MADISON COUNTY JOURNAL

Why are so many unemployed?

By Richard W. Rahn
October 15, 2014

In a new staff paper published by the New York Federal Reserve Bank titled "Unemployment Benefits and Unemployment in the Great Recession," the researchers found "that most of the persistent increase in unemployment during the Great Recession can be accounted for by the unprecedented extension of unemployment-benefit eligibility." The irony here is that President Obama and the congressional Democrats kept voting to extend the unemployment benefits, which had the effect of keeping unemployment far higher for a much longer time than if they had not done so.

Many of those who voted for the extension of unemployment benefits — up to 99 weeks — probably were under the mistaken belief that the increased spending by the unemployed would stimulate the economy. What they and even some of their economic advisers forgot is that a coin has two sides. The money to pay the unemployment benefits had to come from higher taxes on the employed; greater borrowing, which sucked potentially productive capital out of the economy; or money creation, which undermines the value of money for everyone. All of these are big economic downers. As the Fed researchers explained: "Our results lead us to expect that the stimulative effect of higher spending by the unemployed is largely offset by the dramatic negative effect on employment."

The artificially induced higher unemployment caused economic growth and total output to be significantly lower. The high unemployment and slow growth are major issues in the upcoming election — all working against the interest of the Democrats, who voted for this destructive policy.

Some Democrats voted for the extended unemployment benefits in the name of compassion for the unemployed without thinking through the consequences. As the researchers noted, those receiving unemployment benefits could afford to be more "picky" about what jobs they eventually chose to take, which added to wage pressure. The higher wage pressure caused employers to reduce the number of jobs they offered, thus causing fewer to be employed.

Jobs in the private sector are created by existing firms expanding or entrepreneurs creating new ventures and hence new jobs. Governments create impediments on job creation by doing such things as increasing taxes on labor, raising minimum wages above the full employment level, and increasing the number of nonproductive regulations. (Please see a short video with a very successful American entrepreneur, Bob Levy, discussing the growing difficulties of starting new businesses, on the website of the Center for Freedom and Prosperity Foundation.)

Clyde Wayne Crews of the Competitive Enterprise Institute produces an annual report detailing the rise of regulations. His new CEI report, "Ten Thousand Commandments," shows that under Mr. Obama, new regulations have reached a record high, and are now running about 60 percent more numerous per year than at the end of the Reagan administration. Even worse is the growth in the average private and public cost of the regulations and the decline in serious cost-benefit analysis before the regulations are promulgated.

There is no logical reason why the number of new regulations should grow at increasing rates each year. Most people and most businesses already think they are greatly overregulated. It is as though Moses came down the mountain with 10 rules the first year, 12 additional ones the next year, 15 the next, and so on. Would we have been better off if he had? Can you even remember the first Ten Commandments from Moses, let alone the approximately 80,000 new rules the Obama administration came up with each of the past few years?

Places with higher incomes per capita and lower unemployment rates than the United States, such as Switzerland, Hong Kong and Singapore, get by perfectly well with far fewer regulations, lower taxes and smaller government. They also have less crime, a cleaner environment and higher life expectancies than the United States. Most importantly, what they do have is economic freedom. The new Economic Freedom of the World Annual Report was just released last week. (It may be obtained online at freetheworld.com.) Hong Kong ranks No. 1; Singapore, No. 2; Switzerland, No. 4; and the United States a lowly No. 12. (The U.S was No. 3 as recently as 2001). The good folks in Hong Kong are demonstrating to keep their freedoms, while China, ranking a miserable No. 115, is trying to restrict their liberties.

The evidence is overwhelming that economic freedom, not government handouts, leads to prosperity. Most Chinese and U.S. politicians understand this, yet their lust to control the lives of others overrides real compassion and sound economics.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.