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Written by William P. Hoar on August 16, 2010

Getting Jobbed by the Government

Item: House Speaker Nancy Pelosi (D-Calif.) said not long ago that unemployment insurance is “one of the biggest stimuluses [sic] to our economy.” Fox News.com reported on July 1: “Unemployment benefits are creating jobs faster than practically any other program, House Speaker Nancy Pelosi said Thursday. Talking to reporters, the House speaker was defending a jobless benefits extension against those who say it gives recipients little incentive to work. By her reasoning, those checks are helping give somebody a job.”

Item: *On July 20, Diane Sawyer reported on ABC’s* World News With Diane Sawyer *program that Democrats had succeeded in extending unemployment benefits: “Help is finally on the way for millions of Americans whose unemployment checks have stopped. After two months of Republican delays, the Senate voted 60 to 40 on party lines to restore benefits to 2.5 million people out of work at least six months.”*

Item: *One of the “myths” about employment insurance, argued Heidi Shierholz of the Economic Policy Institute, is that is “doesn’t contribute to economic recovery.” Writing in the* Washington Post *for July 25, she said: “Perhaps surprising, providing assistance to the unemployed is one of the most effective ways to create more jobs.” She went on: “Virtually every dollar spent by the government on unemployment insurance … goes toward the eventual purchase of local goods and services, which boosts demand and saves jobs.”*

Correction: One can be overflowing with good intentions, driven by happy thoughts, and stuffed to the gills with wishful thinking, but the inexorable laws of economics still haven’t been repealed.

If you subsidize something, you tend to get more of it. If you tax something, you are likely to get less of it. If you pay people not to work, many will not. If you make it more expensive and difficult for businesses to hire workers, that is a disincentive to employment: Fewer jobs will result.

On the other hand, the political leaders in Washington and those who would give that central government the powers to fix every real or imaginary ill will resort to any number of fallacious rationales for their interventions in the market. When the object is overweening power, what’s a taradiddle or three?

Government is a taker, not a producer, of wealth. In this case, the feds will seize $34 billion from the productive private sector to provide benefits for up to 99 weeks to people who are out of work. The Republicans, by and large, did not oppose the extension, but they did object to the fact that the Democrats had not even bothered to “pay” for the move as they have promised repeatedly to do. The majority in Congress did not even try to find the $34 billion in cuts (the actual bill was more than double that, larded with additional pork) from the administration’s $3.8 trillion budget. The GOP got blasted by the major media for being obstructionist, while the Democrats got a pass for ignoring their own “pay-as-we-go" rules.

There are better ways to show sympathy to the unemployed than having the federal government spend money we don't have, incurring more debt, damaging the chance of a recovery, and hurting the economy as a whole. It's also fatuous to ignore human nature and make empty claims that unemployment benefits are some sort of super stimulus. Could we all really become rich by having the government pay everyone not to work for years on end?

As noted by Gary Wolfram, a professor of economics and public policy at Hillsdale College, "Suppose that unemployment benefits were $6,000 per week and lasted indefinitely. Is there little doubt that most of us would choose unemployment?"

Obviously the benefit level is not that high. However, the principle holds. Indeed, officials in the Obama administration have acknowledged some of the impacts of increasing the payments to those out of work. Before he became Director of the White House's National Economic Council, Larry Summers said that government "assistance programs contribute to long-term unemployment by providing an incentive, and the means, not to work. Each unemployed person has a 'reservation wage' — the minimum wage he or she insists on getting before accepting a job. Unemployment insurance and other social assistance programs increase [the] reservation wage, causing an unemployed person to remain unemployed longer."

A study in *Industrial and Labor Relations Review*, by Stepan Jurajda and Frederick Tannery, for example, found that about a third of the unemployed found jobs almost immediately when their benefits ended.

Many acts of alleged compassion, in the hands of the federal government, cause more harm than good. Writing in the *Wall Street Journal*, economist Arthur Laffer notes that for decades there has been a "close correlation between increased unemployment benefits and an increase in the unemployment rate. Those who argue otherwise don't have the data to back up their claims."

The Democratic argument, said Laffer, also ignores the impacts of unemployment benefits on employer costs and the need to make an after-tax profit. If workers "require more pay because of higher unemployment benefits, employers will hire fewer employees. Whether increased unemployment benefits incentivize workers to work less or disincentivize employers from hiring more workers, the effect will be the same — higher unemployment."

Laffer also takes apart the notion that such benefits are a marvelous way to stimulate demand. One flaw in that supposed logic, he writes,

> is that when it comes to higher unemployment benefits or any other stimulus spending, the resources given to the unemployed have to be taken from someone else. There isn't a "tooth fairy," or as my former colleague Milton Friedman repeated time and again, "there ain't no such thing as a free lunch." The government doesn't create resources. It redistributes them. For everyone who is given something there is someone who has that something taken away.

While the unemployed may spend more as a result of higher unemployment benefits, those people from whom the resources are taken will spend less.

The government's supposed help has already done a staggering amount of damage in the employment arena. The increase in the mandatory minimum wage, for instance, has had a vicious effect on those who are on the margins of need in the labor market, often those with low skills, young or minorities.

Teenaged black males experienced a jump in their unemployment rate to 57.1 percent five months after the latest minimum wage hike kicked in last year (the figure is not quite that high now). If there were truth in legislative advertising, the mandatory minimum-wage hike might have been called the Keep Black Males Out of the Labor Market bill.

Three years ago, as pointed out by Richard Rahn and Issy Santa of the Center for Freedom and Prosperity in the *Daily Caller*,

> Then-Sen. Obama and prominent African-American organizations thought a hike in the minimum wage would empower minorities.

So how much should workers be paid? $100 per hour? $25 per hour? $7.25 per hour (the current federal rate)? Or zero?…

After a nine-year battle, when [the July 2009] increase in the minimum wage took effect, the Democratic Policy Council declared, “This was a long overdue raise for American workers.” Maybe for some workers, but the 3 million blacks currently unemployed are now feeling the pain.

The minimum wage hike has cost employers more, an additional $2.10 per hour, and forced employers to lay off many minimum-wage workers — most of them young people who had their first real job — causing an overall rise in black unemployment.

The benefactors, whose magic wand in Washington presumes to know the worth of workers nationwide, prefer to point to those who get more per hour from their generosity with the money of others. But what of those who have now been priced out of a job? Cutting off a lower rung from the economic ladder can have detrimental effects for many years on individuals. It obviously makes it harder for employers to hire low-skilled workers.

Contrary to many claims, few families depend on minimum-wage jobs, with teenagers being about five times more likely to earn such a rate compared to adults. Almost all minimum-wage jobs are either part-time work or first-time jobs; moreover, an estimated two of three getting the minimum get a raise within a year.

Ask yourself: If it costs you more to employ people, would you hire more or fewer workers? In the real world, the answer is obvious.

Some Americans actually believed the country would get an employment boost through such interventionist schemes. They got jobbed.

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