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Extension of jobless benefits feeds the problem

By E. THOMAS McCLANAHAN The Kansas City Star

President Obama recently congratulated Congress for restoring the pay-go rule, which says new spending must be paid for with budget cuts or tax increases.

Last week, Bunning used one of the Senate's arcane rules to stop a \$10 billion spending bill and demanded that its costs be offset with spending cuts.

The White House, forgetting its fiscal pieties, called him "irrational."

Democrats gloated and murmured about obstructionist Republicans. Commentators moaned about a Senate held hostage, petty tyrants in Congress, dysfunctional Washington, oh the unfairness of it all.

Instead of standing up for Bunning's simple point — if you're going to spend it, you've got to pay for it — most of Bunning's fellow Republicans cringed and ran for cover.

A few backed him up rhetorically, but you would have thought the supposed party of limited government would have made a better showing.

The impasse finally ended, but it was a most revealing week — and not only because the flap unmasked a lot of phony fiscal conservatives. There was more to this story than that.

A key part of the bill threatened by Bunning's quixotic stand was yet another extension of jobless benefits.

Democrats thoroughly enjoyed the spectacle of a Republican blocking aid to the unemployed. But actually, it's politicians in both parties — by continually extending jobless benefits — who have unduly increased the number of long-term unemployed.

This is one of those cases in which economics and politics are in conflict. It's good politics to be seen offering aid to people who need it. But it's bad economics to overly subsidize joblessness.

The problem: Unemployment benefits encourage people to remain out of work longer than they would without the aid.

"Everybody in economics knows this, they're just afraid to say it," said Cato Institute economist Alan Reynolds.

Nor is this conclusion confined to those on the right. As one prominent Democratic economist wrote in a 2005 article, jobless aid contributes to "long-term unemployment by providing an incentive, and the means, not to work."

Among the points made by this economist: Federal benefits raise a worker's acceptance threshold, encouraging a jobless person to hold out for a higher wage before accepting work. Jobless benefits lengthen the time a person remains idle.

Demand for labor by companies is obviously important. But if unemployment benefits were eliminated, "the unemployment rate would drop by more than half a percentage point, which means that the number of unemployed people would fall by about 750,000."

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The author of that article: Lawrence Summers, now director of the White House National Economic Council.

Other research has found that the probability of an unemployed worker going back to work triples as the duration of remaining benefits drops from six weeks to one, which is common sense. A looming deadline prompts more urgent action.

No one is talking about eliminating jobless benefits, nor should they — nor should benefits be abruptly halted without warning, as they were temporarily because of Bunning's action.

The real issue is unduly extending such aid. Democrats enjoyed portraying Bunning as heartless, but now Congress is debating whether to extend unemployment benefits even further — to the end of the year.

Given that these extensions encourage long-term unemployment and profoundly damage a worker's marketability, it's worth asking whom these politicians think they're "helping" — unemployed workers, or themselves.

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skeptic2 wrote on 3/8/2010 6:33:41 AM:

Unemployment benefits are what, one third of one's working salary? Is McCallahan suggesting that is going to encourage people to not look for employment?

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pbrstreetgang wrote on 3/7/2010 8:17:23 PM:

I haven't been unemployed once in the last 25 years. Before that, however, I was unemployed three times, once with a baby on the way. It's not a matter to be lightly dismissed by the esoteric logic and lazy analysis of a simple-minded pundit like Tom Mclanahan. Snarky comments may be fun to read, but when they lead to superficial policy, they're dangerous. Crack open a book that's not written by Ann Coulter and you might learn something.

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pbrstreetgang wrote on 3/7/2010 8:11:53 PM:

Hey sellersf: How hard is that to understand??? Really??? If employers had money to hire workers then we wouldn't have as many unemployed people. They don't because the financial crisis sent our economy into the outhouse. How hard is THAT to understand. I can't believe we have so many people in this country with so little compassion as to try to make unemployed people in the worst recession since the Great Depression out to be lazy. And who cares if the economist works with Republicans or Democrats? What's your answer? Let their families starve? I hope people are just as compassionate to you the next time you have a crisis.

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sellersf wrote on 3/7/2010 1:35:53 PM:

When you subsidize something, you get more of it. Unemployment benefits subsidize unemployment. How hard is that to understand? RxBxtr missed a key point in McClanahan's commentary, namely that job-seekers hold out for higher pay when they can keep collecting unemployment benefits. And he also seems not to have noticed that the author McClanahan quoted about the dysfunctional effects of unemployment benefits is Lawrence Summers, a top economist in both the Clinton and Obama administrations.

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RxBxtr wrote on 3/7/2010 8:11:23 AM:

"Other research has found that the probability of an unemployed worker going back to work triples as the duration of

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remaining benefits drops from six weeks to one...A looming deadline prompts more urgent action."

Seriously? And here I thought the probability of an unemployed worker going back to work increased in proportion to the number of jobs available. McClanahan obviously hasn't been in the job market for quite some time. If he were, he would know that there are hundreds of thousands of individuals collecting unemployment benefits who would give anything to have a job. And I take it that in his world, reducing the acceptance threshold would magically allow a worker who once earned \$40,000 to make mortgage, insurance and utility payments (not to mention buying food) in a full-time job paying half that amount.

Yes, there are some who abuse the system and remain chronically unemployed. But putting the blame on the majority who want to work is obnoxious and offensive. If he wants to reduce unemployment, McClanahan would do better to focus his attention on companies that hand out pink slips like candy, double and triple work loads on remaining employees and continue to spend lavishly on executive perks and customer soirees.

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