

[From the Annals of Entirely Counter-productive Government Interventions](#)

Written by Tim Worstall

Monday, 23 November 2009 07:03

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Yes, we know, we're ruled by blithering idiots whose every attempt to make anything better makes everything worse: this is not cynicism about politics it is simply the wisdom which we all painfully acquire as we mature. There are also those few who drink deeply at the fountain of economic knowledge and are able to point to exactly where and when the idiots go wrong. Today's entry from the Annals, the Analects of Stupidity, brings together two wildly different economists: our own Richard Layard, New Labour Peer exemplary, and Alan Reynolds of the Cato Institute. Not people you would normally find agreeing on the colour of the sky but then that economic knowledge when imbibed does lead one to outbursts of truth telling.

First, Layard on the distinguishing feature between European and US unemployment [rates](#):

For example, Europe has a notorious unemployment problem. But if you break down unemployment into shortterm (under a year) and long-term, you find that short-term unemployment is almost the same in Europe as in the U.S. – around 4% of the workforce. But in Europe there are another 4% who have been out of work for over a year, compared with almost none in the United States. The most obvious explanation for this is that in the U.S. unemployment benefits run out after 6 months, while in most of Europe they continue for many years or indefinitely.

Elsewhere this is laid out as the pithy truth that if you subsidise something you get more of it. Reynolds makes the same point by quoting Larry [Summers](#):

Summers *knows* why the US rate is so high. He explained it well in a 1995 paper co-authored with James Poterba of MIT: "Unemployment insurance lengthens unemployment spells." That is: When the government pays people 50 to 60 percent of their previous wage to stay home for a year or more, many of them do just that.

But what has been happening in the US over the past year? Yes, unemployment has been rising to European levels and above. And what has also been happening is that unemployment benefits, or the time you can claim them, have risen to one and a half years in some states and near doubled to just under a year in all of them at minimum.

In reality, the evidence is overwhelming that the February stimulus bill has *added at least two percentage points* to the unemployment rate. If Congress and the White House hadn't tried so hard to stimulate long-term unemployment, the US unemployment rate would now be about 8 percent and falling rather than more than 10 percent and — rising.

Yes, OK, we know we're ruled by idiots: but do they have to be so damn expensive with their stupidity? We know that raising unemployment benefits, and extending their term, raises unemployment. So why do they extend them when we're already worried about the amount of unemployment we have?

And to have the effrontery to call it "stimulus" ....sorry, but that is so stupid, it hurts.

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Well, Frank Field *was* told to go and think the unthinkable on welfare, and for his obedience was given the sack.

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But following your logic, if 6 months is better than 18 months, then best of all must be zero months, which is sort of moving away from the Citizen's Income idea.

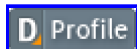
My favourite policies of the moment are hiking VAT from 15% to 17.5% again, but extending the car scrappage voucher scheme. Why not just net the two off and leave VAT at 15% on new cars? Or even better cut the rate ... ah, right ...

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