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Jump-Starting the Job Market: How Well Will a Job Tax Credit Work

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The Great Recession is over, and an economic recovery has begun. Real GDP grew at a strong 4% average annualized rate during the second half of 2009, powered by a massive inventory swing and an unprecedented monetary and fiscal stimulus. These are temporary boosts, however, and until businesses respond by hiring more workers, it is unclear that the recovery will evolve into a self-sustaining economic expansion. The situation is particularly worrisome given that employment continues to decline and the unemployment rate is already close to double digits.

Policymakers are rightly focused on addressing the troubled job market. The Obama administration and the House of Representatives have proposed legislation that provides temporary tax cuts and spending increases in hopes of restarting the job market. The Senate will follow soon. Proposals being discussed include increased credit to small businesses, additional infrastructure spending and more public-service and summer youth jobs.

Also being debated are temporary tax breaks for businesses that expand their payrolls. Proponents hope a well-timed and meaningful reduction in the cost of labor will be the catalyst businesses need to resume hiring.

Gauging the employment impact of such tax breaks is very difficult. There was only one similar job tax credit in the late 1970s, but it was not well publicized and many businesses did not know about it. Much also depends on how the tax break is structured. Concerns about businesses cheating or gaming the tax benefit are reasonable, and safeguards to minimize abuse could make the process more complicated and less attractive, reducing participation.

Despite this uncertainty, however, a tax break is the best idea currently under consideration for ensuring the U.S. job machine kicks into full gear later this year. The plan could be particularly effective if implemented by late spring. Firms by then will have had time to regain their confidence, and banks should be extending credit somewhat more freely.

This article reviews conditions in the troubled job market and considers reasons for its ongoing difficulty. The advantages and disadvantages of a jobs tax break are considered broadly, and then more specifically in regard to proposals by the Obama administration, Senators Casey and Gillibrand, and Senators Schumer and Hatch.

Using the Moody's Economy.com macroeconometric model, we can quantify the plans' effects on employment and the broader economy. The models' simulations suggest the president's proposal would have the greatest impact, resulting in a maximum addition of 725,000 payroll jobs. The Casey-Gillibrand proposal would add 670,000 additional jobs and the Schumer-Hatch proposal would add some 250,000 jobs. The different employment impacts largely reflect differences in the size of the proposals. The president's plan adds nearly three times as many jobs as the Schumer plan, but it also costs approximately three times as much. In other words, the budgetary bang-for-the-buck of the plans is similar.

How bad is it?

The severity and breadth of the job market's problems are clear. The unemployment rate has surged to near 10%, despite a very unusual decline in the labor force.[1] Unemployed workers are likely leaving the job market, perceiving that there are no jobs to be had. Indeed, there are now almost six unemployed workers for each available position. In normal economic times, there is at most one unemployed worker per open position. If the labor force were growing at closer to the 1% annual pace that prevailed just before the recession, the unemployment rate would be well over 11%.[2]

Anyone who loses a job has an extraordinarily difficult time finding another. The average length of unemployment has risen above six months, and well over a third of the unemployed have been out of work for more than the 26 weeks normally covered by unemployment insurance. Even in the early 1980s' downturn—the last time the unemployment rate was in double digits—only a fourth of the unemployed were out of work that long. During the worst recession of the 1950s, closer to one-tenth of workers were in this difficult position.

The unemployment statistics are bad, but they still understate the stress in the job market. Including those working part-time because they cannot find full-time work and those who want to work but not counted as unemployed because they have not looked for jobs in the past month, the so-called underemployment rate jumps to almost 17%. This is the highest level since the Great Depression (see Chart 1)[3] and represents 25 million Americans.

Some recent signs have been encouraging. The rate of job loss is down significantly, from nearly 700,000 per month in the first quarter of 2009 to fewer than 100,000 in the fourth quarter. Initial claims for unemployment insurance have fallen from a peak above 650,000 per week to around 450,000. A rate of new unemployment claims closer to 400,000 per week would be consistent with stable payrolls. The number of temporary jobs has also risen recently, a positive leading indicator, as businesses hire more temps before they add full-time workers. The Census Bureau will also soon begin to hire more than a million temporary workers to conduct the 2010 Census. All this is good news, suggesting job growth is set to resume soon. But it is not nearly good enough.

