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## Emergency jobless aid: An economic boost or a bust?

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Jim Gehrz / Minneapolis Star Tribune/MCT

Job seekers attend a job fair.

Supporters of the longer unemployment benefits that the Senate is now debating make a humanitarian argument:

Jobless people need the money to keep a roof over their heads and bread on their tables.

But the question gets more complicated when the argument turns to whether longer unemployment aid helps the economy, and here the state of North Carolina is in the spotlight.

North Carolina's participation in the federal Emergency Unemployment Compensation program ended last summer when the legislature reduced state benefits. The federal benefits kick in when jobless people exhaust their state benefits. But by law, states can't get the federal benefits if they shrink their own jobless programs.

North Carolina's unemployment rate dropped significantly since the benefits were reduced last summer, from 9.4 percent in November 2012 to 7.4 percent in November 2013, the largest drop in the nation, according to federal data.

The drop raises questions about whether it was the result of people feeling more pressure and taking what jobs they could find, or of them giving up and dropping out of the market.

"The jury is still out," said Robert Bixby, executive director of the Concord Coalition, a nonpartisan advocacy group devoted to reducing the deficit and ensuring the sustainability of entitlement programs.

Another question is whether the unemployment benefits help stimulate the economy. One view is that people with more money to spend end up helping to create jobs. Or, they hold out for higher-paying jobs, and employers create fewer as a result.

James Sherk, an analyst at the conservative Heritage Foundation, examined North Carolina's case in a blog post this week. The state's unemployment rate dropped 1.5 percentage points between the cut in benefits in July and November.

Sherk, who said the amount of the drop was surprising, said it can't simply be that people were dropping out of the labor market. That dropout rate was high before the benefits were cut and remained high afterward. He said the labor market improved, accounting for most of the decline in unemployment.

But he added that it was too soon to know if ending the benefits helped the economy. The data needed won't be in for another nine months, when employers have to report payroll tax payments.

Sherk, who does not believe benefits aid the economy, said that Congress should at least trim back how long people can get benefits to about 39 weeks. Longer benefits "encourage people to hold on to unrealistic hopes" that they'll get better-paying jobs, he said.

"The flip side is that if firms have to offer higher wages, they'll create fewer jobs," he said.

Offering a counter view, Mark Zandi, chief economist at Moody's Analytics, said, "Emergency unemployment insurance should be extended, and while it would be ideal if it is paid for, paying for it shouldn't be a necessary condition to extend it." He noted that the jobless rate remains high.

Congressional Republicans want spending cuts that would equal the costs of the jobless benefits.

The Senate voted on Tuesday to move ahead with a debate on how to extend the aid, with the expectation that tough negotiations lie ahead.

Sen. Kay Hagan, D-N.C., voted in favor of moving to a vote on extending unemployment insurance. Hagan has added a provision to the measure that would allow North Carolina to get back into the federal program if it resumes.

Sen. Richard Burr, R-N.C., opposed the extension. "Senator Burr is very concerned about those who are currently unemployed in our state and has in the past voted for extensions of unemployment benefits that were paid for and did not add to the deficit," said Burr spokeswoman Rachel Hicks.

Burr objected that Senate Democrats didn't allow senators to offer amendments to pay for the unemployment benefit extension, she said.

Zandi said that while the economy is on the upswing, not extending emergency unemployment insurance "will hurt, especially in the hardest-pressed regions of the country."

Ross Eisenbrey, vice president of the Economic Policy Institute, a nonpartisan, nonprofit policy research group, said the humanitarian argument was key. Those who receive the benefits did nothing wrong, he said, adding that federal labor statistics show that for every job opening, there are three people looking for a job.

But Eisenbrey said the decline in North Carolina's unemployment rate was mostly because people gave up on their job searches. Looking for work is a condition for receiving the benefits.

He also said that the extra spending from the benefits creates demand for goods and services.

"Economically, there is zero benefit from cutting unemployment insurance, and I see a lot of harm," he said.

Bixby said that extending the unemployment benefits would be good for the economy.

He said that it would be best to offset the costs and suggested closing tax loopholes as one revenue-producer. But he said that should be done in a way that doesn't cancel out the increase

of demand for goods and services.

Meanwhile, having people drop out of the job search isn't good, he added.

"Even though the unemployment rate might go down because there are fewer people looking for work, that's kind of like losing weight by getting sick. It's not the healthiest way to do it."

