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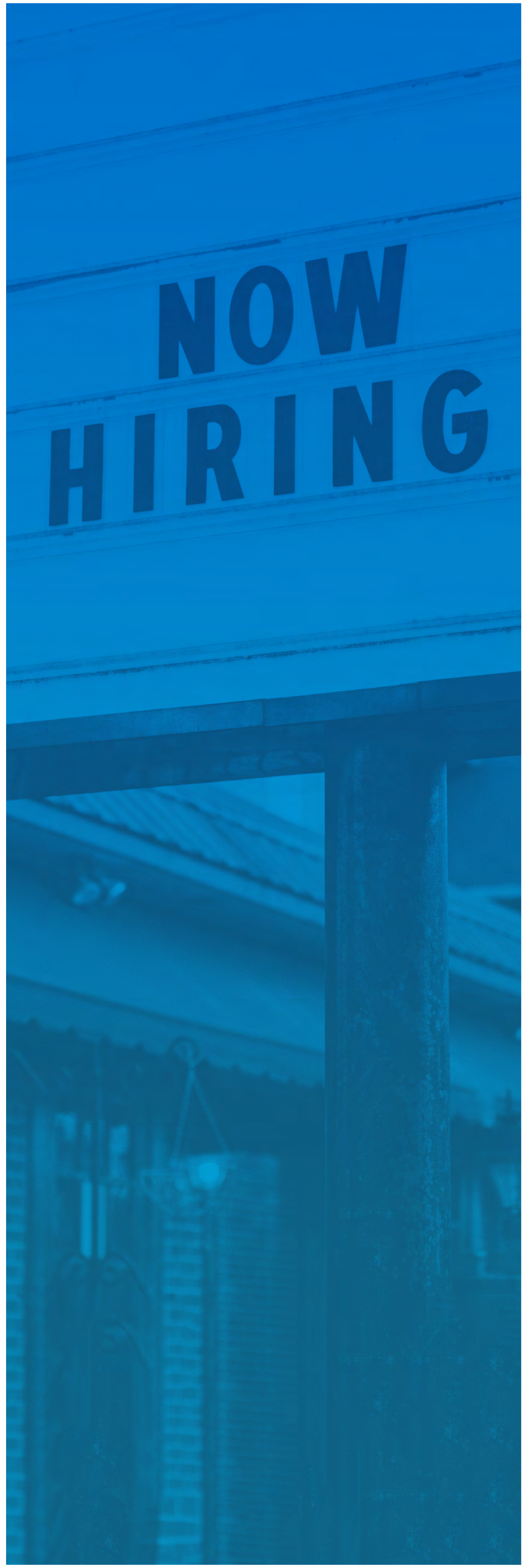
Bonus Unemployment Benefits Are Causing Major Labor Shortage in America

Casey Mulligan
Stephen Moore
E. J. Antoni



COMMITTEE TO UNLEASH PROSPERITY

Mulligan is a professor of economics at the University of Chicago, who served as chief economist at the White House Council of Economic Advisers. Moore is an economist at Freedom Works. Antoni is an economist at the Texas Public Policy Foundation. Mulligan is a senior fellow and Antoni is a visiting fellow at the Committee to Unleash Prosperity, where Moore serves as president.

Executive Summary

Because of the $300-a-week bonus unemployment benefits enacted in March 2021, along with other expansions of welfare benefits and cash payments unrelated to work:

- In 21 states and DC, households can receive wage equivalent of $25 an hour in benefits with no one working.
- In 19 states, benefits are equivalent to $100,000 a year in salary for a family of four with two unemployed parents.
- In all but two of the blue states, $300 Supplemental Unemployment Insurance benefits plus other welfare pay more than the wage equivalent of a $15 minimum wage.

Introduction

The latest monthly jobs report from the Department of Labor for April and May have shown disappointing employment increases, flat job participation rates, and a slight increase in the number of Americans collecting unemployment benefits. Two weeks before the May jobs survey, the BLS counted 9.3 million unfilled jobs in America, even with more than nine million Americans "unemployed."