[1] The last time the labor force declined as significantly was during the Korean War in the early 1950s. The statistics cited in this section are from the BLS.

[2] The highest unemployment rate since the Great Depression was the 10.8% suffered in late 1982.

[3] This is the so-called U6 unemployment rate, which the BLS constructs going back to 1994. Prior to 1994, the data are estimated by Moody's Economy.com.

Chart 1: Lost in Unemployment
% of labor force that is unemployed and underemployed

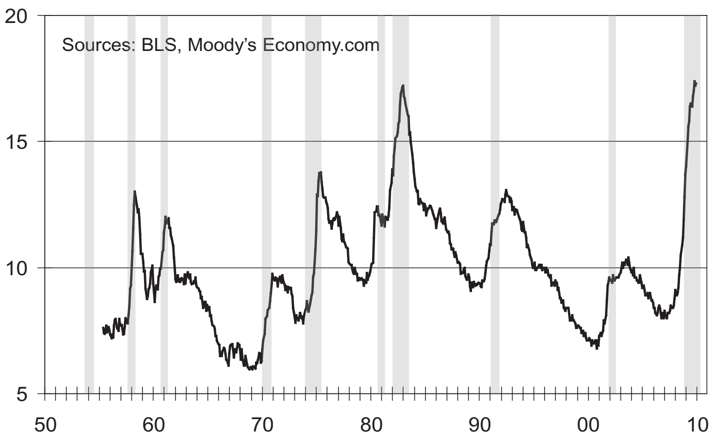
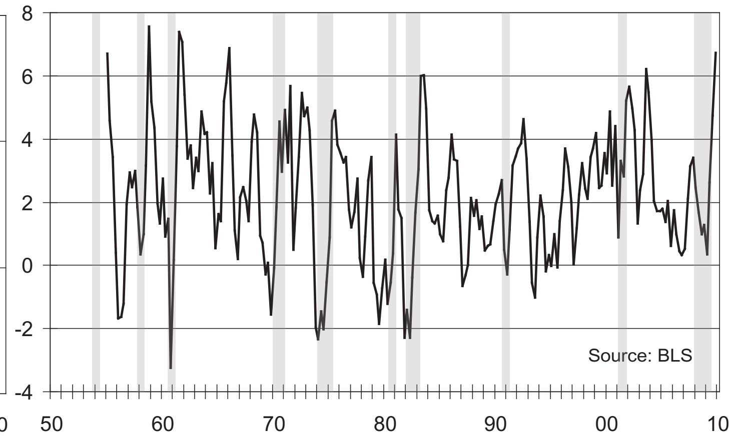


Chart 2: Productivity Soars
Annualized % change, 3 qtrs



What's the threat?

Historically, changes in employment and unemployment closely follow changes in GDP. Output rises coming out of recessions; employment increases a few months later, and unemployment begins to decline some months after that,. In the past, businesses could not produce more without hiring more workers. Unemployment took a bit longer to fall as formerly discouraged workers rejoined the job market. In the time it took for this group to find work, the unemployment rate would increase before beginning to decline.

This dynamic of stronger output leading to hiring leading to lower unemployment has been important in the transition from recession to recovery to expansion. Without the additional jobs and income, consumers do not have the confidence to spend more aggressively, which is precisely what is required for businesses to increase output.

In more recent business cycles, including the 1990-1991 and 2001 downturns, this dynamic has held less strongly. GDP increased as the recessions ended, but hiring lagged, and unemployment lagged even more. Expansions ultimately took hold, but the jobless recoveries of these periods made the transition difficult. This dynamic seems to have broken down even further in the current cycle. GDP swung from a sharp decline to an increase in the third quarter of 2009, and while job losses have become less severe, they continue.

The current recovery has continued despite the lagging job market only because of the support to household incomes coming from the federal government. Automatic stabilizers and the fiscal stimulus have sharply lowered tax burdens and increased transfer payments.[4] After-tax incomes have risen a bit over the past year, but only because help from the federal government has more than offset moribund wage growth.

