Keep It Timely, Targeted, and Temporary

POLICYMAKERS SHOULD REJECT CALLS TO MAKE PANDEMIC UNEMPLOYMENT BENEFITS PERMANENT

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Executive Summary

A significant share of the US legislative response to the coronavirus has involved historic temporary expansions in unemployment benefits. That timely and targeted response included the now-expired federal $600-per-week bonus payments to all unemployment benefit recipients, the creation of the unprecedented federal Pandemic Unemployment Assistance program, a significant expansion of federal extended benefits, full federal funding of the first week of unemployment benefits, and the suspension of traditional features of the unemployment insurance (UI) program such as work-search requirements and "experience rating" of benefit charges against employers.

Those and related temporary policies were crafted to address unprecedented needs caused by the pandemic and aimed to use the nation's UI system to quickly "make whole" millions of Americans losing earnings due to the coronavirus and lockdowns designed to quell its spread. Now, however, some policymakers are calling to convert such timely, targeted, and temporary responses to the pandemic into permanent features of the UI program. Such efforts threaten to misapply policies uniquely suited for the pandemic to future recessions and even the everyday operation of the UI program—long after the pandemic has passed.

That would result in elevated and extended unemployment, higher taxes, and lower wages, harming the very workers policymakers suggest they are striving to assist. Policymakers should resist such efforts. Instead, as in prior recessions, they should provide temporary assistance that suits current needs while reviving and strengthening UI features that most quickly and efficiently connect unemployed individuals with work.

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Matt Weidinger

As I reviewed in detail in an April 2020 report,[1] policy-makers responded to the coronavirus crisis by providing unprecedented temporary unemployment benefits through several laws, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which received overwhelming bipartisan support in Congress before being signed into law by President Donald Trump on March 27, 2020.

The benefits provided in the March 2020 laws included:

1. The immediate provision of $1 billion in federal administrative funding for states with large increases in unemployment rates and that satisfy other requirements;

2. A $600-per-week federal pandemic unemployment compensation payment added to other state and federal unemployment benefits, payable through July;

3. The creation of the unprecedented federal Pandemic Unemployment Assistance (PUA) program, which provides payments to unemployed independent contractors, gig workers, and others with such limited prior employment they would not qualify for state unemployment insurance (UI) benefits, payable through December;

4. The creation of the federal Pandemic Emergency Unemployment Compensation (PEUC) program, which provides 13 weeks of federal emergency extended benefits for individuals exhausting state UI benefits, payable through December;

5. Full federal funding for the normally 50-50 federal-state extended benefits (EB) program, which provides up to 13 or 20 weeks of benefits (depending on state unemployment rates) for those exhausting state and other federal benefits, payable through December;

6. Full federal funding of the first week of UI benefits for states with no waiting week, payable through December;

7. Full federal funding for states that operate short-time compensation, also known as work sharing, programs by law and

50 percent federal funding for states that operate such programs by temporary agreement, payable through December;

8. Partial federal funding (50 percent) for the reimbursable UI benefit costs of states, other governmental agencies, and nonprofit employers, payable through December;

9. Interest-free treatment of federal loans provided to states that exhaust their UI trust funds, through December; and

10. Authorization for states to waive "on an emergency temporary basis" standard unemployment benefit features such as the requirement that benefit recipients search for work and benefit costs be charged to specific employers via experience rating.[2]

With notable exceptions (including the size of bonuses added to weekly benefit payments and the creation of PUA), key components of the current package of benefit expansions resemble efforts to assist the unemployed during other recent recessions, including the "timely, targeted, and temporary" unemployment benefit expansions provided in the wake of the 2007–09 recession.[3] Other recent benefit expansions were also temporary. Then and now, extraordinary benefits were authorized for a temporary period, requiring Congress to regularly review whether further extensions are merited.

Record Benefit Recipients and Payments

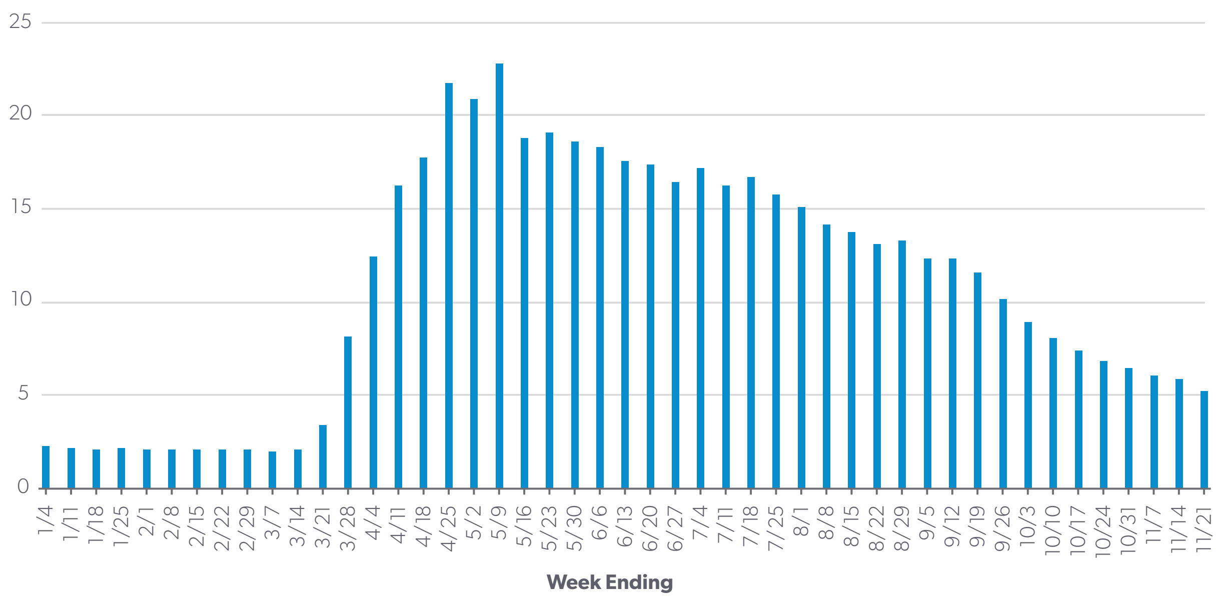
The coronavirus and lockdowns that attempted to quell its spread caused unemployment to spike to levels unseen since the Great Depression, with the unemployment rate peaking at 14.7 percent in April.[4] Combined with those unemployment effects, the significant temporary benefits expansion described above resulted in historic numbers of unemployment benefit recipients and benefit payments. Figure 1 shows the number of state UI recipients skyrocketed from just below two million before the crisis to a record 22.7 million in May, before falling to 5.2 million in the week ending November 21, 2020.[5] While now less than a quarter of its recent peak, only in recent weeks has the UI caseload fallen below the pre-pandemic record of 6.4 million UI recipients in March 2009.[6]

