Paying Americans Not to Work

Much of the harm from the coronavirus is unavoidable, but it would be nice if politicians didn’t compound the damage by ignoring the laws of economics. The worst blunder so far on that score is the $600 increase in federal jobless benefits that is already undermining the economic recovery.

On Wednesday we ran an op-ed from Kurt Huffman, whose Portland, Ore., company helps chefs run and staff their restaurants. Because of the coronavirus, he had to lay off 700 people. But some restaurants have adapted with takeout and delivery, so he needs to hire some back.

Some extra unemployment insurance is necessary, but the rich extra compensation from the $2.2 trillion CARES Act is encouraging those employees to stay home. Mr. Huffman did the math in his op-ed: A starting wage for a line cook is about $640 a week. Oregon’s unemployment offers about $416 per week. But thanks to the $600 federal bonus, that same worker now collects $1,016. Why would anyone take a pay cut to go back to work?

We’re hearing similar stories from around the country as small business owners look to reopen on a tentative or partial basis. Employees say they’ll take the unemployment check for as long as they can make more money by not working. One internal Trump Administration analysis estimates that this work disincentive applies to millions of Americans.

This does not mean these workers are lazy. Workers are making rational decisions based on the economic incentives the political class has created. And they are acting exactly as many people said was likely.

That includes Republican Senators Lindsey Graham (S.C.), Ben Sasse (Neb.), Tim Scott (S.C.) and Rick Scott (Fla.), who bravely spoke up when they saw the final language of the relief bill that was negotiated by other GOP Senators. Perhaps because they represent states with thousands of small businesses, they understood the incentive issues better than others who think every American business operates like Exxon and Apple.

The Senators were attacked in the media, and House Speaker Nancy Pelosi called them “cruel.” But they turned out to be right. This means that no matter when governors announce their states’ reopenings, many businesses will still have to wait until July 31—when the extra $600 expires—to be able to afford the workers they need to reopen.

The question now is whether the Trump Administration will learn from its negotiating mistake. Democrats will try to extend the $600 for another few months, and then a few more after that, as they describe anyone who disagrees as heartless. Republicans who cower at that argument without fighting back will hurt their own electoral prospects as the jobless rate will stay higher for longer and the recovery will take that much longer to take hold.

The Democratic 2020 campaign strategy is to blame Republicans for the health and economic damage from the virus. Republicans need to be able to point to an economy that is growing again by the autumn, and that means not giving Americans an incentive not to work.
The program wasn’t meant to provide free money to companies that aren’t affected by coronavirus.

But the minimal requirements for loan qualification, designed to speed relief, have allowed employers to obtain PPP loans even if they aren’t in financial distress and have no need or intention to lay workers off. Loan applications granted on a first-come, first-serve basis quickly depleted the $349 billion fund, and many deserving small businesses were crowded out, unable to obtain financial relief. On Tuesday the Senate passed a bill that provides another $310 billion for PPP. It places no further limitations on loan forgiveness, and the self-certification of economic harm required by applicants remains a nebulous statement that “current economic uncertainty makes [the] loan request necessary to support the ongoing operations” of the business.

It may be too late to limit access to PPP loans to those who truly need to borrow, but it isn’t too late to limit forgiveness. I have begun working on a separate bill to accomplish that objective.

The CARES Act includes some limits to forgiveness, but in hindsight not enough. The limits are based on costs incurred, employment maintained, and maintenance of salary or wage levels during the eight-week “covered period” following a loan’s origination. As the law is written, a loan can be fully forgiven for borrowers who meet these spending and employment levels even if their business remains strong. These limitations are insufficient and will allow abuse.

I propose adding forgiveness limitations, based on ability to repay. These limits would apply to all loans, including those already granted under the CARES Act.

My initial proposal—subject to feedback from my colleagues and the public—would allow no forgiveness for businesses whose 2020 taxable income exceeds that of 2019. Full forgiveness would be available only to those businesses whose 2020 gross receipts are less than 60% of the preceding year’s.

Those in between would be eligible for forgiveness on a sliding scale: 10% of the loan if 2020 gross receipts are 90% or higher of 2019's; 30% forgiveness for 80% to 90% of 2019 gross receipts; 50% forgiveness for 70% to 80% of 2019 gross receipts; and 75% forgiveness for 60% to 70% of 2019 gross receipts. In no case would forgiveness exceed the loan amount less after-tax income.

For tax-exempt nonprofits, loan forgiveness would be limited based on net assets. No forgiveness would be available to entities whose 2020 net assets exceed those for 2019 or are more than twice the loan amount. For other entities, loan forgiveness would be based on annual revenue loss using the same percentages as for businesses.

Again, this is a preliminary proposal, which should be evaluated and honed to achieve the objective of limiting abuse of a well-intentioned and highly needed financial-support program. Making these limitations on forgiveness retroactive may seem unfair. But businesses and nonprofit organizations that didn’t need this program shouldn’t be rewarded with loan forgiveness for taking advantage of it.

That abuse should be remedied, and doing so will help the individuals and entities that have borne the brunt of the coronavirus’s economic destruction.

Mr. Johnson, a Republican, is a U.S. senator from Wisconsin.