Unemployment Rates Went Up With Increased Weeks of Unemployment Benefits

The National Bureau of Economic Research (NBER) released a study last week which concluded what many employers and UI program administrators had already observed. As emergency unemployment compensation (EUC) was extended for years after the Great Recession of 2009, not only did it discourage unemployed workers from actively seeking work and being willing to accept jobs available in the labor market, it also impacted the willingness of employers to create jobs because it pushed up the wage rates needed to pay qualified workers and increased the costs of hiring.

The general abstract of the study is below

Abstract
We exploit a policy discontinuity at U.S. state borders to identify the effects of unemployment insurance policies on unemployment. Our estimates imply that most of the persistent increase in unemployment during the Great Recession can be accounted for by the unprecedented extensions of unemployment benefit eligibility. In contrast to the existing recent literature that mainly focused on estimating the effects of benefit duration on job search and acceptance strategies of the unemployed -- the micro effect -- we focus on measuring the general equilibrium macro effect that operates primarily through the response of job creation to unemployment benefit extensions. We find that it is the latter effect that is very important quantitatively.

The study was the subject of an editorial in the Wall Street Journal (attached) and a summary is available at http://www.nber.org/papers/w19499

One key observation in the study is that increasing the maximum number of weeks from 26 to 99 was predictive of an increase in the total unemployment rate from 5% to 8.6%. Thus much of the dramatic increase in unemployment rate post-recession may have been the result of the increased number of weeks.

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The Wages of Unemployment

A new study shows how jobless insurance increased joblessness.

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No more sacred idea exists in American public policy than unemployment benefits. Unemployment insurance is thought of as an act of compassion and a necessary stimulative intervention to avoid a vicious cycle in which joblessness begets more joblessness. Not surprisingly, the Great Recession caused states to dramatically increase unemployment insurance up to 99 weeks—from the more traditional 26.

A striking new study from the National Bureau of Economic Research concludes this is a mistake. Longer-term unemployment insurance, rather than supporting a recovery, likely makes unemployment persist.

"Most of the persistent increase in unemployment during the Great Recession can be accounted for by the unprecedented extensions of unemployment benefit eligibility," conclude the authors of "Unemployment Benefits and Unemployment in the Great Recession." What's the problem?

The four economist-authors adopted an ingenious approach: Given how widespread long-term unemployment insurance programs have become in the U.S., they were able to compare results in counties that adjoin but that sit in separate states.

Because these common geographical regions share weather, housing markets, industry and culture, the economists were able to isolate the effects of differences in the duration of unemployment insurance, with normal adjustments for variations in such things as foreclosure policies.

Places with *more* unemployment generosity remained worse off than those with less. Unemployment, the economists write, "rises dramatically in the border counties belonging to the states that expanded unemployment benefit duration" compared to the counties next door. The benefit extensions can explain "most of the persistently high unemployment after the Great Recession."
The authors note the oft-heard criticism that extended unemployment benefits subsidize unemployment and discourage the supply of labor. But this phenomenon, they say, is small. The real

problem is job *creation*. There isn't enough of it, and so unemployment gets stuck at a high level. What brings unemployment down is not mainly the effort made by people to find jobs; instead, it's the *incentive* employers have to create jobs. Long-term unemployment benefits deter that job creation.
The reason is that extended unemployment benefits create upward pressure on wages. The higher wage level reduces the employer's potential profits on any new job created, so naturally they don't create them. With fewer jobs available, the number of unemployed who land a job also stays low. High unemployment persists.

This isn't a happy finding. Liberals, however, have to come to grips with its supply-side implications. Want to create jobs? Let employers prosper.