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The New Jobs Tax Credit: A Tested Way to Fight High Unemployment

Timothy J. Bartik
W.E. Upjohn Institute, bartik@upjohn.org

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The New Jobs Tax Credit: A Tested Way to Fight High Unemployment

The \$787 billion economic stimulus was justified by its benefits for job creation. It is therefore curious that stimulus programs do not directly target job creation. Job creation is only accomplished as a byproduct of reducing taxes or building bridges. But job creation is more effectively accomplished by directly targeting these goals.

One policy that should be considered for fighting high national or regional unemployment is a revised version of the New Jobs Tax Credit (NJTC), used by the federal government in 1977–1978. The NJTC provided a tax credit to businesses for additions to their overall employment. The wage subsidy was equivalent, in 2008 dollars, to a little over \$7,000 per additional worker per year. The program at its peak provided such subsidies to 1.1 million businesses for adding more than 2.1 million workers, at an annual cost of a little less than \$4 billion, which, in today's dollars, is around \$13 billion.

Note that the NJTC only provided the credit for a business's net additions to its employment over some baseline level, not for all new hires. Subsidizing all new hires would encourage businesses to lay off workers and then hire to fill the vacancy, an undesirable incentive.

Some studies suggest that the 1977–1978 NJTC significantly increased employment. Perloff and Wachter's (1979) estimates imply that one-third of the jobs subsidized by the 1977–1978 NJTC were induced by this incentive; two-thirds of the jobs subsidized by the 1977–1978 NJTC would have been created without the subsidy. It is difficult with any subsidy to avoid some deadweight loss from subsidizing actions that would have been taken without the subsidy.

The result is that an NJTC creates new jobs—above what would have been created without the credit—at a cost, in 2008 dollars, of about \$20,000 per new job. This is far cheaper per job created than the recent economic stimulus. In May of 2009, the White House estimated that the cost per job created of the economic stimulus will be around \$92,000.

In my 2001 book *Jobs for the Poor: Can Labor Demand Policies Help?* (Bartik 2001, chaps. 8 and 10) I suggest some possible design features of a revised NJTC to make it more effective. First, the credit would be made refundable. This makes the credit more relevant to businesses that are less profitable. Second, the credit would apply to any employer that pays Social Security taxes. This would include many small and medium-sized businesses that do not file corporate income taxes. This would also include nonprofit organizations. Studies suggest that wage subsidies are more effective for smaller employers, who face greater financing constraints. Including nonprofit organizations means the program would in part create public service jobs, as well as jobs in for-profit businesses.

I estimate that in today's economy, a revised NJTC might increase aggregate U.S. employment by about 1.3 million jobs per year (Bartik 2008). This is the *net* increase in jobs, compared to what these employers would have done without this tax credit; the gross number of subsidized jobs would be greater. In addition, there would be some multiplier effects on job creation of spending additional funds. Therefore, total job creation would likely be greater than 1.3 million jobs. The estimated annual budget cost of this revised tax credit would be \$26 billion.

President Obama proposed a smaller NJTC, perhaps \$3,000 per job created, during his 2008 campaign. This proposal was not well received on Capitol Hill and was dropped from the final stimulus package. Some liberals were concerned about providing additional tax breaks to business with no guarantees of results, while some conservatives were concerned about attaching government conditions to tax breaks for business.

However, research suggests a revised NJTC is worth serious consideration. Creating over a million jobs at less than \$20,000 per job is quite an accomplishment. Even if a revised NJTC proves somewhat less effective, it might be superior to many fiscal stimulus measures.

The social benefits to reducing unemployment are great in a high unemployment economy. Some version of the NJTC should be considered as part of the response to high unemployment.

References

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Timothy J. Bartik is a senior economist at the Upjohn Institute.