The 9.3 million unfilled jobs is almost 2 million beyond the pre-pandemic record for the U.S., and the policy riddle is why more unemployed workers are not getting back in jobs. Small business owners around the country—construction firms, restaurants, bars, retailers, hospitals and factories—are complaining that workers they want to rehire are less likely to work now. According to the U.S. Chamber of Commerce, some nine of 10 small employers are citing a shortage of workers as a top concern.

Back in March, Congress and President Biden enacted the $1.9 trillion American Rescue Plan, which among other things offered $300 a week supplemental unemployment benefits through September, along with other welfare benefits and cash payments not associated with working. We estimated at the time of that bill passing that this would reduce national employment by roughly five million workers.

The slow rebound in employment we are now seeing is consistent with our original predictions.

In response to the emerging worker shortage and the slow return of workers to the workplace, 25 states, all with Republican governors, have suspended the extra $300 a week unemployment benefits.

This leaves 25 states and DC continuing to offer the unemployment insurance (UI) bonus payments for at least two more months.

Some economists have disputed our contention that high UI benefits are reducing employment. These critics argue that the UI payments are not high enough to have a significant work disincentive.

Bank of America Global Research issued a highly quoted study finding that UI benefits typically pay up to $32,000 a year. They argue that workers with incomes above that amount would lose income by not going back to their job. Benefits can vary widely among states. An analysis of California Employment Development comes to a similar conclusion and estimates that an income of $31,200, or $15 an hour, is the break-even point between working and collecting benefits. Neither of these studies take into account how these benefits are taxed versus a paycheck.

We believe these estimates of $32,000 in UI benefits vastly understate the extent of the work versus welfare tradeoff. These calculations fail to account for several factors that make the decision not to work financially attractive for millions of workers.

1) A myriad of benefits and payments (other than UI payments) add to the financial attractiveness of not working.

2) Since UI benefits are paid to workers, not households, a family with two unemployed workers gets double the UI benefits.

3) Unemployed workers do not pay the 7.65% payroll tax on their earnings, whereas employees earning a paycheck do and some states with an income tax do not tax UI benefits.

In this study we attempt to quantify the real work versus welfare tradeoff in the 25 states continuing to provide $300 a week extra UI benefits. The Table below shows the list of states as of June 3rd that have suspended $300 a week supplemental UI benefits:

States Ending Participation in Enhanced Jobless Benefits

State	End Date
Alabama	June 19
Alaska	June 12
Arizona	July 10
Arkansas	June 26
Florida	June 26
Georgia	June 26
Idaho	June 19
Indiana	July 19
Iowa	June 12
Maryland	July 3
Mississippi	June 12
Missouri	June 12
Montana	June 26
Nebraska	June 19
New Hampshire	June 19
North Dakota	June 19

State	End Date
Ohio	June 26
Oklahoma	June 26
South Carolina	June 26
South Dakota	June 26
Tennessee	July 3
Texas	June 26
Utah	June 26
West Virginia	June 19
Wyoming	June 19

This leaves 25 states, almost all with Democratic governors, and DC, which will continue to pay the supplemental UI benefits through September.

We have calculated the wage equivalent of the payments that households can receive that are not dependent on working. These estimates err on the side of conservatism. We do not take into account the availability of food stamps, school breakfast and lunch programs, rental assistance, and the fact that some unemployment benefits are not subject to federal income tax.

The table below shows the wage-and-salary equivalent to the entire array of social welfare programs and other payments for each state. We show the average benefits and the maximum benefits paid out assuming a family of four with two unemployed parents. In most of these states, the maximum benefit package when including the $300 a week supplemental UI benefit exceeds $100,000 at an annual rate. The average annual UI benefit in these states for a family of four with two unemployed parents exceeds $72,000. Median household income in the United States is closer to $68,000. (We define average benefit as the midpoint benefit between the highest and lowest payment per week.)

