# US needs fiscal action on jobs

*New measures are under review – but don't say "stimulus"*

The signals are mixed, but the US recovery is looking sluggish. Ben Bernanke, the chairman of the Federal Reserve, gave a downbeat assessment of economic prospects earlier this week. The unemployment rate is already 10.2 per cent, high by US standards, and set to go higher. Attention in Washington is turning to the need for further action.

The White House and its allies in Congress would rather not talk of another fiscal stimulus. The first was unpopular and is seen by many as a failure. Instead, a "jobs bill" is being discussed. Tax breaks, new public works programmes and job-sharing initiatives are all under consideration. They will be discussed at a White House "jobs forum" next month.

New fiscal and monetary initiatives could make sense, but the administration must avoid a trap. To stimulate demand, the jobs measures must be allowed to increase the short-term budget deficit. In fact, they must be designed to. Nervousness over "fiscal stimulus" must not tempt the White House to deny this implication. Its diminished credibility could not stand such a ruse. Rather, the administration must emphasise its determination to bring the deficit back under control once the economy has recovered.

It has said nothing about this, except to issue blithe and wholly ineffective reassurance. This long-term credibility problem is crucial: it limits the administration's short-term fiscal freedom. Call a second stimulus something else, if you must, but do not pretend it will be deficit neutral – and as a matter of urgency start to lay out a strategy for long-term fiscal balance.

So far as the design of a new jobs bill is concerned, two measures commend themselves. The first should be uncontroversial: continue to extend unemployment benefits and maintain this dispensation until the unemployment rate returns to more normal levels. This acts directly on the distress caused by the recession and the money it puts in the pockets of the unemployed is sure to be spent rather than saved.

Another good though more complicated idea is to give firms a payroll tax credit if they expand their employment. Tie the credit to growth in total payroll costs, to limit opportunities for gaming, and focus it on low-wage workers. Some of the subsidy would leak. There is a limit in any case to what can be achieved: overpromising is another trap to avoid. But this measure, as part of an intelligently designed jobs bill, could do more good than harm.