

IRET ***Congressional*** ***Advisory***

September 26, 1991 No. 1

MAKING A BAD SITUATION WORSE: THE ILL-CONSIDERED PLAN TO EXTEND UNEMPLOYMENT BENEFITS

In August, Congress passed a bill to extend unemployment compensation benefits to jobless workers who have exhausted their benefits for an additional 20 weeks. To release the funds to pay for the added benefits, the bill required the President to declare an emergency in order to breach the spending ceiling in the 1990 budget agreement without an offsetting tax increase. The President signed the bill but did not declare the emergency, effectively tabling the payment of the additional benefits. In response, the House passed a new extended benefits bill that deems an emergency to have been declared by virtue of the fact that the President signed the August legislation. The Senate passed its own version that retains the requirement that the President declare an emergency in order to release the funds. A conference to reconcile the two bills is expected to be convened and concluded quickly to send the legislation to the White House by next week.

The President should not have signed the first bill, and he should veto the second one. Both are prime examples of a feel-good mentality in government decision making that has pushed federal spending to record heights. Policy makers too often are far too generous in dispensing largesse using taxpayers' dollars, not their own.

The positive aspect of the extension is direct and obvious: it would assist people who have been unemployed several months and are about to or have already exhausted their unemployment benefits. Nevertheless, there are steep costs to the proposed extension that are indirect and less obvious, but no less real. The expense of the enlarged program would reduce production, saving, and, ironically, employment. As so often is the case, Congress legislated without the benefit of a careful consideration of what can be achieved and at what cost.

The current proposal, estimated to cost \$6.5 billion over the next 5 years (although actual spending usually turns out to be higher than forecast), would be deficit financed. It is peculiar that the very people who were most vociferous a few years ago about the supposed evils of the deficit when they were demanding that taxes be raised apparently are unconcerned today about a \$350 billion deficit when they are trying to push through another costly spending plan. This unconcern is particularly inappropriate because deficits are most damaging when they result from higher government spending. Higher spending means that the unproductive government sector is taking more valuable resources away from the productive private sector. The proposal rejects the sound financial rule that the costs of government programs should be made as obvious as possible, so people can judge whether programs are worth their costs; it opts for hiding government spending behind the deficit whenever possible.

This is not to say the plan would be improved if it were financed by higher payroll taxes. On the contrary, taxes on employment are potent job killers. By making it more expensive to hire workers, employment taxes destroy jobs. Imposing this extra cost on producers now, when they have been cutting back their work forces because of numerous other government-mandated expenses and because of the recession, would be especially bad timing. Thus, the unintended and perverse effect of hiking employment taxes to pay for extended

unemployment benefits would be to put more people out of work, robbing them of their economic productivity.

Senate Finance Committee Chairman Bentsen observed the other day that there is no need for offsetting revenues because the existing Extended Unemployment Compensation Account has a surplus right now of nearly \$8 billion. The Chairman needs to be reminded that there's a world of difference between the amount credited to an account in the federal budget and funds actually on hand. The Senator may look high and low, but he'll not find \$8 billion in actual money in that account or, for that matter, in any other trust account. Funding the \$6.5 billion in extended benefits will require the Treasury either to raise that amount in additional taxes or to sell that additional amount of Government securities. There's no free lunch for unemployment benefits anymore than there is for any other government spending program.

The Bush Administration suggested a superior funding method — offsetting cuts in other budget outlays — but Congress rejected it. If added unemployment benefits are so desirable, presumably they are worthier than some other government programs and should be paid for by cutting other government spending. Surely a few billion dollars of wasteful or low-priority programs can be located in a federal budget approaching \$1.5 trillion. This approach would prevent more generous benefits for the long-term unemployed from diverting still more resources away from the private sector. But the same policy makers who always seem to think that taxpayers can get along with a few dollars less indignantly insist that all government programs (except perhaps national defense) are too vital and successful to be trimmed.

Actually, if the intention is really to help the long-term unemployed, a simple reform of the unemployment program suggested by Robert Topel of the University of Chicago would extend the benefit period without increasing program costs (see Stephen Chapman, "To Help The Jobless Without Added Cost," *Washington Times*, August 6, 1991, G3.) Topel points out that at present workers become eligible for benefits after only one week of unemployment. At that point their financial losses have been neither large nor prolonged, and most of them will soon obtain jobs and paychecks again. The unemployment system could be better targeted to those genuinely in need by lengthening the waiting period slightly and using the resulting savings to stretch out the weeks of eligibility. This modification also has the virtue that it would lower the program's administrative costs because people who are only briefly unemployed would no longer file claims. As it is, the administrative costs of processing their claims are very high relative to the benefits they receive. A further advantage is that if people had to wait slightly longer before qualifying for benefits, they would have a stronger incentive to provide for themselves by saving more against a rainy day. This reform makes sense, even if it were not tied to an extension of the benefit period.

The current plan to extend unemployment benefits would be counterproductive. It would reduce output and employment and make people more dependent on government aid. It is not clear whether the benefit period should be extended. If it is extended, though, it should be financed either by increasing the initial waiting period or cutting government spending elsewhere.

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