Wage and Salary Equivalent of *Maximum* Benefits on an Annualized Basis

Two Unemployed Parents and Two Children[1]

State/District	Annualized Payments	Hourly Wage Equivalent
Massachusetts	$147,198	$37
Washington	$138,095	$35
New Jersey	$136,403	$34
Minnesota	$132,644	$33
Connecticut	$129,656	$32
Oregon	$125,441	$31

[1] These figures include UI benefits, a portion of the value of the ACA subsidy, and the enhanced child tax credit for children between 6 and 18 years old.

State/District	Annualized Payments	Hourly Wage Equivalent
Hawaii	$123,654	$31
Pennsylvania	$121,911	$30
Illinois	$121,363	$30
Rhode Island	$119,208	$30
Colorado	$117,568	$29
Kentucky	$115,482	$29
Maine	$115,312	$29
Vermont	$112,049	$28
Kansas	$109,271	$27
California	$109,062	$27
New York	$108,859	$27
New Mexico	$107,541	$27
Nevada	$106,131	$27
DC	$101,176	$25
Delaware	$98,698	$25
Virginia	$97,771	$24
Wisconsin	$91,678	$23
Michigan	$90,123	$23
North Carolina	$90,047	$23
Louisiana	$82,044	$21

Wage and Salary Equivalent of *Average* Benefits on an Annualized Basis

Two Unemployed Parents and Two Children

State/District	Annualized Payments	Hourly Wage Equivalent
Washington	$90,996	$23
Massachusetts	$85,766	$21
New Jersey	$84,162	$21
Illinois	$83,463	$21
Oregon	$82,414	$21
Maine	$82,025	$21
Connecticut	$80,907	$20
Minnesota	$77,677	$19
Rhode Island	$77,473	$19
Pennsylvania	$76,480	$19
Hawaii	$73,898	$18
Kansas	$73,608	$18

State/District	Annualized Payments	Hourly Wage Equivalent
Vermont	$72,928	$18
New York	$72,090	$18
Kentucky	$71,445	$18
New Mexico	$71,115	$18
Colorado	$70,101	$18
Nevada	$66,079	$17
Michigan	$65,369	$16
California	$65,187	$16
DC	$64,446	$16
Delaware	$62,558	$16
Virginia	$61,090	$15
Wisconsin	$59,126	$15
North Carolina	$56,279	$14
Louisiana	$53,474	$13

What is clear from this analysis is that even in the states with the lowest valued package of benefits, (that are still paying $300 supplemental UI payments) the welfare equivalent of having a job that pays a wage or salary is far higher than $36,000 a year. The median household income in the United States in 2019 was $68,500. There are now 17 states giving benefits—the average unemployment benefits combined with other cash and noncash payments—which exceed the national median income. Every state's maximum benefit package exceeds the median household income in the United States by at least 20 percent and in two states by 100 percent.

It is also noteworthy that most of these states, California, Connecticut, Hawaii, Illinois, Massachusetts, Nevada, New Jersey, New Mexico, New York, and Pennsylvania, have state unemployment rates above the national average of 6.2% in April.

Competing Theories of Why Unemployment Remains High

We have argued that high government cash and in-kind benefits, such as food stamps and health care subsidies, that are not related to work, act as a tax on working.

Our study published in March provides a comprehensive analysis of how the UI program works, and the range of other benefits unemployed workers receive. We refer readers to that study for the full analysis. Suffice it to say here that if an individual can get benefits that equate to, say 50% of their after-tax wage and salary, then this is the equivalent of a 50% tax on working. In other words, the worker can receive half the after-tax income from the employer without working. With benefits 100% or more from working, the tax on employment is more that 100% and the individual loses money from going back to work. (One of the few programs that sometimes limits this work disincentive is the earned income tax credit, which provides cash assistance to low-income workers.)