As Figure 2 demonstrates, the most recent decline in UI receipt partly reflects the long-term unemployed transitioning from UI to PEUC and the currently federally funded EB program, as would be expected now more than six months after the massive surge in unemployment claims that began in March. While the current PEUC caseload of over 4.5 million remains short of the prior record 5.9 million recipients of federal temporary unemployment benefits in March 2010, PEUC rolls may continue rising in the coming weeks.[7] Another 614,000 individuals currently collect EB benefits, which are payable for as many as 20 weeks.[8]

In addition to UI, PEUC, and EB, the other major current unemployment benefit program is the PUA program. PUA claims tell a decidedly more complicated tale, partly because the apparent number of recipients in any week is inflated by the inclusion of sometimes multiple weeks of backlogged benefits.[9] In September, the *New York Times* suggested that factor resulted in the number of apparent PUA recipients being overstated by 50 percent or more: "The Labor Department reports about 15 million claims for benefits nationwide. A comparison of state and federal records by The New York Times suggests that total may overstate the number of recipients by five million or more."[10] Fraud is also believed to have significantly inflated PUA rolls in many states, most prominently California, and thus national PUA caseload figures.[11]

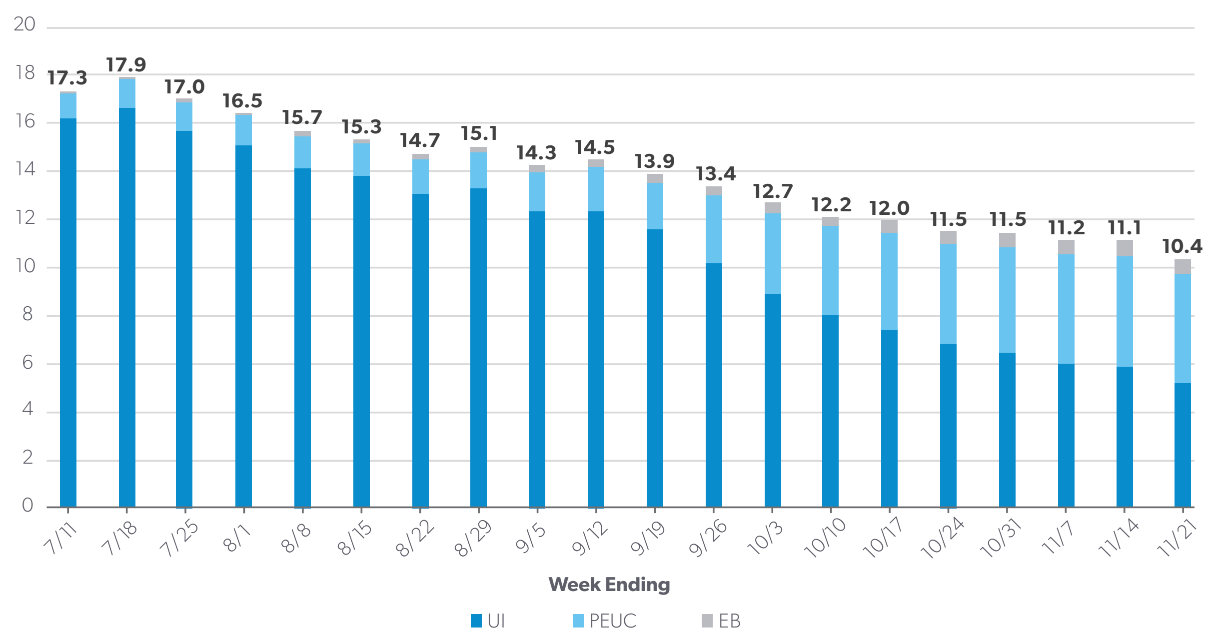
Amplified by those issues, apparent PUA continuing claims rose rapidly as states implemented the new program in April and May, as displayed in Figure 3. PUA continuing claims ultimately peaked at over 15.1 million in August (boosted by a massive surge in fraudulent claims in California, as state officials later admitted) before falling to under 8.6 million in the

Figure 1. Continuing Claims for UI, 2020 (Millions)