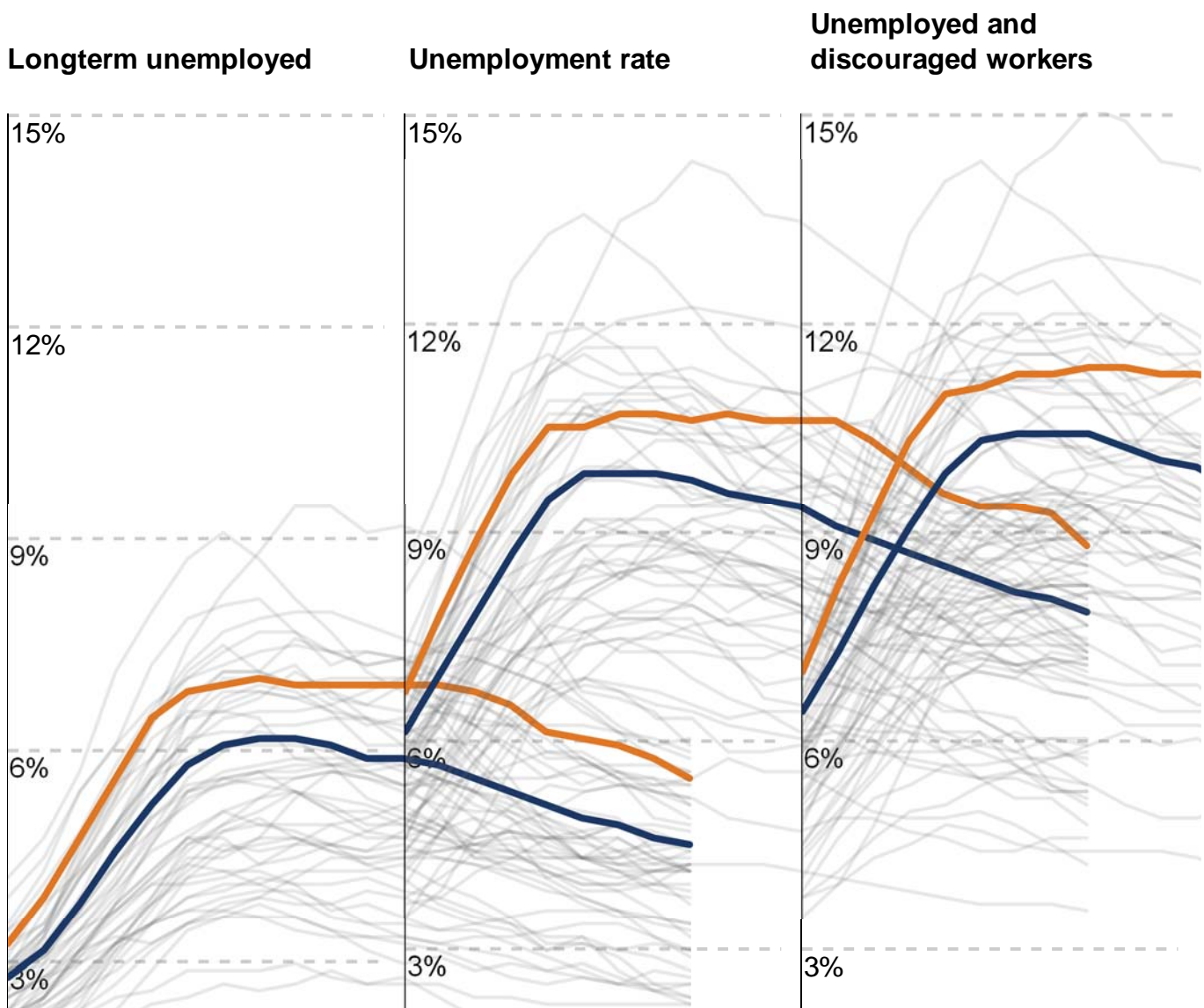
## State-by-state unemployment rates

North Carolina became ineligible to receive federal funds for extended unemployment when the state legislature reduced money for those benefits last session.

Benefits for the longterm unemployed lapsed for the rest of the country when Congress failed to extend the program past Dec. 28.

Select a state to show its annual average of quarterly unemployment between fourth quarter 2008 to third quarter 2013:

North Carolina  U.S.  Other states



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