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How Not to Create Jobs

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Last Friday, as the clock ticked toward 10 a.m., many labor economists were poised at their keyboards like runners about to do a 100-yard sprint. You see, the Bureau of Labor Statistics was scheduled to release its latest monthly report on state employment and unemployment, and everyone wanted to crunch the numbers and learn what they showed.

Why was this report different from any other report? In June, roughly half the states did something remarkable: They cut off enhanced unemployment benefits, even though the federal government was paying for those enhancements. That is, they turned away free money from Washington — money that was helping many of their residents, and also flowing into their states' economies.

The justification for this aid cutoff was the claim that generous unemployment benefits were deterring workers from searching for or accepting jobs, holding back economic recovery. So economists wanted to know whether states that slashed benefits would show faster job growth than states that didn't. This B.L.S. report would give a first indication of whether that was actually happening.

It wasn't; or to be more precise, if there was any effect, it wasn't strong enough to cut through the statistical noise.

This was more or less what economists who have been studying the issue expected to see. There have been huge swings in the size of the unemployment supplement since the pandemic began, from nothing to $600 a week, then back to nothing, then back to $300 a week. Those swings didn't seem to have much effect on employment. For example, a study by Peter Ganong and co-authors that used detailed individual data found some effect of unemployment benefits on the rate at which unemployed workers found jobs, but this effect was small.

Still, it was good to have confirmation from the B.L.S. data.

However, the absence of a large employment payoff to states that slashed benefits raises two questions. First, why didn't unemployment benefits seem to have much effect on employment? Second, why did half of states rush to cut benefits despite the absence of evidence that this was a good idea?

One answer to the first question is that the reluctance of some Americans to return to work reflects multiple factors — things like perceptions of risk, lack of child care and, as I suggested in yesterday's column, the fact that during the pandemic some workers came to realize how much they had hated their old jobs.

It's also likely that before the aid cutoffs some workers were accepting job offers even if these jobs paid less than they were receiving in unemployment benefits, believing that it was important to get established in a new job before the enhanced benefits ended.

But given all that, why were red-state governors and legislatures so sure that cutting off benefits would be a good idea?

Well, conservatives always seem to believe that social programs severely reduce the incentive to work, that we're becoming a "Nation of Takers" in which low earners are better off living on the dole. In most cases the disincentives created by social programs are, in fact, much smaller than people on the right tend to claim, but that fact probably hasn't gotten through.

I'm not saying that incentives never matter. Retirement age seems to be affected strongly by how much workers get if they retire early; France, which has made early retirement financially easy, has much lower employment among older adults than we do. On the other hand, prime-aged adults are *more* likely to be employed in generous welfare states like France and Denmark than they are here.

But why are conservatives so sure that social programs have huge disincentive effects on work? Maybe because what they really want is to cut benefits, and incentive effects are largely an excuse for doing so.

After all, many states that rushed to cut off unemployment benefits, including the big states of Texas, Florida and Georgia, have also refused to take advantage of Medicaid expansion under the Affordable Care Act. That is, they have rejected federal money that would help their states' citizens and put money into their states' economies — and they're doing this even though Medicaid, unlike unemployment benefits, doesn't greatly reduce the incentive to get a job.

It's hard to get a coherent explanation of why these states have rejected Medicaid expansion, but what's clear is that some politicians just dislike helping the poor and near-poor, never mind the economics.

So the evidence that cutting off unemployment benefits has produced a lot of pain for very little gain — another recent study, by Arindrajit Dube and co-authors, finds that only one of every eight people losing benefits found a new job, and that earnings made up for only seven percent of the lost benefits — probably won't cause any regrets among those responsible. The pain isn't a bug, it's a feature.

Quick Hits

Cutting pandemic aid just as the pandemic comes roaring back.

Florida.

"Unemployment benefits incentivize laziness."

Same as it ever was.

Facing the Music

A widely shared sentiment. YouTube

The title of this song was the original headline for this week's column.