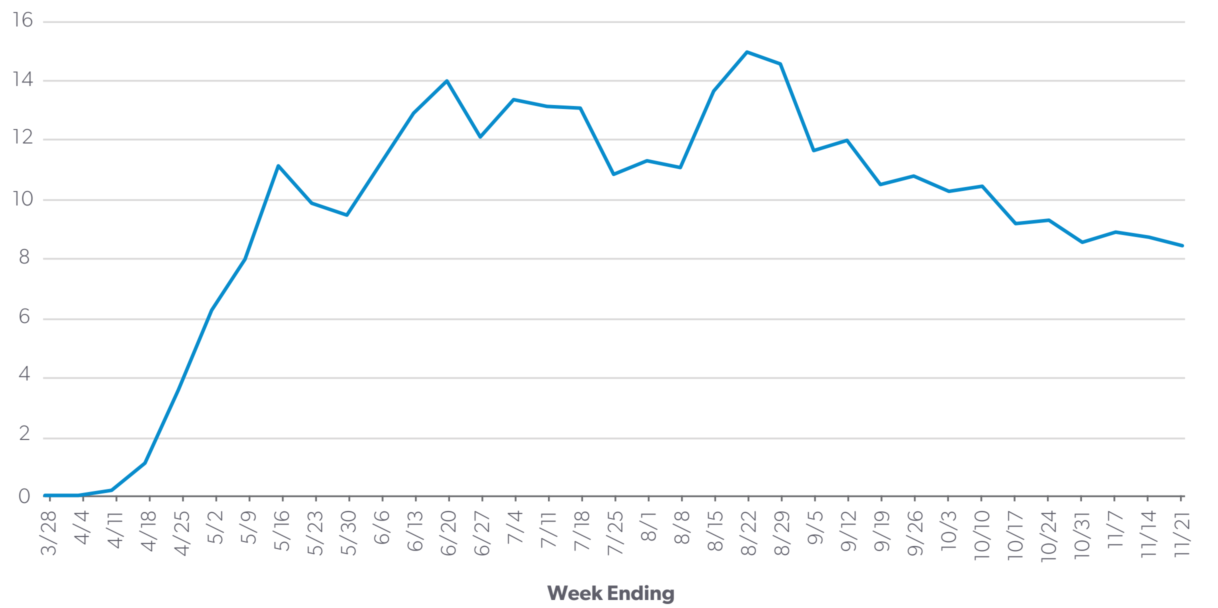
Note: Data are not seasonally adjusted.
Source: US Department of Labor, Employment & Training Administration, "UI Weekly Continued Claims—All Programs," https://oui.doleta.gov/unemploy/docs/allprograms.xlsx.

Figure 2. Recent Continuing Claims for UI and Federal Extended Benefits (Millions)



Note: Data are not seasonally adjusted.
Source: US Department of Labor, Employment & Training Administration, "UI Weekly Continued Claims—All Programs," https://oui.doleta.gov/unemploy/docs/allprograms.xlsx.

Figure 3. PUA Continuing Claims, March 2020–Present (Millions)



Note: Data are not seasonally adjusted.
Source: US Department of Labor, Employment & Training Administration, "UI Weekly Continued Claims—All Programs," https://oui.doleta.gov/unemploy/docs/allprograms.xlsx.

week ending November 21—with much of the recent decline driven by a significant drop in claims in California, which has taken concerted actions to address PUA claims backlogs and fraud.[12]

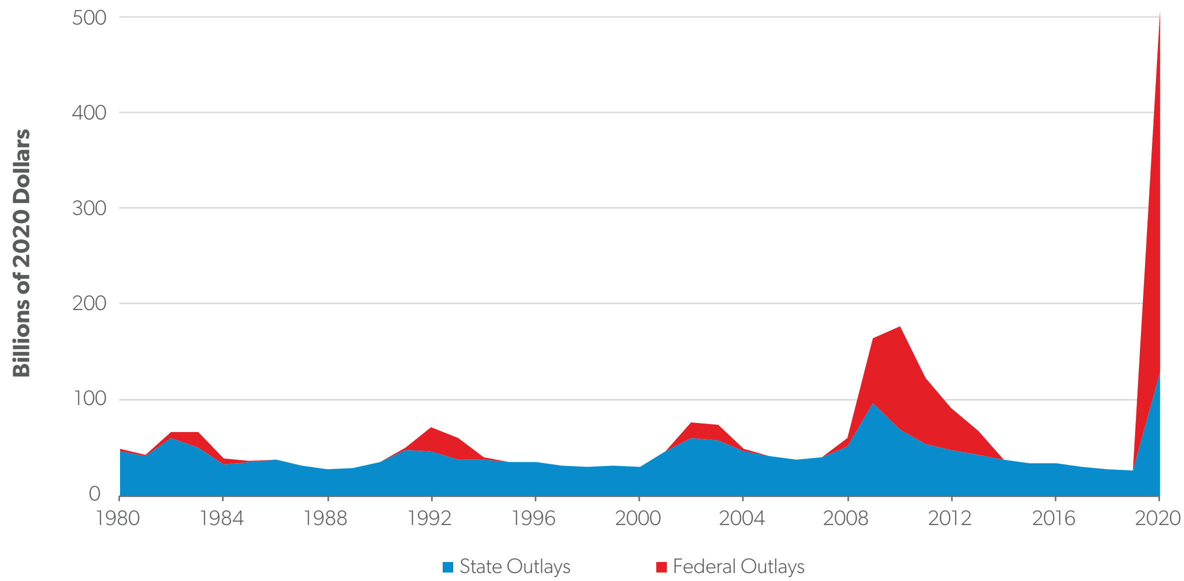
The amount spent on state and federal unemployment benefits to date has been equally historic. As Figure 4 displays, never before has so much been spent in a single year on either state UI or federal unemployment benefits, which include the cost of unprecedented federal $600 bonuses, PUA benefits, and other temporary benefit expansions.

