Rodney’s Take

October 18, 2021

We’re Paying Workers To Stay Home

Last year, as the pandemic raged, plasma centers around the nation offered premiums for donors who had survived COVID-19. Their plasma contains antibodies that can help people currently infected with the disease recover. While this sounds reasonable, it sets up an unlikely motivation system. Some people would gladly get infected for the chance to donate plasma not once but several times, at $100 or so per donation. Not surprisingly, some of those people were college students.

Officials at Brigham Young University sent out a campus-wide notice last October informing students that anyone caught purposefully exposing themselves or others to COVID-19 would be suspended immediately and possibly dismissed. Apparently, administrators thought it was bad form to have undergrads trying to catch a disease for profit, even if there’s nothing in the code of conduct addressing such actions. Welcome to the law of unintended consequences.

Across the nation, unemployment remains higher than it was before the pandemic, even though we have almost a record number of job openings and we’ve ended federal unemployment bonus payments. It turns out we’re still paying millions of people, some of whom are using the funds to stay home instead of work. It’s the adjusted child tax credit (CTC).

Way back in time B.C. (before coronavirus), parents had to earn at least $2,500 to qualify for a child tax credit of $2,000. The American Rescue

Plan that Congress passed earlier this year expands the credit to $3,600 for children under six and $3,000 for kids six to 17. The law also eliminated the need for income to claim the credit and starting last July changed the payout from a lump sum at tax time to monthly stipends. A family with three kids, one under six and two between six and 17, receives $800 per month, or $9,600 per year. That equates to getting $15 per hour for more than 50 hours per month, and if a parent chooses to forgo the job and simply stay home with the kids, then it eliminates the need to pay for childcare.

If the parents in the example were netting $1 less than $800 per month by working and paying childcare expenses, then the new monthly child tax credit is a disincentive to work.

The IRS estimates that it sends out more than $15 billion per month under the plan to 35 million families. If one adult in just 5% of those families chooses to use the CTC to stay at home, then it removes 1.75 million people from the labor force. It's unlikely that Congress intended to create a "don't work" program, and for the majority of people that receive the CTC, it isn't. But the percentage of people checking out doesn't have to be huge to create a sizable effect.

The unemployment rate dipped to 4.8% last month, not because so many more people found work, but because fewer people are participating in the labor force. Just 7.67 million people are unemployed, and yet we have 10.439 million job openings. Something's gotta give.

We're living through a time of adjustment in the workplace, including markedly higher wages. Today, employers are making do with fewer people, but service is suffering and product orders go unfilled. To get us moving at full speed again, employers will have to entice workers back with enough compensation to make up for what they can get simply by staying home. As this adjustment happens, the cost will be transferred down the line and eventually come out of the pocketbooks of consumers.

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