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David Dickey: Downside of extended jobless benefits

By [DAVID DICKEY](#)

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Among the most difficult conditions for any hardworking adult to endure is that of unwelcomed unemployment. Beyond the obvious financial hardships, unemployment can result in a loss of self-worth, strained family relations, and worse. Only the heartless would not wish better for the millions of unemployed across our nation. So how can we best help?

The direct approach is to give the unemployed money to hold them over until they are able to find a new job. The lame-duck Congress approved an extension of jobless benefits for an additional 13 months. This increases the maximum period for which benefits could be collected by a segment of the unemployed to well over two years.

Undoubtedly, those unemployed who qualify rejoiced, along with many other Americans.

However, is this the best policy for America? Are there alternatives that provide equal or greater benefit? If so, we would be remiss to not give them full consideration.

There are alternatives that many experts argue would provide a greater economic benefit to all Americans – the unemployed included. Economic studies have identified that there are significant costs associated with providing extended unemployment benefits (i.e., beyond a handful of months). These costs are born not just by the taxpaying employed, but, ultimately, by the unemployed as well. Consider the following:

According to the Organization for Economic Cooperation and Development, "It is well-established that generous unemployment benefits can increase the duration of unemployment spells and the overall level of unemployment." And, according to Alan Reynolds of the libertarian Cato Institute, "the overwhelming evidence that extended unemployment benefits raise the duration and rate of unemployment comes from economists in the Obama administration, Larry Summers and Treasury economist Alan Krueger, as well as many others."

- Unemployment insurance, UI, can be its own worst enemy, by discouraging personal saving. According to the National Bureau of Economic Research, "precautionary saving is a significant and, perhaps, the most important, determinant of individual wealth accumulation."

- Generous unemployment insurance programs encourage otherwise sympathetic and hesitant employers to lay off workers.

The argument that unemployment insurance payments create jobs has been discredited by numerous economic analysts. According to the Heritage Foundation:

- "The consequences of extended unemployment benefits are some of the most conclusively established results in labor economic research. Extending either the amount or the duration of UI benefits increases the length of time that workers remain unemployed."

- Studies that claim that UI benefits provide significant economic stimulus, "ignore the effect of UI benefits in raising unemployment and incorrectly assume that unemployed households spend every dollar of UI benefits they receive. Empirical studies contradict both of these assumptions."

"Heritage Foundation's macroeconomic modeling ... show that for each dollar spent extending UI benefits to 46 weeks, GDP expands in the first year by just \$0.17. Almost any other use of resources would provide a greater short-term boost to the economy."

During times of recession, short-term unemployment insurance can be a blessing. However, with studies having shown that extending UI payments for long periods are ultimately self-defeating, creating more unemployment than there otherwise would be, the relevant question is: Which is preferable, a person relying on the "safety net" of UI payments for an extended period, or a gainfully employed person?

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