
Rethinking unemployment aid

By Michael Tanner

Few things are as dangerous as Congress when it tries to be "compassionate."

Exhibit A: Congress is, yet again, trying to extend unemployment benefits.

At first glance, this seems like a no-brainer: Unemployment remains stuck at just under 10 percent. In some states, such as Nevada and Michigan, the number is closer to 14 percent. More than 15 million Americans are looking for work, and a million will see their jobless benefits expire in the next few months.

What member of Congress does not want to help out struggling workers? Yet a closer look reveals that extending unemployment benefits may do more harm than good. First, of course, there is the cost, one we don't have the money to pay. Extending unemployment benefits will cost \$47 billion. That seems trivial compared with, say, a new \$2 trillion health-care program, it is a steady stream of these expenditures that adds up to a \$13 trillion national debt.

The money Congress borrows to spend on unemployment today will have to be paid back by taxing workers and employers down the road. This slows economic growth and leads to fewer jobs in the future.

Therefore, whatever help we give workers today comes at the expense of workers tomorrow.

While old-fashioned Keynesian economists believe that extending unemployment benefits helps stimulate demand by pumping money into the economy, research by MIT's Jonathan Gruber and others suggests only a portion of unemployment benefits goes to consumption. In fact, a Heritage Foundation study concluded unemployment benefits add only a few cents to economic growth for every dollar spent. Virtually any other use of that money would provide more bang for the buck.

But perhaps most importantly, extending unemployment benefits may be bad for workers in the here and now. A large body of economic evidence suggests it would increase unemployment and keeps people out of work longer. This is because 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.

That is not to say anyone is getting rich off unemployment, or that unemployed people are lazy. But it is simple human nature that people are a little less motivated as long as a check is coming in. Who says so? Well, among others, no less than Nobel Prize-winning economist and liberal icon Paul Krugman. He wrote in *Microeconomics*:

"Public policy designed to help workers who lose their jobs can lead to structural unemployment as an unintended side effect. ... In other countries, particularly in Europe, benefits are more generous and last longer. The drawback to this generosity is that it reduces a worker's incentive to quickly find a new job. Generous unemployment benefits in some European countries are widely believed to be one of the main causes of 'Eurosclerosis,' the persistent high unemployment that affects a number of European countries."

In fact, roughly a third of those unemployed in the United States find work almost immediately when their benefits expire, according to a study by Stepan Jurajda and Frederick Tannery in *Industrial and Labor Relations Review*. Most find jobs in a matter of weeks. They also conclude current extensions of unemployment benefits have lengthened the average stretch of unemployment by three weeks or more. Other studies suggest workers' skills deteriorate the longer they are unemployed. So by protracting the jobless stretch, extended benefits result in reduced wages for the unemployed when they do find work.

Unemployment insurance was intended as temporary relief for the jobless. Workers originally could collect benefits for up to 26 weeks, in most circumstances, and up to 39 weeks in areas of high unemployment. But under multiple extensions already passed by Congress, workers can collect payments for as long as 99 weeks — nearly two years — in states with the highest unemployment rates. Half of those on unemployment now have been receiving benefits for more than six months.

No one lacks sympathy for the unemployed, which is why few politicians are willing to vote against jobless benefits. But one has to ask: Is there a limit? Unemployment insurance cannot be a guaranteed wage for life. Congress risks turning unemployment into just another welfare program, with a correspondingly low standard of living for its recipients.

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And that would not be "compassionate."

Michael D. Tanner is a senior fellow at the Cato Institute.