As Figure 4 displays, state and federal unemployment benefit expenses in 2020 have already reached record levels even though the year is not yet over. State UI benefits for January through October totaled $131 billion, while federal spending (through November 28) totaled an additional $380 billion. The combined $511 billion in unemployment spending in 2020 is nearly three times the next-highest year (2010, when total unemployment spending was $176 billion), again despite the current year being incomplete.[13]

The temporary policy response to the pandemic thus offered unprecedented support to tens of millions of American families as unemployment soared to record levels. While the $600 bonuses (and follow-on $300 bonuses payable for weeks of unemployment in August and early September) have now expired, other significant benefit expansions, including the unprecedented PUA program and federal funding for as many as 33 weeks of extended benefits for those exhausting state UI benefits, remain in place through the end of December 2020, continuing to assist millions of recipients.[14]

Those benefits remain available despite significant improvements in unemployment, which in recent months has dropped far more rapidly than experts predicted. For example, as displayed in Figure 5, the November unemployment rate of 6.7 percent is significantly below the level the nonpartisan Congressional Budget Office (CBO) forecasted in a May 2020 report. Indeed, the current unemployment rate is already well below the 8.6 percent average CBO forecast for the fourth quarter of 2021.[15]

Figure 4. State and Federal Unemployment Benefit Spending, 1980–Present



Note: For 2020, state outlays are through October 31 and federal outlays are through November 28.
Source: US Department of Labor, "Families First Coronavirus Response Act and Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding to States Through November 28, 2020," https://oui.doleta.gov/unemploy/docs/cares_act_funding_state.html; US Department of Labor, "Monthly Program and Financial Data," https://oui.doleta.gov/unemploy/claimssum.asp; and Matt Weidinger, "Extended: A Review of the Current and Proposed Duration of 'Pandemic' Unemployment Benefits," American Enterprise Institute, June 3, 2020, https://www.aei.org/research-products/report/extended-a-review-of-the-current-and-proposed-duration-of-pandemic-unemployment-benefits/.

Major Proposals to Extend Pandemic Benefits

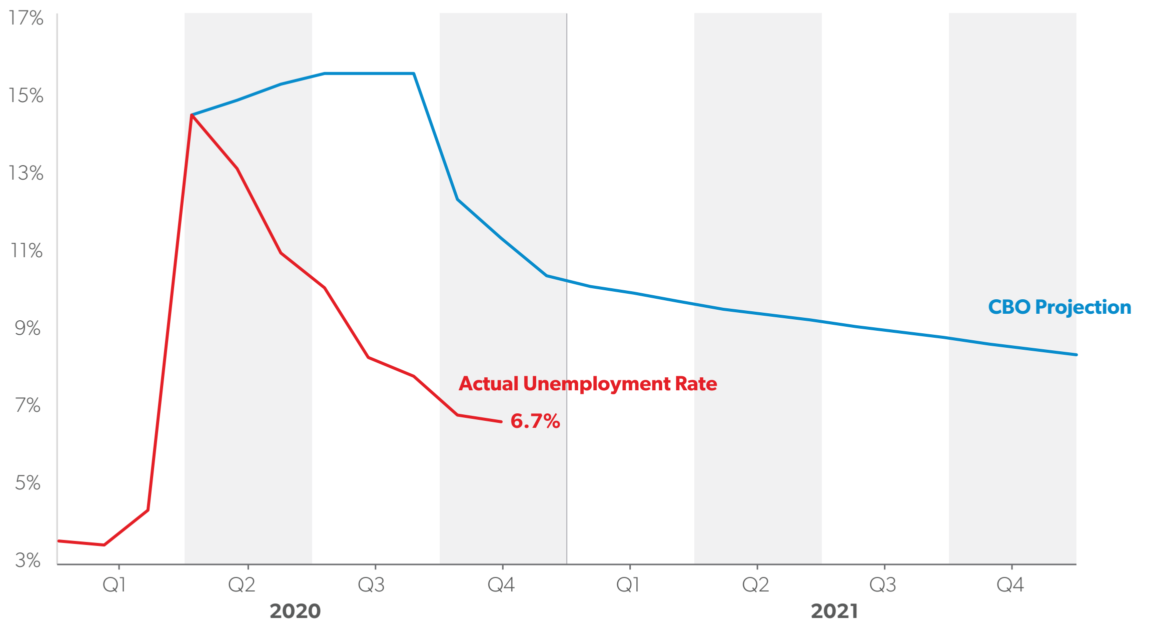
Even before these temporary benefit expansions became law, key policymakers were already seeking to leverage the current crisis into significant and permanent changes in the UI system that would endure well after the pandemic.

