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with John Carney

Mortgage Modifications and Unemployment

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Why has unemployment remained so stubbornly high for so long?

In the aftermath of a typical recession, job growth is fast and furious. But the latest recession and recovery cycle has been different. We've gone through a recovery so jobless that people have taken to calling it a "jobless recovery" or even a "recovery-less recovery."

The reasons for this are still unknown. But in a study in the latest issue of Cato Journal, a pair of UCLA economists point to one contributing factor: the Obama administration's means-tested mortgage modification programs. Mortgage modification problems disincentivize workers facing poor local jobs prospects from moving to areas where jobs are being created. By reducing mortgage payments, the modifications reduce the cost of staying in a home, particularly if household income remains low. Often, it can be cheaper to rely on unemployment plus a modification than to move to a new area with better jobs prospects.

The study finds that mortgage modficiations halve the unemployment rate by approximately 0.5 percentage points and reduced economic output by 1 percent.

"In the absence of these policies, they say, there would be about 750,000 more jobs filled, and that output and income would be about $140 billion higher than it is," a UCLA press release explains.

You can download the full paper **here**.