During COVID, the government purposefully made benefits high to dissuade Americans from working and getting exposed to the virus. At that time, UI benefit supplements added $600 a week to the normal benefits. The work disincentives were not an issue for Congress because a) tens of millions of jobs were suspended because of business closures, b) the benefits were high enough that many millions of workers would not lose income during the pandemic, and c) government wanted to encourage consumer demand through these payments.

Whether those policies made sense or not a year ago, what is clear is that today, America faces the opposite problem. Demand for workers is very high with the pandemic close to being completely behind us and businesses reopening. Labor shortages are now an economic growth deterrent, and, in most states, jobs are widely available in most professions.

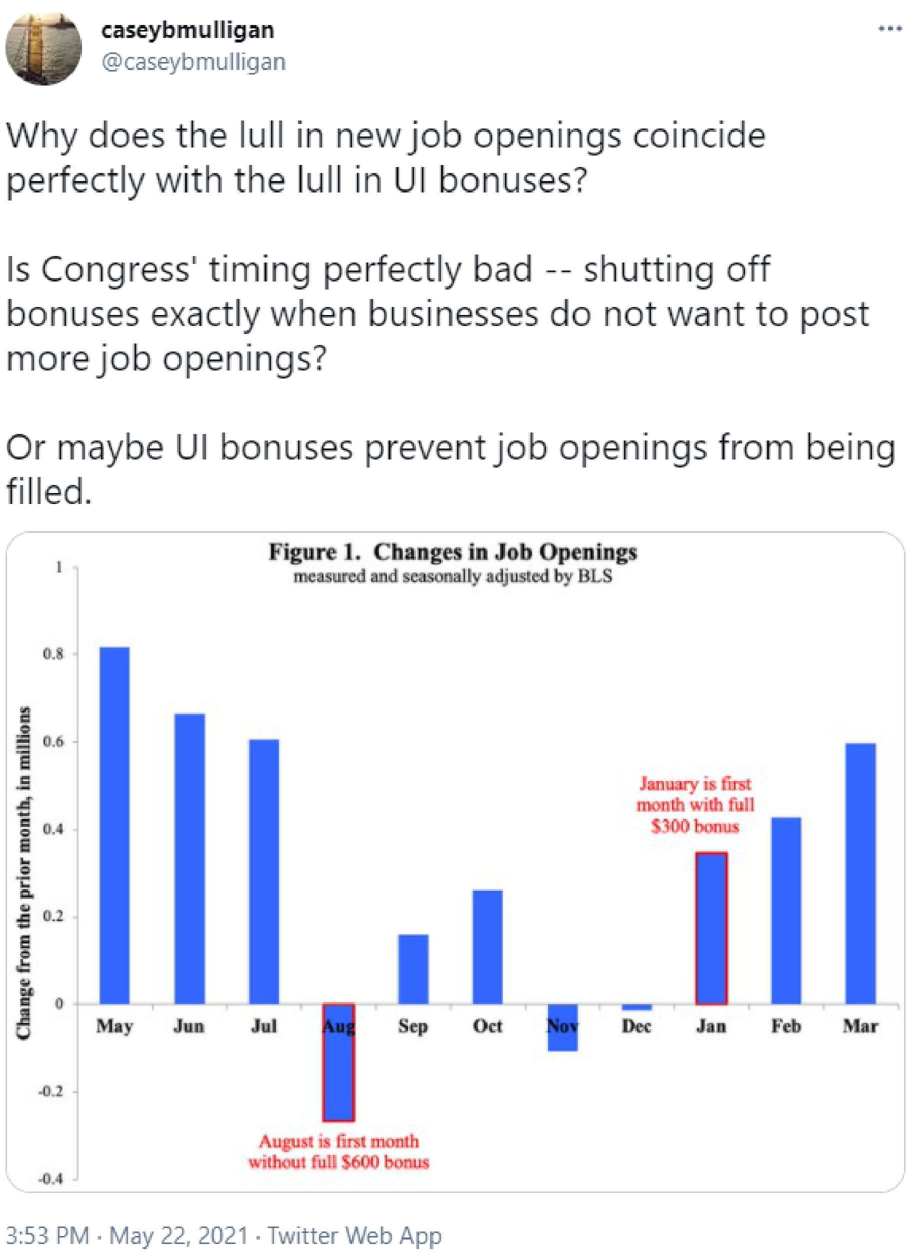
Myriad studies (we provide a bibliography at the end of this paper) purport to find that high UI benefits have not discouraged work in 2020 or in 2021. The Wall Street Journal recently summarized many of the arguments brought forth: “Surveys suggest why some can’t or won’t go back to work. Millions of adults say they aren’t working for fear of getting or spreading Covid-19. Businesses are reopening ahead of schools, leaving some parents without child care. Many people are receiving more in unemployment benefits than they would earn in the available jobs. Some who are out of work don’t have the skills needed for jobs that are available or are unwilling to switch to a new career.” The story does acknowledge that the Department of Labor has calculated that the average worker is now receiving the equivalent of more than $15 per hour in UI benefits today.