For example, Sen. Michael Bennet (D-CO) offered on March 24, 2020, what he called a "sweeping proposal" to reform and expand the UI system.[16] Bennet proposed permanently expanding UI by:

- Raising benefit amounts in all states by setting a minimum 75 percent replacement rate (well above the recent national average of 45 percent), along with a 100 percent replacement rate during a "national public health emergency";
- Extending the duration of benefits by requiring all states to pay a minimum of 26 weeks of UI (which would increase durations in over 40 states);
- Adding $25 per week per dependent to each weekly unemployment check; and
- Expanding eligibility and benefit amounts further by requiring states to use alternative base periods and cover "partially unemployed" workers and those seeking only part-time work.[17]

Table 1 displays the effect of just the first of Bennet's proposals—setting an elevated floor on UI's replacement rate in all states. As the table shows, that change would require all states to increase the

Figure 5. CBO Projection vs. Actual Unemployment Rate, 2020–21



Note: The "CBO Projection" line depicts the monthly, quarterly, and annual unemployment rate projections included in Table 1 of the May 2020 CBO report.
Source: Congressional Budget Office, "Interim Economic Projections for 2020 and 2021," May 2020, https://www.cbo.gov/system/files/2020-05/56351-CBO-interim-projections.pdf; and US Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," https://www.bls.gov/cps/.

size of benefit checks, with the increases ranging from 39 percent to a stunning 142 percent. Replacement rates would more than double in five states and would increase by 50 percent or more in 41 states—during the normal operation of the UI program. Meanwhile, during a "national public health emergency," the state floor for replacement rates would be set at 100 percent, doubling benefits relative to current levels in all but nine states.

Figure 6 applies the data shown in Table 1 to a map of the country, displaying how the greatest mandated increases in benefits from this one policy change would be concentrated in eastern and southeastern states, with lesser but still significant increases in benefits (and thus taxes on jobs discussed below) occurring elsewhere.

For those exhausting state UI benefits, Bennet also proposed permanent federal law changes fully federally funding EB and expanding the maximum weeks of EB benefits from the current 20 weeks to as many as 65 weeks depending on state unemployment rates. As a result, long-term unemployed workers would be permanently eligible for as many as 91 weeks of benefits (26 weeks of state UI and 65 weeks of federal EB) in high-unemployment states.

Under Bennet's proposal, once enacted, such extended benefits would be payable without additional congressional action, which always preceded temporary "emergency" benefit programs that have operated during and after recessions since the 1950s. That means the permanent law baseline for the duration of benefits in high-unemployment states would nearly double from 46 weeks today (i.e., generally up to 26 weeks of state UI benefits and up to 20 weeks of EB program benefits, half supported by federal funds) to 91 weeks (including up to 65 weeks of federal EB payments) in the future.

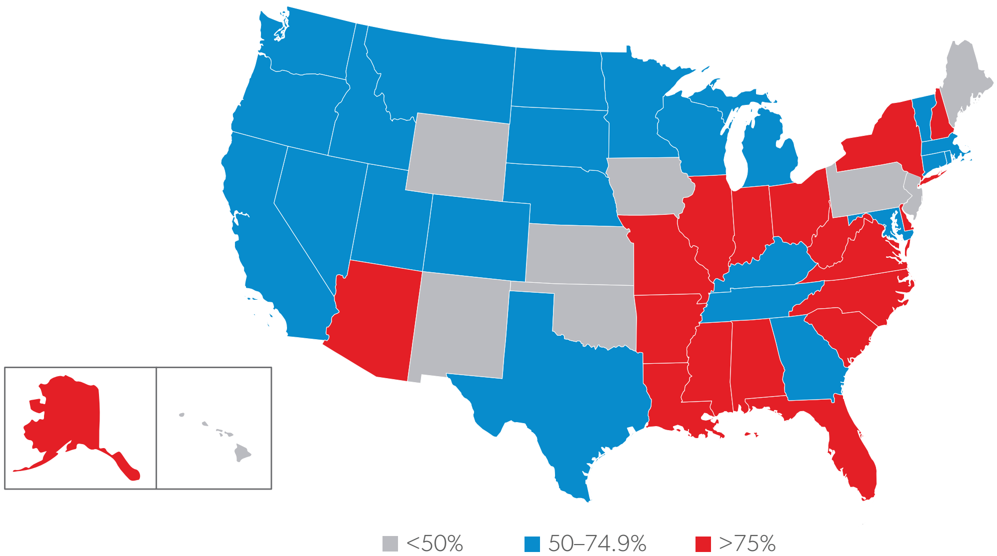
Future temporary extensions, such as those provided under the current PEUC program, could add even more weeks of benefits beyond that 91-week total.

Table 1. Current Benefit Replacement Rate and Proposed Minimum Rate Under Bennet Plan, by State

State	Current (Q4 2019) Replacement Rate	Bennet Plan Minimum Replacement Rate	Change
Alaska	31%	75%	+141.9%
Louisiana	34%	75%	+120.6%
Arizona	37%	75%	+102.7%
Indiana	37%	75%	+102.7%
Tennessee	37%	75%	+102.7%
Alabama	38%	75%	+97.4%
Florida	38%	75%	+97.4%
Illinois	38%	75%	+97.4%
New Hampshire	38%	75%	+97.4%
North Carolina	38%	75%	+97.4%
Delaware	39%	75%	+92.3%
Mississippi	39%	75%	+92.3%
West Virginia	39%	75%	+92.3%
Arkansas	40%	75%	+87.5%
New York	40%	75%	+87.5%
Missouri	41%	75%	+82.9%
South Carolina	41%	75%	+82.9%
Virginia	41%	75%	+82.9%
Ohio	42%	75%	+78.6%
Rhode Island	43%	75%	+74.4%
Wisconsin	43%	75%	+74.4%
California	44%	75%	+70.5%
Georgia	44%	75%	+70.5%
Michigan	45%	75%	+66.7%
Connecticut	45%	75%	+66.6%
Maryland	46%	75%	+63.0%
Nebraska	46%	75%	+63.0%
South Dakota	48%	75%	+56.3%
Colorado	49%	75%	+53.1%
Idaho	49%	75%	+53.1%
Massachusetts	49%	75%	+53.1%
Montana	49%	75%	+53.1%
Nevada	49%	75%	+53.1%
Oregon	49%	75%	+53.1%
Vermont	49%	75%	+53.1%
Kentucky	50%	75%	+50.0%
Minnesota	50%	75%	+50.0%
North Dakota	50%	75%	+50.0%
Texas	50%	75%	+50.0%
Utah	50%	75%	+50.0%
Washington	50%	75%	+50.0%
Kansas	51%	75%	+47.1%
Maine	51%	75%	+47.1%
New Jersey	51%	75%	+47.1%
Pennsylvania	51%	75%	+47.1%
Oklahoma	52%	75%	+44.2%
Wyoming	52%	75%	+44.2%
Iowa	53%	75%	+41.5%
New Mexico	53%	75%	+41.5%
Hawaii	54%	75%	+38.9%

