COVID’s Next Problem

Summary:

Persons receiving supplemental unemployment insurance who are at the lower end of the earning spectrum have financial incentives to remain unemployed until the expiration of the $600 federally funded supplement. These distorted incentives will complicate the speedy recovery of the economy as governors begin to loosen restrictions on the opening of businesses. The authors recommend that the CARES Act be amended to expand the earned income tax credit for low wage earners who return to work before July 31.

Situation

In order to mitigate the economic impact of the COVID pandemic on the newly unemployed, the CARES Act temporarily enhances and expands unemployment insurance. Specifically, the law provides an additional flat payment of $600 per week to the amount regularly available for unemployment insurance under individual state laws. This provision is in effect through July 31, 2020.

Complication

During the CARES ACT Senate debate, Senator Benjamin Sasse (R- Nebraska) proposed an amendment stipulating that supplemental federal unemployment payments not result in individuals receiving unemployment compensation in excess of the amount of wages that they earned prior to becoming unemployed. The amendment failed to pass largely on a party line vote (48 Yeas, 48 Nays, 4 not voting). As a consequence, many low wage earners are now receiving unemployment compensation in excess of their prior employment income.

There are several non-monetary incentives to being employed even in the face of this financial disincentive including:

* Sense of self-worth
* Long term career / development
* Retaining post-UI job/career/income
* Contribution/impact on the world
* Affiliation with work team and employer
* Etc.

However, there are several categories of workers where some of these incentives are less strong including:

* Seasonal workers
* Temporary employees
* Gig workers
* Certain categories of unskilled laborers
* Etc.

Looking just at financial incentives, how many workers who are presently receiving UI are financially better off in the short term?

Need to show estimations of:

* Number of persons receiving UI since CARES went into effect
* Distribution of average pre-COVID earnings of this cohort
* Average individual unemployment benefit received (including state UI benefit plus $600 CARES payment)
* Therefore: estimate of number of persons whose UI benefit is greater than their pre-COVID earnings

Question

The federal supplement to UI is place until July 31st and it is probably both unwise and politically infeasible to repeal this provision. So what can the government do to mitigate individuals’ financial disincentives to return to work?

Answer

* Explain how Earned Income Tax Credit formula works now
* Suggest a modification which supplies a supplemental tax credit for income earned between June 1 and July 31