millions more Americans dependent on checks from the government not an employer.

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