# VIEWPOINT

Triad Business Journal welcomes letters to the editor

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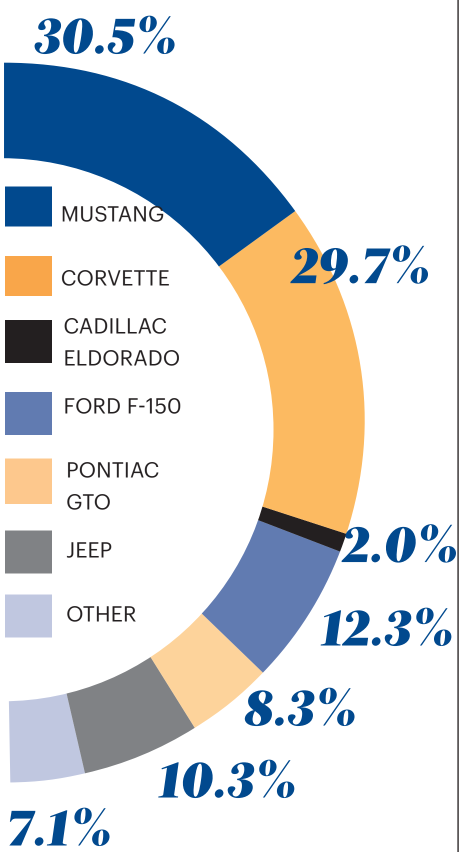
## ▸ BUSINESS PULSE SURVEY

### WE ASKED

WHAT IS THE GREATEST AMERICAN-MADE VEHICLE MODEL OF ALL TIME?

BASED ON 407 TOTAL RESPONSES




### THIS WEEK'S QUESTION

SHOULD COLLEGE STUDENT-ATHLETES BE ALLOWED TO UNIONIZE?

## POINT OF VIEW

# Cutting unemployment benefits has reverse effect

When North Carolina implemented sharp cuts in the size and duration of unemployment benefits last July, opinion was divided on what the effect would be. Republicans claimed the cuts would have what economists call an "employment effect," leading people to take jobs they wouldn't take while receiving benefits. The hoped-for result would be faster-rising employment.

Democrats argued that cuts would not only hurt those depending on benefits, but lead to a "participation effect," in which unemployed people become discouraged and leave the labor force.

Both effects act to reduce the unemployment rate. An employment effect does it directly, by increasing the number of people with jobs. The participation effect does it indirectly, because people not in the labor force are not counted as unemployed. Clearly, a strong employment effect would be good news for the state's labor market, while a participation effect would not be.

Sure enough, since mid-2013 the state's unemployment rate has fallen two full percentage points, to 6.3 percent in March. What's behind that?

When last I wrote about this, I noted weak support for both the employment and participation effects. I said we'd have to wait for more data before getting a clearer sense of which effect "won."

Those data are here. Nine months have now gone by since the benefit cuts, and the employment surveys behind the data have undergone their annual revisions. The data now paint a clearer picture.

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In the nine months preceding the cuts, North Carolina's labor force fell by 9,161 people. That's still a bit of a mystery, because it's unusual for the labor force to shrink for no reason. But in the nine months since the cuts, the rate of decline more than tripled, falling by 32,510 people.

The accelerating decline of the state labor force is evidence of a participation effect, which is part of the reason the unemployment rate has fallen. If all the people who left the labor force since mid-2013 were counted again, the recalculated unemployment rate for March would be 7.0 percent.

The big claim by supporters of the benefit cuts was that they would spur employment. Did that happen? In the nine months preceding the cuts, North Carolina added 56,800 jobs. In the nine months since the cuts, we gained 55,600 jobs, so growth actually slowed a bit.

These numbers are from the so-called establishment survey, which is the authoritative source for employment data. The "household survey," which generates unemployment data, tells a different story, but that survey uses a much smaller sample and is not considered reliable for this purpose.

Clearly, cutting unemployment benefits did not create jobs. And no wonder! Economic theory holds that cuts like that can increase labor *supply* by making some unemployed workers more eager to find work. But the weak job market isn't the result of insufficient labor supply. It's due to insufficient labor *demand.*

The reason employers aren't doing much hiring isn't a lack of qualified people, though that may be the explanation for some occupations. Hiring is weak because consumer demand is still weak. On a per-capita basis, taxable retail sales in North Carolina are still lower than before the Great Recession, in spite of the recent broadening of the tax base.

Economic theory predicted that cutting unemployment benefits would have no effect on job creation in an economy with slack labor demand. Now the data have confirmed this.

Want some irony? Reinstating the former level of unemployment benefits would create jobs, by increasing consumer spending.

## ▸ GAINERS & LOSERS

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### FAMILIAR FACE

Susan M. Cameron will return for a second stint as president and CEO of Reynolds American, replacing Daniel M. Delen effective May 1. Cameron served as the company's president and CEO from 2004 to 2011.

NOVARTIS ANIMAL HEALTH

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### GREENSBORO HQ?

Novartis Animal Health/Eli Lilly merger puts another Greensboro HQ operation at risk (along with RF Micro, which plans to merger with Oregon-based TriQuint Semiconductors). Will they stay or will they go now?


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### AMAZON

A study released this week shows an average 10 percent drop in sales for the online retailer in states in which it began collecting sales taxes, as it did in North Carolina in February. Party at Barnes & Noble!


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### APARTMENT MARKET

Despite what seems like a bazillion new units built in the last few years, Triad apartment occupancy is at 93.1 percent — the highest rate in more than a decade.