It is worth noting also that many of the advocates of continuing very high unemployment benefits predicted that they should continue at least until September (Senators Ron Wyden of Oregon and Bernie Sanders of Vermont want the higher benefits to be made permanent), because unemployment would remain “very high” until “at least the end of 2021.” Those predictions have been wildly inaccurate, and Congress misjudged the rapid recovery as a result of the COVID vaccine. The labor problem today is too few workers, not too few jobs.

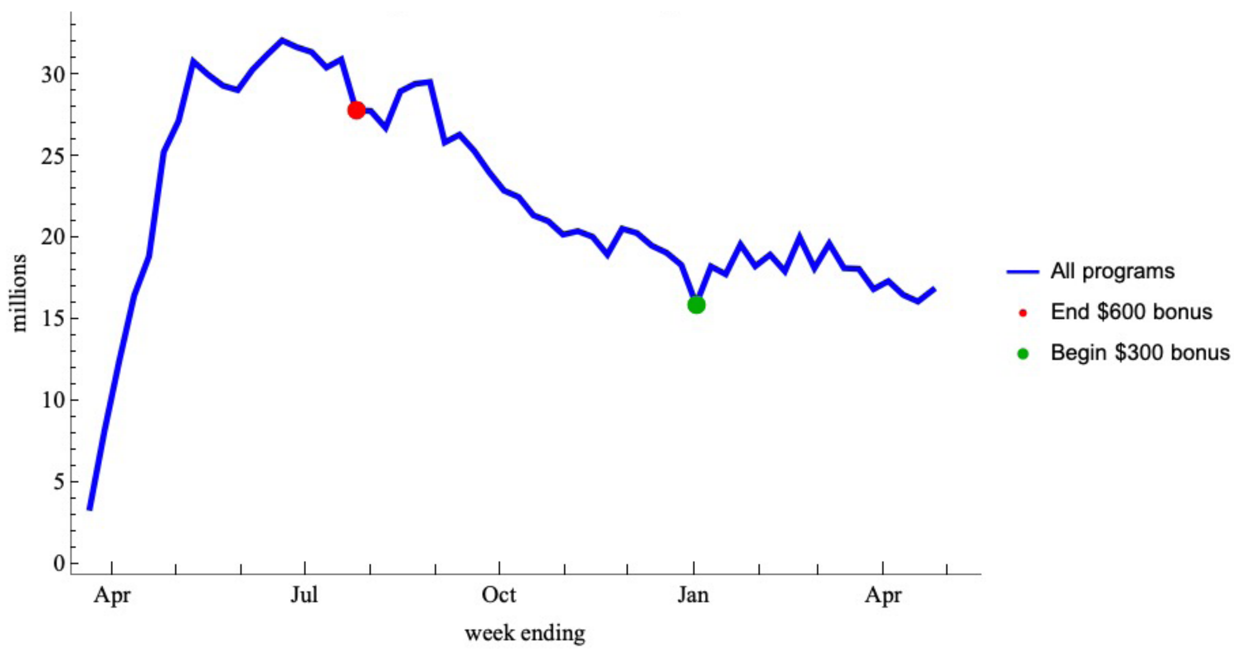
How the Critics Were Wrong

There is much contradictory evidence to the contention that UI benefit premiums had no impact on workers staying on public benefits longer or signing up for