



The Daily Dish

The Labor Market in the Aftermath of CARES

DOUGLAS HOLTZ-EAKIN | MAY 18, 2020

Eakinomics: The Labor Market in the Aftermath of CARES

The Coronavirus Aid, Relief, and Economic Security (CARES) Act contained a \$600 federal bonus – the equivalent of making \$15 per hour for a 40-hour work week – on top of the usual state unemployment insurance payments. This made perfect sense when the objective was to make sure people quarantined and did not spread the coronavirus by going to work. In short, the \$600 was designed to be lucrative enough to be better than working.

That becomes a real problem as the policy objective shifts to encouraging more economic activity. More important, it is not a small problem. New [research](#) by AAF's Isabel Soto indicates that up to 63 percent of the nation's workers would make more on the maximum unemployment benefit than their pay at the previous job. Moreover, the fraction differs by state and could be as high as 75 percent. The bonus speaks highly of the taxpayers' generosity, but it flunks any test of economic logic.

Unfortunately, simply letting the bonus expire on July 31st may appear heartless. What, then, should Congress do? First, the supplement is a temporary response to the pandemic and not a desirable long-term policy. Thus, the only real question is how long it should last. Let's suppose that December 31st is a reasonable target date to eliminate the payment.

Second, having a sharp cliff at the end of the year does not make a lot of sense. Phasing the bonus down over the course of the year avoids this and has the additional benefit of reducing the interference in the labor market. Soto's research indicates that moving the bonus down to \$500 lowers the fraction of workers paid more on unemployment to 58 percent; \$400 lowers to 53 percent; \$300 to 45 percent; \$200 to 36 percent; and \$100 to 26 percent.

Thus far, the strategy makes the problem smaller over time, but still continues the economic damage. Step three is to permit workers, perhaps only lower-wage workers, to continue to receive their unemployment insurance after they return to work. This turns the federal bonus into a reemployment bonus, with a larger bonus the sooner a person gets back on the job.

Deciding the future of the \$600 bonus is the most consequential choice Congress will face regarding the near-term course of the labor market. The worst choice would be to follow the House-passed [HEROES Act](#) and simply extend the current bonus through January 2021.