

Personal Liberty Digest

White House Maintains (Falsely) That Unemployment Benefits Create Jobs

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At a [press briefing](#) on Wednesday, White House Press Secretary Jay Carney said that extending unemployment insurance would create jobs, by directly infusing money into the economy. He made this statement in response to a question from *The Wall Street Journal*'s Laura Meckler, who asked: "I understand why extending unemployment insurance provides relief to people who need it, but how does it create jobs?"

"I would expect a reporter from *The Wall Street Journal* would know this as part of the entrance exam just to get on the paper," Carney responded. "It is one of the most direct ways to infuse money into the economy because people who are unemployed and obviously aren't earning a paycheck are going to spend the money that they get. They're not going to save it; they're going to spend it... everywhere that that money is spent has added business. And that creates growth and income for businesses that then lead them to making decisions about job — more hiring."

This is not the first time that the White House has argued that extending unemployment benefits will create jobs. In a [speech](#) on Aug. 5, President Barack Obama said: "When Congress gets back in September, I want to move quickly on things that will help the economy create jobs right now — extending the payroll tax credit to put \$1,000 in the

pocket of the average worker, extending unemployment insurance to help people get back on their feet, putting construction workers back to work rebuilding America.”

However, the CATO Institute, conservative think tank, tackled this issue in an [essay](#) posted online on Jan. 29, 2010, after several economic scholars had begun making new arguments for why extended unemployment benefits could create jobs.

The essay cites an Organisation for Economic Co-operation and Development (OECD) Employment Outlook report from 2007, which states: “It is well established that generous unemployment benefits can increase the duration of unemployment spells and the overall level of unemployment... This could have a negative impact on productivity through inefficient use of resources and depreciation of human capital during long spells of unemployment. In addition, by reducing the opportunity cost of unemployment, generous unemployment benefits may lead existing employees to reduce their work effort, thereby lowering productivity.”

The essay goes on to explain that “bribing people to stay on the dole for an extra 53-73 weeks leaves them with *less* money to spend, not more. It also looks bad on resumes, and may cause lasting damage to future job prospects.”