benefits. Many economists believed that there would be no relationship between changes in unemployment benefits and changes in employment. That hypothesis has been proven wrong by the monthly Labor Department employment data. Below, we show the pattern of benefits over the past nine months and the pattern of employment, Clearly, reductions in benefits coincided with increased employment.

- UI claims are correlated with the amount of the bonus. When bonuses went up, unemployment rose.



Participation in Federal UI Programs

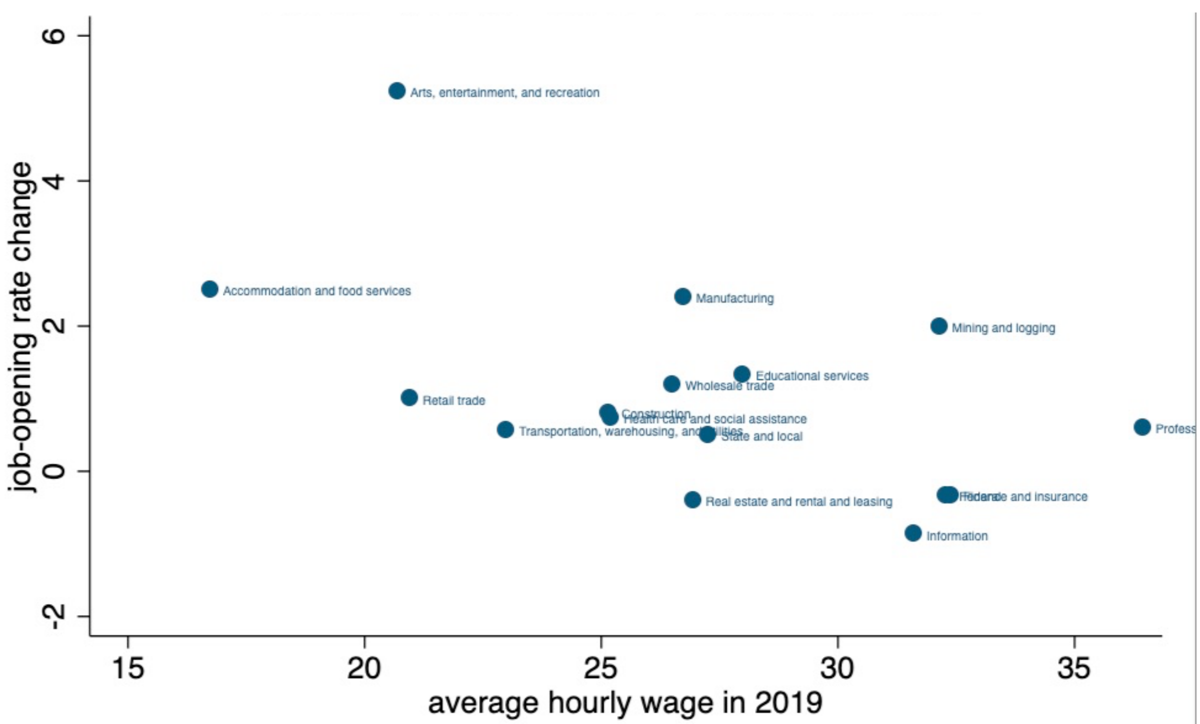


Note: Participation is measured according to weeks claimed, which may reflect batch retroactive claims.

- Job openings are greatest in low-wage industries, where the bonus looms large.

