VIEWPOINT

Triad Business Journal welcomes letters to the editor

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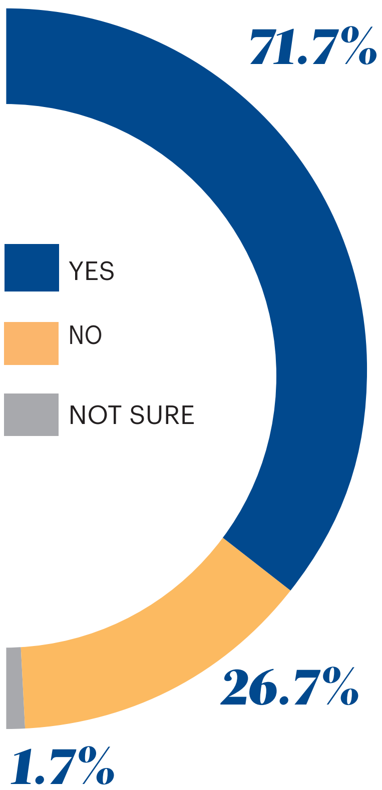
▸ BUSINESS PULSE SURVEY

WE ASKED

SHOULD NORTH CAROLINA REINSTATE THE TAX-FREE WEEKEND?

BASED ON 120 TOTAL RESPONSES



THIS WEEK'S QUESTION

DO YOU SUPPORT HYDRAULIC FRACTURING, OR FRACKING, IN NORTH CAROLINA?

POINT OF VIEW

Cut in unemployment benefits having unintended consequence

One of the key statistics tracked by economists is the number of initial claims for unemployment insurance (UI).

It's a leading indicator that usually starts rising before a recession begins and starts falling before it ends.

As it approached the pre-recession level in recent years, it became clear that the persistent weakness in labor markets was due not to additional layoffs but to a lack of hiring.

The number of initial claims is usually a good proxy for the number of layoffs. But when UI benefits are changing, as in North Carolina, the link between initial claims and layoffs may be weakened.

The number of initial claims in the U.S. began rising gradually in May 2007, well before the recession started in December of that year. (Initial claims are usually measured as a four-week average in order to smooth out weekly bumps.)

The figure for the week of May 13, 2007, was 302,000. The number more than doubled during the recession, but the most recent figure was 300,750, which is very close to the pre-recession level.

The situation was similar in North Carolina until about a year ago. At the end of June 2013, initial claims in the state were 10,787 per week, as compared to 10,889 in May 2007. But then things changed. Starting in July of last year, initial claims suddenly started falling. The most recent weekly figure was 5,134, which represents a drop of more than 50 percent.

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In other words, there are now fewer than half as many claims for UI benefits as during the last expansion. In fact, disregarding a stretch of even smaller numbers this spring, we have never seen fewer claims at any time since 1987, when this data series began.

This is surprising. A dynamic labor market involves lots of hiring and firing, and people go on unemployment even when the economy is healthy and growth is strong. But the North Carolina economy isn't so healthy, and growth is anemic.

It wouldn't be surprising for initial claims to be higher than in a strong expansion. But lower?

The explanation involves the timing of the 50 percent drop. Remember, the last time initial claims were at the pre-recession level was the end of June 2013. In July 2013, North Carolina started cutting UI benefits, and that's when the drop in initial claims began as well.

Prior to the cuts, the unemployed could count on 26 weeks of benefits at a maximum of $535 per week, for a total value of $13,910. Now it's 14 weeks and $350, for a total of $4,900. The total value of receiving UI benefits has fallen by two-thirds since last year. (The average benefit is currently $224 per week, implying a total value of just $3,141.)

So why the sharp drop in claims? It's not the falling unemployment rate, as that rate was much lower in 2007 and many other times. Instead, it appears that the decline is the result of fewer people finding it worthwhile to apply for UI benefits.

Dealing with a state bureaucracy isn't easy. It's worth doing only if the payoff is high enough. Apparently it's no longer high enough.

Therefore, not only has North Carolina cut what it pays in UI benefits, but it's effectively cut the number of people receiving benefits, and not because more of them have jobs. Add in the fact that the cuts didn't increase employment as promised, and this looks like a failed policy.

▸ GAINERS & LOSERS

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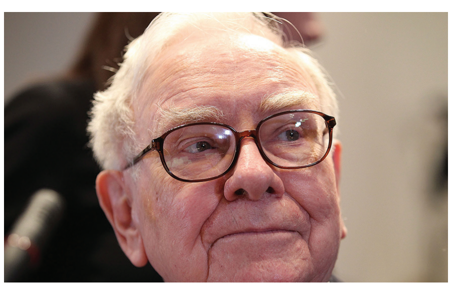
ALS RESEARCH

Cold cash being raised by ALS Ice Bucket Challenge aids disease research — including that being done at The ALS Center at Wake Forest Baptist Medical Center.



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WARREN BUFFETT

The billionaire gets some rare criticism for his financial backing of Burger King's bid to buy the Tim Horton's chain and move headquarters to Canada. Critics say Burger King is motivated by skipping out on U.S. taxes.

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CAR TRAVEL

Good news: Labor Day weekend gas prices reportedly cheapest since 2010. Bad news: Excuse not to visit weird Cousin Eddie is gone.

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WACHOVIA'S LEGACY

Wells Fargo names Rick Redden to replace Stan Kelly as Carolinas regional president, but he will be based in Charlotte. Kelly, a holdover from the Wachovia days, was based in Winston-Salem.