

## U.S. Payroll Guarantee Q&A

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*This note supplements my March 22 memo outlining the case for a federal guarantee of all U.S. payrolls in response to the COVID-19 crisis.*

### **Which countries have so far implemented or announced a Payroll Guarantee?**

In addition to the UK (80% of wages up to £2,500/mos.), other countries include France (70% gross wages up to €6,927/mos., 100% for min. wage workers), Denmark (75-90% of wages), Netherlands (90% of wages for any company suffering a 20% revenue decline), and Germany's "Kurzarbeit" program (guaranteed 60% of pay for reduced hours or temporary furlough). There is evidence that the "Kurzarbeit" program was highly effective during the Great Recession as German unemployment mid-2009 to mid-2010 *fell* from 7.9 to 7 percent, while U.S. unemployment rose during that period from 9.5 to 9.9 percent before eventually dropping back to 9 percent (and OECD average unemployment jumped 3 points).

### **Isn't it better to give the funds directly to workers through increased/extended unemployment benefits rather than channelling funds through companies?**

A key objective of a Payroll Guarantee is to enable workers to "shelter in job" as well as "shelter at home". Keeping people in their jobs and wages flowing does two things: 1) it will enable a much quicker restart of the economy when public health measures are lifted; if companies have to re-hire this will create frictions slowing the recovery, and some companies will be cautious re-hiring workers in the face of a recession, exacerbating the downturn, and 2) news headlines about 20-30% levels of unemployment and individual uncertainty about work would be immensely damaging to confidence, further slowing any recovery. Increased unemployment benefits will be necessary *in addition* to measures such as the Payroll Guarantee, but again the key is to prevent the lasting damage of people being laid-off in the first place.

### **Would large employers who don't need the money benefit? What about companies like Amazon or Gojo Industries (makers of Purell) who are making money from the crisis?**

The Payroll Guarantee is aimed at companies who are suffering cash flow problems from the crisis and require government assistance to meet payroll and prevent layoffs. Measures can be put in place to ensure funds are used for that intention. As speed is critical and a lengthy approval process would defeat the purpose of the program, the simplest method would be to

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require the CEO or owner to sign a statement attesting that without the funds the company would be unable to meet payroll obligations and be forced to lay-off workers. If a retrospective audit after the crisis found this not to be true, the CEO/owner would be held personally accountable for making false statements to the government, and the company liable for repayment of the assistance. Another option would be to make the Payroll Guarantee a grant for small businesses but a loan for larger businesses that could then later be converted to a grant if the business can prove hardship. There will inevitably be issues and gaming with a program of this scale rolled out so quickly, but some simple measures can minimize this, and any losses would be dwarfed by the benefits to workers, businesses, and the entire economy.

### **How much would it cost? Can we afford it? Are there cheaper ways to meet these objectives?**

The CBO and other agencies would need to provide a rapid costing, but my very rough calculation is \$78 billion per month if a third of workers utilized the program, so \$234 billion if the program ran for 3 months.<sup>†</sup> While these are very large numbers, it would likely be among the most effective policies in a \$2 trillion stimulus package. The question of “affordability” must be put in the context of the deepest and most violent economic contraction in over 100 years. It will be far better to spend circa \$200-300 billion now keeping Americans employed and wages flowing than the huge sums that would be required over many years to dig out of a deep and damaging depression. This is likely to be the most cost-effective way to support worker incomes and consumer spending as once the economy re-opens, most companies would be able to take back over their payrolls relatively quickly. If instead workers are laid off and go on unemployment, it may take months or years to go back into employment (and again risk a downward spiral of incomes, spending, and employment in the meantime).

### **Would it be fast enough? Would the administrative burdens be too great?**

This is a critical question as the entire point of the program is to prevent a rapid deterioration of employment and incomes. As most company payroll systems are automated and already linked to IRS systems it is likely that a system could be quickly created to feed in payroll data and taxpayer ID numbers to then trigger the payments to companies who would then route the funds to workers through their payroll systems. For small businesses with manual payrolls a web portal could be created. The countries mentioned above are implementing such systems.

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Again, a Payroll Guarantee would be *in addition* to other necessary measures including increased unemployment benefits, business loans, cash assistance to workers, etc. But a Payroll Guarantee has the best chance of minimizing layoffs and enabling workers and firms to go into “sleep mode” during the public health crisis and wake-up as intact as possible when it is over.

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<sup>†</sup> Assumes UK style package of 80% guarantee up to \$2,650/mos. (approx. median income), \$750B US monthly total wages, 152 million workers, 12.5% total income share of bottom 50% of earners, thus 76 million workers and \$94B of wages fully eligible, 76 million workers subject to cap so \$201B eligible wages, \$94B+\$201B=\$295B x 80% guarantee x 33% uptake = \$78B per mos.