Wages and Job Openings Across Industries

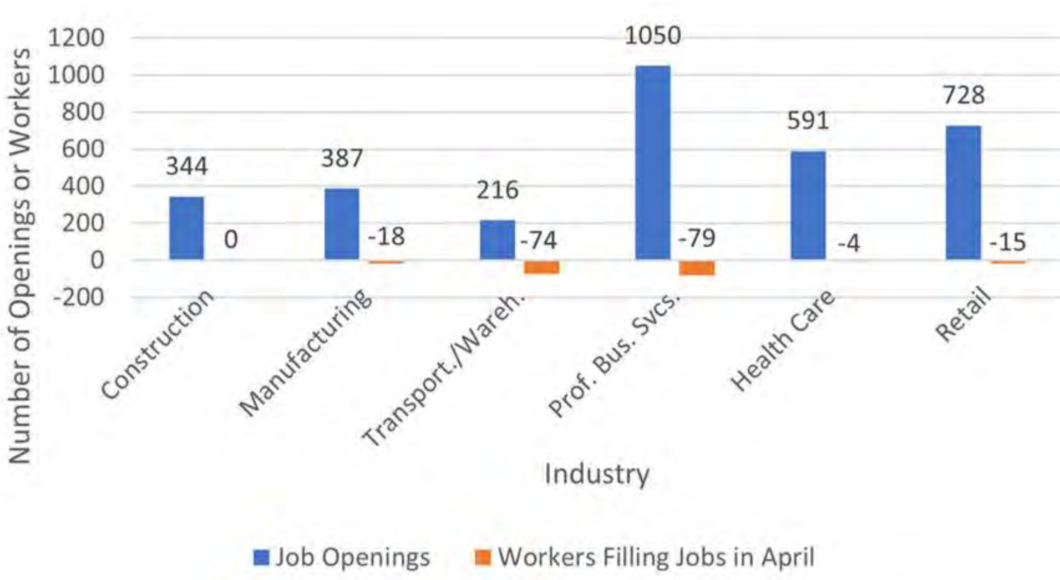
with job-opening changes measured from pre-pandemic to March 2021



Source: JOLTS and CPS-MORG

- Industries that showed job openings in April tended to also be industries where employment gains were the lowest, suggesting that workers are waiting for UI benefits to expire before going back to work.

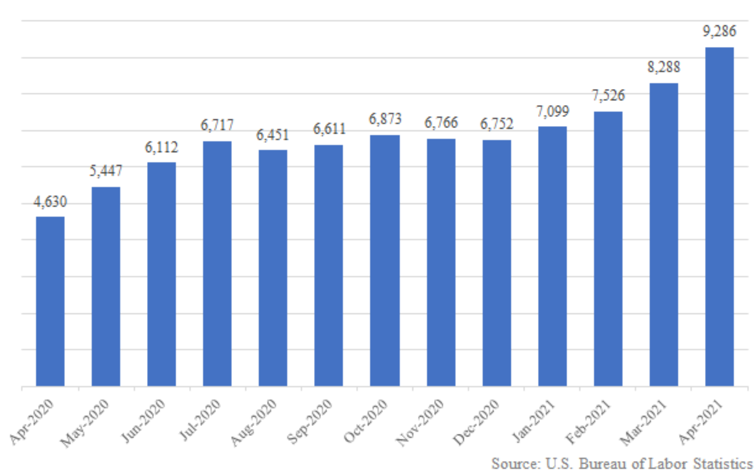
Jobs, But No Workers



- Decades of research have shown that UI matters in terms of employment. A comprehensive analysis of the impact of UI on work is summarized in a study by the Mercatus Center. https://www.mercatus.org/publications/regulation/costs-and-consequences-unemployment-benefits-states

It might be true that during the emergency situation of the pandemic, behavior changed. But these conditions ended in the spring of 2021 and yet unemployment has remained high even as job openings have hit record highs.

Job Openings By Month in U.S.



- Even the often-quoted San Francisco Fed study fit with our explanation. For example, “The results show generally negative effects of UI benefit generosity on job finding: [unemployment] exit rates during the months of April through June are lower for individuals whose post-CARES UI replacement rates rise the most.”

