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Restaurants' bailout problem: Unemployment pays more

Restaurants represent less than 9 percent of Paycheck Protection loan recipients, but as of March accounted for the majority of layoffs nationwide.

A restaurant sells groceries in California. Restaurants have had to alter their business strategies to stay afloat among mass orders to stay home. | Amy Sussman/Getty Images

By **IAN KULLGREN**
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Restaurants say their industry needs its own targeted recovery fund because the bailout package Congress passed last month is making it more attractive for their staff to draw unemployment benefits than to continue working.

The new Paycheck Protection Program waives repayment of small business loans if the borrower uses 75 percent of the money to maintain payroll, a measure intended to reduce layoffs. But with the expanded unemployment benefits included in the stimulus bill, some workers can as much as double their weekly checks if they stay unemployed.

The mismatch is particularly acute for restaurants, cafes and small shops — nonessential businesses where pay scales tend to be low that have been put into indefinite hibernation. The National Restaurant Association [told Congress] Monday that more than 60 percent of restaurant owners believe existing assistance programs, including PPP, are insufficient to keep employees on payroll and asked for $240 billion in aid targeted to their industry.

Restaurants represent less than 9 percent of Paycheck Protection loan recipients, but as of March accounted for the [majority of layoffs] nationwide as the contagion took hold.

"If the intention was to get people back to work, they're not doing it," said Tom Colicchio, the renowned restaurateur and "Top Chef" judge, who has been an advocate for small restaurants during the pandemic. "They're not going to come back to work because unemployment is too attractive."

Unemployment benefits vary by state, but in 2019, before the coronavirus crisis, the average weekly benefit nationwide was $370. A $600 sweetener that the stimulus bill added, on a temporary basis, to weekly unemployment checks raises the average weekly benefit to $970, an amount that approximates average weekly pay nationwide and is nearly double average weekly pay within the food industry: about $500 nationwide for full-time workers.

Dental assistants, security guards and travel agents similarly stand to earn more money on unemployment than they can by working.

That doesn't make the Paycheck Protection Program a flop; indeed, the program is so popular that all available funds dried up last week. Lawmakers are now nearing a deal to add $450 billion to the $342 billion that the Small Business Administration has lent.

Most of that money, however, has gone to support jobs in industries kept open during the crisis, including construction, manufacturing, professional and technical services and health care, which received $169 billion. By comparison, only $30.5 billion went to hotels and restaurants. Local stay-at-home orders could keep these businesses shut down several weeks more, and sales are projected to rise slowly under any phased economic restart because customers may well avoid public places for months.

The National Restaurant Association, in addition to requesting more funds — partly, it said, to help owners rehire and retrain workers — asked Congress to permit businesses to defer the start date of PPP loans until after local stay-at-home orders are lifted, and to allow more than 25 percent of the loans to be spent on fixed costs like rent and utilities.

[The International Foodservice Distributors Association will propose similar measures Tuesday], asking Congress to allow PPP borrowers to spend only 50 percent of their loans on payroll and to increase tax credits for employee retention.

One recipient of a Paycheck Protection loan is Christian Ochsendorf, who owns several Dunn Brothers Coffee shops in the Minneapolis area. Ochsendorf says he's been able to persuade only 40 percent of his furloughed workers to return. In Minnesota, the $600 sweetener raises the average weekly unemployment benefit above $1,000 a week. In 2019, the average weekly wage for full-time food service workers was $548.

“They’re getting paid more on unemployment than they would if they were actually working,” Ochsendorf said.

It’s the same story in Ohio, where workers can now receive $963 a week on unemployment, or slightly more than the average weekly wage. Full-time restaurant workers in the state earn, on average, less than $500.

“Heck, if they’re making more money sitting at home … I’m fearful that some may not want to come back,” said Adam Rammel, the co-owner of Brewfontaine, a bar and restaurant in Bellefontaine, Ohio.

Paycheck Protection loans cover payroll expenses for eight weeks, a time frame that many small business owners judge too short as the scope of the pandemic widens. Some owners are reluctant to accept the money at all, uncertain how they will repay the loan if their workers won’t consent to come back within the prescribed window. Unemployment benefits, meanwhile, have been extended 13 additional weeks. Even the $600 sweetener, guaranteed until July 31, will last weeks longer than a paycheck protection loan.

“The program was designed poorly,” said Amanda Ballantyne, director of Main Street Alliance, a small business advocacy group. “Business owners don’t take out loans to cover payroll when the economy is tanking.”

Many small business owners fear that they’ll have to lay off workers again when the loans run out.

“To take on a loan that has the potential to be forgiven, and then pay my staff to do nothing for eight weeks, and then furlough them in eight weeks, that doesn’t make a whole lot of sense,” said Andrew Volk, the owner of Portland Hunt and Alpine Club, a cocktail bar in Portland, Maine. “It very much feels like we’re acting as the unemployment office.”

In Maine, full-time food service workers earn $553 on average — less than 60 percent of the average unemployment benefit.

Volk did apply for a loan, but he’s used it only to pay rent. The rest is sitting in a bank account until the state allows restaurants to reopen, putting him at some risk of having to repay the federal government.

Small business advocates and some members of Congress say the U.S. should adopt a European-style grant program that gives direct payments — not loans — to businesses. The Tory government in Britain pays business owners 80 percent of their workers’ wages to keep them on payroll, up to a monthly cap of 2,500 pounds. France, Spain and the Netherlands have taken similar steps, and Germany’s “Kurzarbeitergeld” system of paid furloughs is credited with helping the economy snap back from the Great Recession faster than other European nations. But such ideas have little traction in the current political environment.

"The best thing to do would be giving direct payroll subsidies [and] wage supplements to employers," said Volk, the cocktail bar owner in Maine. "Keeping that connection between small businesses and their employees is incredibly valuable."

Zachary Warmbrodt and Rebecca Rainey contributed to this report.