

NOBEL WINNING ECONOMICS STUDY SAYS UI BENEFITS ENCOURAGE PEOPLE TO REMAIN JOBLESS FOR LONGER TIME

UI benefits for the jobless have always been taken as a hallmark of liberal governments addressing survival concerns of deserving citizens who pay (taxes to) the government while they are fruitfully engaged, and expect a payback (UI benefits) from the government when they lack a job. However, reasonable UI benefits are a part of the package of developed economies or First World countries only. If we exclude the 15 or 16 First World countries then the rest of the world has either no UI benefits or ridiculous token amounts encumbered with endless red tape: thus forcing a situation where the applicant finds a job, before finding UI. Nevertheless, such economies not counted within the First World, but rather belonging to the Third World, have exhibited remarkable resilience during the present global recession. The Third World exhibited sound "developing" economies, while the First World experienced tottering "developed" economies verging on the brink of collapse. **The relationship between UI benefits and unemployment** Such anomalies led the Nobel winning trio to research deep into the relationship between UI benefits and unemployment and the findings, in a nutshell, are as follows:

- Traditional economic theories are insufficient to explain the simultaneous presence of high number of vacancies and a high number of unemployed in the labor market (*a classic example is the August 2010 labor market in US - while number of advertised vacancies were 40% more than that in August 2009, the number of actually filled jobs in August 2010 were only 6% higher than that of August 2009*)
- Weaker matching efficiency of a labor market results in longer periods of unemployment and a situation where people go jobless while jobs remain vacant
- Rapid structural changes in the labor market with a slowly adapting labor force but swiftly reacting employer segment can increase the rate of layoffs and bring about a situation where high unemployment and high number of job vacancies exist simultaneously
- In a situation supporting high UI benefits, workers can rationally exercise their choice to quit a job and engage in a full-time search for a better job as an investment strategy. The longer it takes to find the "right job," the longer is the period of joblessness
- Generous UI benefits encourage the jobless to search longer for the "right job" while still remaining jobless, than be employed in "any job," and results in higher unemployment rates (*extended UI benefits extends the situation and prolongs recession*)
- Welfare gains provided by UI by extending income security to those without jobs is undeniable, but the structure of UI should also take into account the necessity of putting "the right person in the right place" to address unemployment, economic revival, and unnecessary expenditure

The structure of UI benefits is off focus As far as jobs and unemployment is concerned, the study provides important insights, and the need to restructure UI benefits may be the greatest one from the angle of the unemployed as well as a nation. Simply providing a UI budget for income security without required stress on efforts to help and facilitate the jobless to find the "right job," is pretty off focus, as the study indicates. There is no sane person who would want a single day of UI benefits, if he or she found the right job within reasonable time. Hence, a significant part of UI insurance should be spent on facilitating people to find jobs rather than spending solely towards bland income security, and contributing to extended periods of joblessness and higher unemployment rates, which is devastating for any economy. Crux of the matter, as it emerges from the Nobel winning study - give us jobs rather than UI.

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