Welfare Packages in the 25 States that Still Pay $300 a Week Supplemental UI Benefits

Nearly all of the studies cited above suffer from a common defect. They almost all look at UI benefits in isolation, not in combination with other welfare benefits and cash payment programs in 2021 that have made working financially unattractive for millions of Americans who could be working but are not employed. When looked at in isolation, UI benefits which Americans are receiving this year may not be severe disincentives to work. But this year Americans are getting significant benefits whether they are working or not.

These include:

- Normal unemployment benefits, which average roughly $375 per week but vary widely by state.
- $300-a-week supplemental unemployment benefits per unemployed worker.
- A $3,000-per-child credit. Expansion of food stamps (note: with high unemployment benefits most workers will not qualify for both programs).
- Rental assistance benefits (note: with high unemployment benefits most workers will not qualify for both programs).
- $2,000-per-person checks ($600 under Trump and $1,400 under Biden).
- Expanded healthcare benefits including Obamacare subsidies that can reach families with incomes of up to $200,000.
- 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).
- Payroll taxes are not applied to UI benefits and almost all other government payment programs, but do apply to income from work.
- Six states do not apply their state income taxes to UI benefits and most other aid programs.
- Extended weeks of UI benefits (dependent on state laws and unemployment rate), which makes the program more financially attractive.

The goal of UI is to provide a temporary lift to workers who lose their job through no fault of their own, and to incentivize workers to rejoin the workforce as quickly as possible. Any amount of UI compensation at the margin eases the pain of unemployment and therefore discourages work, of course. 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.

As the previous tables show, UI benefits for a family of four with two unemployed workers pay more than the median household income in most of the 25 states that are continuing to provide $300 supplemental benefits through September. This means that many households with two unemployed parents receive more income from the government than the incomes of half the households in that state. Households eligible for the highest benefits can receive handouts that would put them in the top 10% of income in that state. This is quite a generous safety net.

Implications of Our Findings

It is now nearly beyond dispute that supplemental unemployment benefits are reducing employment and that explains the record 9.3 million job openings across the nation and the "Help Wanted" signs at stores, restaurants, and construction sites throughout the country. Many of the studies cited purportedly showing no negative effects of high UI benefits are not pertinent to the current and unique real-world situation of the end of a pandemic that held more than 20 million Americans out of the workforce for nearly a full year.

To alleviate the current labor shortage problem, half the states have suspended those benefits. In almost all states, the shortage of workers is slowing the recovery, not a shortage of jobs. This worker shortage problem will surely persist through the summer months if the 25 states that have not canceled supplemental benefits, continue with high benefits through September. We estimate that if Congress or the remaining states were to suspend the weekly benefit supplement, several million more workers would gain employment over the summer months.

Our policy recommendation is that if states want to facilitate a "back to work" strategy to reduce unemployment and help workers and firms, the $300 a week supplemental UI benefits should be immediately suspended. This strategy would continue the safety net of regular UI benefits for those who qualify. It would restore fairness in the UI system and ensure that nonworkers are not earning more money than workers on the job. The continuation of benefits at the current level will lead to higher unemployment in the mostly blue states that today already have among the highest unemployment rates.

Some states are providing reemployment bonuses to workers who have been unemployed. We are agnostic on the benefits of that program. It is unfair to workers who did not quit their jobs and have worked through some or all of the COVID crisis. But reemployment bonuses are clearly preferable to continued high payments to the unemployed.

We also believe that getting Americans who have been unemployed for as many as 14 months through the pandemic will help the workers themselves. A study by the Urban Institute on long term unemployment has found: "The long-term unemployed tend to earn less once they find new jobs. They tend to be in poorer health and have children with worse academic performance than similar workers who avoided unemployment. Communities with a higher share of long-term unemployed workers also tend to have higher rates of crime and violence."

Our policy objective should be to get unemployed Americans back in the workforce as rapidly as possible.

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