

# **JOBS – PART V: EXTENDED UNEMPLOYMENT BENEFITS, PAYROLL TAX HOLIDAY, and HIRING TAX CREDITS – JUST FOR “SHOW”? OR CAN THEY HELP?**

Stephen L. Bakke  October 3, 2011

*Dear Mr. President: I know you may be gettin' sic (sic) and tired of hearing from me like this on a moment's notice. (By the way, thanks for giving my "jottings" top review priority!) You undoubtedly think "This guy is a trusted influence for all conservative Americans, and I know I will satisfy him with my payroll tax holiday, hiring tax credits and extended unemployment benefits." Well, maybe, or maybe not! Let me reserve judgment until I consider some of the facts and drawbacks of these programs. I will step away now and do a little research on the topic. Then I'll decide whether or not to give you one more "UFF DAs!" Be back in a bit ..... – Steve Bakke – October 3, 2011.*

..... OK! I'm back!

The President's proposed "jobs legislation" has consistently and jealously guarded against trusting any jobs solutions to the private sector. Considering Obama's suggestions for a payroll tax holiday and hiring tax credits, at least a couple of them have the initial appearance of un-Obama-like incentives for the private sector. But, that's not the case with extending unemployment benefits.

## **Extended Unemployment Benefits**

The President has proposed extending the emergency unemployment benefits for an additional year. The premise is that these checks put money in the hands of people who are likely to spend it immediately, thereby helping business and making them more likely to hire.

I believe this will encourage some minor additional spending by those who receive the checks – but a great portion of the funds would come out of others' pockets and would thereby reduce spending for some consumers – probably not dollar for dollar, however.

All things considered, I'm "hanging my hat on" the study performed by the Federal Reserve Bank of San Francisco. Their report concluded that extending benefits will, in itself, cause a marginal **increase** in the rate of unemployment. Why? Because critics are correctly predicting that if people receive benefits, they are very likely to "soften" the intensity of their job search until it's necessary to search diligently. A large percentage of people will "milk the system" whenever possible!

I am surprised by the amount that extending benefits will increase the unemployment rate. It would be a .4% higher rate than it otherwise would be. Doesn't sound like much? Assume we are now at a 9.1% rate. An increase to 9.5% would be approximately a 4% overall increase (.4% compared to 9.1%). That's a big deal! That amount of change would have a huge negative impact on stocks.

I think I'm actually closer to supporting a temporary expansion of the **AMOUNT** of benefits, not the length of the eligibility period.

Bottom line: all by itself and in a vacuum, I would not support extending these benefits. If it were attached to other changes that I supported, I would probably take the bad with the good.

## Payroll Tax Holiday

The President has proposed extending, for one year, a cut in the payroll tax that supports Social Security. The cut was originally part of the deal struck last December by Obama and Republicans. I understand that the proposal would apply to both employers and employees and would reduce tax receipts by over \$100 billion – perhaps much more.

Would this help much? Give me a break! While there may be some marginal increase in expenditures, the change is temporary and VERY FEW employers will make permanent hiring decisions based on temporary fluctuations. I'm all for tax cuts that would produce jobs, but it's a fact that no employer makes important business decisions based on temporary on-year tax cuts.

Many experts feel that if there is a marginal increase in hiring in the short term, they are often merely "borrowed" from the subsequent year. **So what's the point?! The only true incentives come from permanent wide-ranging tax rate policies. That's what Obama doesn't get!**

Think about it – a payroll tax cut assists those currently employed more than the unemployed. Many people benefited by the payroll tax cut are not those who need it most, and they are likely to save these dollars rather than spending them. (For that reason even extended unemployment insurance would be better – landing more effectively in the hands of those who need it most.) Research done in recent years indicates (not proves) that people tend to save rather than spend available cash that they know to be temporary.

**AND!!!!** Reducing payroll taxes further weakens one of our economies biggest problems – the viability of the Social Security system. Is this wise?

I'm leaning agin' it!

## Hiring Tax Credits

The President has stated that the current jobs bill, and that includes the hiring tax credits, are paid for. Once more, (I'm running out of breath on this one!) you can't credibly claim you are paying for short-term programs with long term spending cuts. **YOU CAN'T DEPEND ON FUTURE CONGRESSES TO LEGISLATE YOUR NON-BINDING PROMISES!!!** It appears that his plan truly depends on the long-term to pay for the short term. **IT WON'T WORK THAT WAY!!!** History has proven this point. So, in effect, we are driving the deficit even deeper!

And once again, employers don't make permanent decisions based on **MINOR** short term "blips" in tax policies. Can you imagine a \$4,000 credit creating a \$50,000 **PERMANENT** job? And there are all sorts of quirks in the tax credit proposal that might bring unintended circumstances – consider the impact on current minimum wage workers (losing their jobs to make room for new, credit-qualified hires) and the requirement that the new employee must be hired for only 6 months. **It's a farce!**

I'm agin' it and .....

**I THINK THAT'S ABOUT 2 ½ (out of 3) NORWEGIAN "UFF DAs!" FOR THESE THREE ITEMS!**