Note: The minimum replacement rate under the Bennet proposal represents the normal operation of the program. This table and Figure 6 do not include figures for the District of Columbia, Puerto Rico, or the US Virgin Islands.
Source: US Department of Labor, "UI Replacement Rates Report," https://oui.doleta.gov/unemploy/ui_replacement_rates.asp.

Figure 6. Increase in State Replacement Rates Proposed Under Bennet Plan



Note: For an interactive data visualization, see https://datawrapper.dwcdn.net/0VOom/2/.
Source: Author's calculations displayed in Table 1, based on Department of Labor data. See US Department of Labor, "UI Replacement Rates Report," https://oui.doleta.gov/unemploy/ui_replacement_rates.asp.

The Bennet proposal also would extend the EB program's operation in high-unemployment states, including by eliminating unemployment rate "rise" requirements that currently limit EB's operation to when employment conditions are deteriorating.

Finally, the Bennet proposal would provide all unemployment benefit recipients—both state UI and federal EB claimants—a $50 increase in their weekly benefit while a state is triggered onto EB, with the cost of the supplement fully supported by federal funds. The combined effect of Bennet's proposals would be similar to the now-expired $600-per-week federal bonus, especially during a national public health emergency. In other words, unemployment benefits would more than replace prior earnings—and that's just considering the mandated 100 percent replacement rate and $50 supplement available to all during a national health emergency and period of elevated unemployment like today. Dependent allowances would raise benefit amounts even more for many recipients, including in some cases above their level of prior earnings even not during a national health emergency.

Bennet has not discussed how he would cover the cost of the increased state and federal benefits his plan proposes. Under current law, such permanent expansions in state UI benefit payments would result in significant increases in state UI payroll taxes, with the greatest increases required in currently lower-benefit and typically lower-wage states.

Legislation introduced this summer by Senate Democratic leaders echoed some of Bennet's proposals, albeit in the context of current temporary pandemic programs and policies. On July 1, Senate Democratic leader Chuck Schumer (D-NY) and Finance Committee Ranking Member Ron Wyden (D-OR) introduced legislation proposing to indefinitely extend key pandemic unemployment benefits, including bonuses that could stretch up to $600 per week and even lengthier federal extended benefits, in each case payable depending on a state's unemployment rate.[18]

Their legislation, ambitiously titled the "American Workforce Rescue Act," proposes:

- Creating weekly federal unemployment benefit bonuses ranging in $100 increments from zero—generally, in states with a three-month average total unemployment rate (TUR) below 6 percent—to $600 in states with a TUR above 11 percent;

- Expanding the weeks of federal extended benefits payable under the PEUC program ranging from 13 weeks (in states with a TUR between 5.5 percent and 6.5 percent) to 52 weeks (in states with a TUR at or above 8.5 percent);

- Extending full federal funding of up to 20 weeks of benefits under the EB program (which, when combined with UI and PEUC, means a total of up to 98 weeks of all benefits in some states); and

- Extending PUA and significantly expanding its benefit duration from the current maximum of 39 weeks to a new maximum of 98 weeks (matching the total duration of state UI plus federal PEUC and EB program benefits in the state).

The extension and expansion of PEUC and PUA described earlier would last until either March 2021 or when a state's TUR falls below 5.5 percent, whichever is later, which would also apply to the extension of several other current benefit expansions. In effect, unlike past "emergency" benefit expansions that included a specific expiration date, the Senate Democratic leaders' proposal would leave the expiration date for pandemic benefits open-ended. The size and availability of these benefits would depend on state unemployment rate conditions without a specific expiration date.

As with the Bennet proposal, the Senate Democratic leaders' proposal does not detail offsets that would pay for its extended and expanded benefits.

The Century Foundation, in a report released on October 15 with numerous policy recommendations for 2021,[19] effectively blended these approaches while going even further by calling to nationalize the UI system. Since its creation in the 1930s, UI has been a state-federal partnership in which states set most benefit terms and payroll tax levels.

On UI policy, the proposal called for restarting $600-per-week bonuses and phasing them down over time depending on state unemployment rates, similar to the Senate Democratic leaders' plan; making the PUA program permanent and expanding eligibility for PUA benefits, including to individuals who did not previously work; adding another 26 weeks of federal extended benefits, bringing maximum weeks of all UI benefits to 85 weeks; and effectively nationalizing the UI program, permanently mandating all states pay UI checks that are larger, more widely available, and available for longer.

