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It's time to extend unemployment benefits

With the exception of serious health problems, there are few experiences more traumatic than long term unemployment. Currently politicians in Washington D.C. are poised to let unemployment insurance benefits expire for more than 1.4 million Americans. Although extending such benefits does threaten to weaken incentives to work in some cases, such action is necessary.

Only after January can a Republican Congress take the steps necessary to end the out of control government spending, excessive taxation and regulation which have caused American business to shed more than 6 million jobs and led to a halt in new job creation.

Much of the reluctance to extend unemployment benefits past their traditional 26 week period is based on the belief, best stated by Michael Tanner of the Cato Institute that: "workers are less likely to look for work, or accept less-than-ideal jobs, as long as they are protected from the full consequences of being unemployed." The vast majority of economic studies, which reflect basic common sense, have proved this theory to be accurate. Like all theories, however, there are some circumstances under which external factors overwhelm its basic assumptions.

In order for an individual to find a job, someone must be willing to hire them. But congressional Democrats have made the decision to hire additional workers increasingly difficult for potential employers. While the decision on what salary or hourly wage to pay may be difficult in and of itself, what is truly daunting is the vast network of rules and regulations to which a business becomes subject when it hires additional workers. This is particularly true for small businesses which cannot spread the cost of compliance across thousands of workers.

With a Democratic Congress imposing vast new obligations on employers in the area of health care, stringent new 1,044 reporting requirements on businesses and the threat of new tax burdens, American businesses have become unable to measure the costs and risks of expanding their workforce. The obvious decision, and the one responsible for the nearly 10% official unemployment rate (the true rate is much higher), has been to stop hiring.

But it is not just labor and benefit costs which have been thrown into tremendous uncertainty by out of control government policy. With a Democratic Congress that has nationalized vast swaths of the U.S. economy; cut sweetheart deals with industry lobbyists in return for increased federal control over how many industries operate; and an effort to vastly increase energy costs, there is a tremendous feeling of uncertainty over business conditions in the future. The unfortunate, but perfectly understandable, reaction of such businesses has been to hunker down until it becomes clear how all this new federal intrusion will affect their revenues and costs of doing business.

More than at any time since the Great Depression, unemployed individuals who desperately want to work cannot find jobs. Unemployment benefits only provide a fraction of their former salary and the stigma of long term unemployment, which itself makes it more difficult to find a new job, can be expected to overwhelm the small disincentive to work until benefits run out. And while workers should be expected to increase their flexibility with regard to where and in what functions they work, it is absurd and counterproductive for society to require individuals to take employment in fields where their skills are largely wasted.

As an economist, I know that extended benefits are not a solution to the unemployment crisis we are in. But they are a necessary shock absorber to prevent the economy from spiraling down even further. This is a stopgap measure until a responsible Congress can be elected in November that will vastly decrease, not increase, the uncertainty which has caused American business to stop hiring. It is in everyone's interest that we do so.

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