

US jobs subsidies

Well worth a look, but the White House must be cautious

The US recession has probably ended, but the pace of recovery is uncertain and unemployment is likely to stay high for months. Barack Obama is considering measures to help the jobless and encourage new hiring. These might make sense - if properly designed and properly financed.

The severity of the recession and the persistence of high unemployment argue for a further extension of jobless benefits. This is a stimulus measure and compelling in humanitarian terms as well. It is a simple idea, easy to implement.

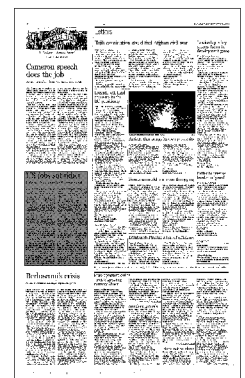
A subsidy to promote hiring, in the form of tax breaks tied to new jobs, is also worth considering. David Cameron has promised a measure of this sort for Britain, and many US economists commend such a scheme to the White House. This is a more ambitious idea, however, and the design is harder to get right.

The attraction of a marginal jobs subsidy is that it promises to make a little money go a long way by confining the hiring incentive to new jobs. That is the idea, anyway. It is easier said than done. A subsidy tied to new hires would encourage firms to sack existing workers and replace them. A subsidy that tried to avoid this by rewarding firms that increased the numbers on their payrolls would

tilt support from struggling industries and towards those that were growing in any case. Devising filters for this would further confuse a US tax code that is already choking on complexity.

In principle, an additional subsidy for low-paid workers - an extended earned-income tax credit, a scheme already in place - would make better sense. This is well targeted on poverty and the insecurely employed. It permanently increases the demand for labour at the bottom of the income scale. It would lead to fewer layoffs and more new hires. True, the relief also goes to those who would not have lost their jobs in any event, but since the workers concerned are poor, the subsidy serves a purpose in those cases too.

Whatever is proposed, the administration must be scrupulous about financing. The long-term US fiscal deficit is unsustainable. Further short-term fiscal stimulus, even if intelligently designed to help the unemployed and poor, cannot be allowed to add to that problem. Care must be taken that temporary measures are indeed temporary, and that changes with permanent fiscal impacts will be paid for. From now on, proposals unaccompanied by measures to retrieve the long-term fiscal position should be out of the question.



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