Expand nation's jobs, not benefits for jobless

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By Sen. Rand Paul and Daniel Mitchell

For the past few weeks, the country has been having a lively discussion about jobs and unemployment benefits. It’s an important discussion to have. The nation is enduring the weakest recovery since the Great Depression, 11 million people are unemployed, and millions more have left the labor force.

For minorities, it’s worse. The black unemployment rate is more than twice that of whites. The weak job market means those who are employed are having a hard time climbing the economic ladder.

There’s a lot of talk about helping those down on their luck, but there’s a big divide on the best approach.

Our view is that America needs a growth agenda based on reducing the burden of government. The unemployed need a strong job market, not endless handouts that create dependency.

A debate is needed about whether extending long-term unemployment benefits has consequences for the unemployed, the employed, and America’s economy.

In 1990, economists Bruce Meyer and Lawrence Katz released a research paper emphasizing two important points regarding unemployment benefits. First, unemployment levels begin to drop around the time benefits are likely to lapse, suggesting a greater incentive for individuals to participate in the labor force when benefits are about to end. Secondly, they point out that unemployment benefits do impact worker’s willingness to start new jobs, thus prolonging the duration of unemployment.

More recently, a 2013 study by four economists from the National Bureau of Economic Research found that, “Because unemployment benefit extensions represent an implicit tax on market work, they subsidize unemployment and discourage labor supply.”

Furthermore, a number of studies reflect the opinion of Harvard economist Raj Chetty, who found extending unemployment benefits has costs, including extending the duration of unemployment by reducing incentives for workers to find jobs.

Some economists on the left have argued that the results of these studies are invalid when the job market is weak. But research by economist Stefan Bender found that extending benefits during a recession prolongs the duration of unemployment, even if less so than during an economic boom.

There's an understandable desire in Washington to "do something," and extending benefits once again certainly is the easy route for policy makers. But if we are serious about keeping workers out of the long-term unemployment trap, we must have a debate about which policies cause unemployment and which policies create jobs.

There are far more effective ways to help the less fortunate. Of the 11 million unemployed, four million workers have been out of work for more than six months, a consequence of the financial crisis that resulted from misguided government policies.

Big government is responsible for today's unemployment situation. More of the same won't help. Since President Obama was elected, we have spent $560 billion on unemployment benefits. It's likely many more jobs would have been created had the government not diverted that money from the economy.

We need policies that unleash the private sector, encouraging greater job creation. We should learn from countries that have achieved better performance by lowering the burden of government.

Singapore and Hong Kong are examples of jurisdictions with small governments and free markets that enjoy strong and sustained growth with very low levels of joblessness. And if you somehow think we can't learn any lessons from small Asian economies, look at Canada, which has significantly boosted its jobs market with pro-growth reforms; or Switzerland, which has cemented its traditionally strong labor markets with reforms to control government growth.

This should not be a partisan argument. The United States enjoyed strong levels of job creation during the Reagan and Clinton years. In both cases, public policy was largely the same, featuring an increase in economic freedom.

We can enact similar policies today. We've already made some progress on spending thanks in part to the sequester, but long-term fiscal sanity demands genuine entitlement reform. In addition, we should be considering bipartisan proposals to reduce the extra layer of tax imposed when companies repatriate profits they earned overseas back into the United States. Augmented by other pro-growth tax reforms, this would spur domestic investment and create millions of jobs. And it's time to consider a regulatory freeze or some other policy to slow the blizzard of red tape from Washington, which small businesses say is crippling their ability to expand.

To argue that extending unemployment insurance is too sacrosanct to discuss and debate is what is truly insulting and ridiculous.

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