Unlike the two proposals described here, which do not include how to pay for the expanded benefits, the Century Foundation proposal would "switch the financing (and administration) of all unemployment benefits to an increased federal unemployment tax . . . replacing a state tax."[20] It does not detail how big that federal payroll tax increase would have to be to cover the significantly increased benefit costs required under the plan.

As Figure 4 above suggests, however, if such a federal tax were in place now and designed to recoup just the cost of similar federal benefit increases provided today, the federal UI payroll tax would have to be many times the current state UI payroll tax. That state tax collected $33.6 billion in 2019, less than one-tenth of the $380 billion in federal unemployment spending so far this year.[21]

Concerns About Extending Pandemic Benefits

The proposals described here call to effectively convert key pandemic benefits—including bigger unemployment benefit checks, longer benefit payments, and eligibility expansions for more marginally attached workers—into a permanent expansion of the UI system. What's wrong with that, given the unprecedented help the UI system has provided Americans during this crisis? Key concerns include a basic policy mismatch and the negative effects of longer durations of unemployment, higher taxes, and ultimately lower paychecks for workers.

A Policy Mismatch. The first problem involves attempting to convert temporary policies designed specifically for the pandemic crisis into permanent features of the UI system. Proposals to permanently extend all or part of the $600-per-week unemployment bonuses exemplify this concern.

Recall that the $600 payment was tailored to the pandemic and the lockdowns that resulted from it. As Sen. Dick Durbin (D-IL), the Democratic floor manager during the March 2020 Senate debate, argued before its passage:

> We are asking these people to stay home. We were asking them to help us defeat this virus by not working and to stay with their families. So one of the incentives here, if there is a good unemployment benefit coming in, is that they can keep their families together while they obey this directive, at least, from government, State and Federal.[22]

The $600 amount was selected because it approximated the difference between median pay and average weekly unemployment benefits nationwide, consistent with lawmakers' intent "to replace the lost wages—to make people financially whole."[23] Sen. Durbin also recognized the bonuses would be temporary. Responding to Sen. Ted Cruz (R-TX) in the same March debate, he said, "I am sure you are acutely aware that this is a 4-month program. We are not offering people this benefit indefinitely. I hope we don't have to renew it."[24]

However, both the Senate Democratic leadership proposal and the Century Foundation plan would make bonuses of up to $600 an apparent permanent feature of the UI system—with this bonus' availability governed by state unemployment rates and not pandemic lockdowns that spawned such payments in the first place. For many bonus recipients who might receive more in total benefits than they earned working, that would permanently overturn a long-standing purpose of the UI program: to provide *partial* wage replacement to unemployed workers.[25]

Lengthening Unemployment. Extending pandemic policies will likely lengthen unemployment, which has significant detriments for workers. Proposals significantly expanding the duration of unemployment benefits (along with increasing benefits amounts so they once again rival or exceed earnings from work) are the most likely to contribute to this effect, partly because they impede job creation.[26] But other policies, such as making benefits available to more marginally attached workers and waiving work-search requirements, would contribute to this effect as well.

Research has long shown that unemployment leads to lower future earnings, often lasting for decades, especially for the long-term unemployed. For them, wages a decade after a layoff "were roughly 32 percent lower than [for] nondisplaced workers."[27] Other data show that the long-term unemployed suffer tragically elevated rates of substance abuse and death. As recent bipartisan congressional legislation summarized, "Research shows the longer workers are out of work, the harder it can be to maintain their skills, professional network, and stable home life."[28]

Such losses are among the reasons Congress in recent years has dedicated growing resources to assisting the unemployed in more quickly reentering work, such as under the Reemployment Services and Eligibility Assessment (RESEA) program. Based on promising state interventions dating back to 2005, the RESEA program targets UI recipients likely to exhaust benefits with work-search assessments, labor market and career information, reemployment planning, and referrals to other services and training designed to help them get back on the job. RESEA funding is scheduled to grow significantly over the next decade and incentivizes states to focus on interventions with the strongest evidence of reducing UI receipt by improving employment outcomes.[29]

If enacted, the benefit extensions included in current proposals—such as Sen. Bennet's call for permanent and automatic increases in unemployment benefit durations based on state unemployment rates—may not be the final word on the duration of benefits in future recessions. As the authors of a similar unemployment benefit extension proposal included in the 2019 Brookings Institution volume

Recession Ready suggest, "Policymakers may elect to supplement this proposal with emergency benefits."[30] That is, even if the number of weeks of unemployment benefits payable under permanent law is nearly doubled, lawmakers may still choose to add even more weeks of "emergency" benefits on top—precisely as they have done in recessions dating back decades. This admits the obvious—that political pressure on lawmakers to "do something" in future recessions will continue, even if weeks of benefits available under permanent law are dramatically increased.

Higher Payroll Taxes. Extending pandemic policies indefinitely would raise payroll taxes—that is, taxes on jobs. In the context of the current UI system, such policies have both state and federal payroll tax hike implications.

