Bloomberg Businessweek

Why Don't the Jobless Get the Same Tapering Touch as Banks?

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December 30, 2013

In 2008, the Federal Reserve began a series of asset purchases designed as a temporary stimulus. It turned out to be a longer recession than planned, so in spurts the Fed continued its program of quantitative easing. Knowing that easing was unsustainable over the long run, the central bank wondered long and publicly about two things. First, when would conditions warrant stopping the stimulus? Second, what was the least destructive way to get out of it?

This is always the trouble with a temporary measure, fiscal or monetary: You start it and people get used to it, which makes it hard to stop. So where's the long, drawn-out discussion of how best to taper the extension of federal unemployment insurance?

Expanded benefits for the jobless likewise started as a temporary program launched in 2008 and extended regularly as the recession continued. Last week *Bloomberg Businessweek'*s Josh Green made a case for seeing these extensions purely as an effective macroeconomic stimulus. Morality aside, money given to someone who is unemployed is what we used to call "shovel ready." It gets spent.

And like quantitative easing, it was never promised as permanent but became something the economy relied on, a little more with each extension. The fear with quantitative easing was that a steep, surprise exit would would scramble markets and create unnecessary destruction. That, too, should be the concern with unemployment benefits.

Here's Chris Edwards, an economist with the Cato Institute, quoted in a Bloomberg News story this morning:

These unemployment benefits are emergency benefits, but the economy is no longer in an emergency situation. People can find jobs if they are willing to moderate their wage demands and make compromises.

Take these words and rephrase them, as if issued from Ben Bernanke:

These asset purchases are an emergency program, but the economy is no longer in an emergency situation. Banks can find new positions if they are willing to moderate their portfolio demands and accept losses.

To be painfully clear: Bernanke never said this. What's important is why he never said it. He wasn't worried, personally, about the people working at banks. He was worried about destructive chaos, about providing a shock to the system that would magnify the ultimate effect of a decision he knew he would have to make one day, no matter what.

It's awfully hard to take morality out of the question of whether to extend unemployment insurance again. It is a transfer of probable $26 billion this year from all of America's future taxpayers. A sharp, immediate exit such as the one we're about to take will be destructive in the way that suddenly ending any subsidy is destructive. Leaving the human cost out of it, sharp changes in fiscal policy have higher multipliers: They cost more, ultimately, than slower, drawn out changes.

If you're inclined to moral thinking, though, it's even harder to understand why—if this subsidy, too, must end—we're not bothering to extend the same tapering courtesy to the long-term unemployed that we're offering the financial markets.