On the state side, state UI payroll taxes automatically rise when layoffs increase, due to the experience-rated nature of state UI taxes and separate solvency taxes that kick in when state UI trust funds drain. Mandating larger state UI benefits, as depicted in Table 1 and Figure 6 from just one component of the Bennet proposal, would already require significant increases in state UI payroll taxes—in some cases more than doubling current benefits and thus taxes. And providing longer federal extended benefits, as all three proposals discussed above suggest, would encourage more unemployed workers to start and ultimately complete available state UI benefits. That would further drain state UI trust funds and cause still greater future state payroll tax hikes under the UI program's current design.[31]

On the federal tax side, Congress has frequently tapped general revenues to finance federal unemployment benefits when federal trust funds ran dry, often subsequently levying a federal surtax to finance those costs.[32] Indeed, such a federal surtax applied in 38 of the 63 years (60 percent) since 1957, the year when federal extended benefits were first provided. If Congress repeated this practice and levied a surtax to recoup general revenues spent on federal benefits this year, today's federal UI tax of typically $42 per worker per year would grow fivefold to well over $200 per worker per year—and stay there for a decade.

The federal UI tax rate would skyrocket from 0.6 percent to over 3 percent, again for the next decade.[33] That would be in addition to the already expected rise in federal payroll taxes in the coming years as states repay large federal UI loans and the increase in state payroll taxes described above.[34] Naturally, plans like the Century Foundation proposal calling for significantly expanded unemployment benefit payouts in the future, financed by an entirely new federal payroll tax, would increase federal payroll taxes significantly as well.

Those tax hikes would harm workers, especially those in lower-wage and lower-benefit states where benefits and taxes would rise the most under proposals such as the Bennet plan. Economists widely agree that workers ultimately bear the cost of such state and federal payroll tax hikes—primarily through lower wages.[35]

Better Alternatives to Assist Workers

With unemployment falling and vaccines starting, policymakers should strive to return the UI system to its pre-pandemic roots, which include policies designed to promote returns to work over benefit collection. Already, the system has generally returned to its historic role of offering partial—as opposed to 100 percent or greater—wage replacement (even though for some PUA recipients the minimum benefit feature of that program may continue to provide greater benefits than an individual's prior wages).[36] Policymakers should resist proposals—such as those described here—that would once again offer benefit recipients higher income from remaining unemployed than from working, especially in permanent law.

As the PUA program approaches its December expiration date, policymakers should also carefully consider whether to extend that program, which has been beset by significant fraud. If it is extended, they should make significant reforms to it, including to prevent further fraud and abuse.[37] Such reforms include ending self-certification of eligibility, requiring claimants to provide proof of prior work for continued eligibility, requiring all states verify personal identification documents, and ending the guaranteed minimum benefit that can exceed prior wages for some recipients and makes the program a more inviting target for abuse.

In the longer term, those suggesting the PUA program be made a permanent part of the UI system will need to detail the new payroll taxes on independent contractors and other potential PUA recipients required to support the significant cost of such benefits, which may exceed the payroll taxes the UI system applies to covered employees today.

Other pro-work features of the UI system are yet to be restored in some states. In the spring, temporary federal law allowed states to waive two long-standing UI program features—experience rating and work-search requirements—that promote fewer layoffs and faster returns to work. Those policies require that employers are charged for the cost of benefits provided to their employees and that most benefit recipients are expected to search for work, respectively.

Waiving those policies made sense given government-forced lockdowns and a desire to limit personal interactions due to the pandemic. But as the economy continues to recover, waiving experience rating makes less sense, as it socializes the cost of unemployment benefits across all employers. Similarly, continued suspension of work-search requirements is increasingly inconsistent with current workforce realities, especially given many workers' ability to conduct electronic work searches and the positive effect such searches have in helping benefit recipients more quickly return to work. Remaining states should restore such requirements, and federal "emergency temporary" waivers should ultimately expire.

Policymakers also may wish to consider novel ways to better assist workers and states in responding to future crises. For example, some have proposed replacing the current UI system entirely with personal savings accounts, such as Martin Feldstein's 1998 proposal calling for a new system of UI savings accounts.[38] While completely replacing current UI benefits with such savings accounts is impractical, creating savings accounts to supplement the traditional UI system could be feasible and provide more rapid assistance to workers, improve program integrity, and reduce future demands on the UI system.

Such accounts could be designed so workers have funds to support themselves during their first few weeks after layoff, satisfying the goals of current temporary policies providing federal funds covering the cost of UI benefits paid in states that do not have a waiting week for benefits. But unlike the current temporary policy, partial savings accounts also would assist state agencies by providing them the time needed to accurately and effectively assess individuals' ongoing eligibility for public UI benefits.

They would also assist state agencies if Congress ever requires they establish another temporary federal program like PUA, offering agencies needed time when responding to future crises and better ensuring the response is effective and free from fraud. Some workers may even be dissuaded from collecting public unemployment benefits by the expectation that they first tap their own program savings (which would be transferable to them upon retirement) at the start of a spell of unemployment. If so, that would promote more rapid returns to work, greater earnings, and faster recoveries.

Conclusion

Congress and the administration acted quickly in March 2020 to provide unprecedented expansions in unemployment benefits that have assisted tens of millions of Americans in navigating the enormous and historically unique employment shock resulting from the coronavirus crisis. Those timely, targeted, and temporary policies contributed significantly to reducing economic deprivation during the worst unemployment crisis since the Great Depression.

Even with that success, however, a number of those extraordinary policies were highly specific to this crisis and should not become part of the regular operation of the UI system going forward. That would convert timely, targeted, and temporary responses to the pandemic into permanent expansions in this major entitlement program. It would result in elevated and extended unemployment, higher taxes on jobs, and ultimately lower wages for workers, which would prove harmful to the very people policymakers say they are striving to assist.

Instead, policymakers should focus on quickly restoring the pro-work features of the UI system while exploring ways to bolster those features to help unemployed workers more quickly transition back to work. That would better serve workers now and in the future, in both good times and bad.

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