Concern about the job market would be less acute if unemployment were not already so high. With such a surfeit of labor, already-weak compensation growth threatens to stall or even decline. It is not unusual for real, or inflation-adjusted, compensation growth to fall in recessions, but nominal compensation has not fallen since the Great Depression. Falling compensation would be the catalyst for a pernicious deflationary cycle.

What's ailing the job market?

The most straightforward answer to why employment continues to decline despite rising GDP is that productivity has increased—indeed, it has soared. Productivity expanded at close to a 7% annualized pace during the last three quarters of 2009, among the strongest gains seen since World War II (see Chart 2). Productivity growth weakened during the Great Recession, but it never fell.[5]

Businesses will not be able to raise productivity indefinitely, but neither are they likely to give up gains they have achieved, particularly if the surge is due to information technology investments made since the mid-1990s. Information technology has powered productivity growth for years, but businesses may not have been able to take full advantage of it because of the costs associated with significantly cutting payrolls. There is less financial pressure to make such changes when times are good. But in tough times such as now, firms are more willing and able to change. The result is a measurable and permanent downward shift in the number of workers needed to produce a given level of GDP.

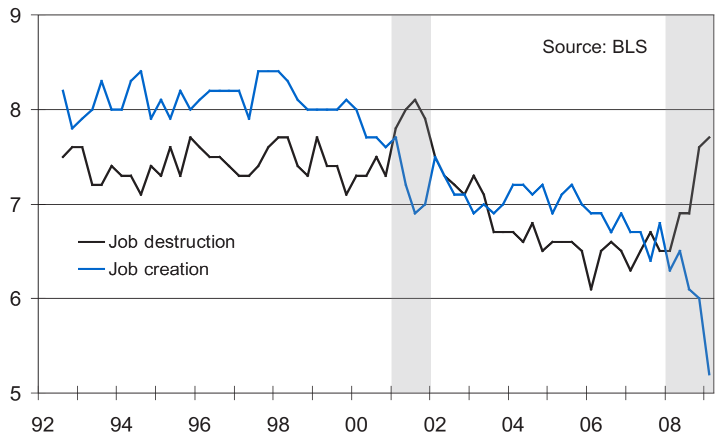
This does not need to be bad for workers, assuming businesses use the profits generated by productivity gains to expand and eventually add to payrolls. Such a process is particularly important now, with demand already fragile. But it has yet to happen. Businesses are scaling back layoffs—although they remain uncomfortably high—but hiring remains dormant. The number of workers hired each month has slid from nearly 5.5 million before the recession to 4 million in recent months.[6]

What makes the recent downturn unusual is not the rise in layoffs, but the plunge in hiring. The so-called job destruction rate is somewhat lower today than it was during the height of the 2001 recession, but the job creation rate

[4] Automatic stabilizers are federal programs that automatically adjust without explicit action by Congress or the executive branch. The fiscal stimulus includes temporary tax cuts and spending increases legislated and implemented to cope with the downturn.
[5] This is on a year-over-year basis; productivity did edge a bit lower on a quarterly basis early in the recession. Revisions to GDP, employment, hours and productivity will eventually occur but are still likely to show productivity rising significantly.

[6] This is based on the BLS's jobs opening and turnover survey. Net job growth equals the number of workers hired less the number of layoffs, quits and other separations.

Chart 3: Job Creation Evaporates
Rate of job creation and destruction, %



is much lower (see Chart 3).[7] Judging by the job creation rate, businesses are much less willing to hire than at any time since the BLS began calculating these numbers in the early 1990s. The contrast with the job creation rate during the tech boom of the 1990s is particularly striking.

Job creation has fallen across all industries, although not surprisingly, it has been most pronounced in construction and manufacturing and related industries such as wholesaling and transportation. The decline is also evident across firms of all sizes but has been disproportionately large among very small businesses (those with up to four employees) and very big ones (with more than 1,000 employees). Given the large number of workers in small businesses, about half the decline in job creation has been among firms with fewer than 100 employees; about a fourth has occurred among firms with between 100 and 1,000 employees; and the remaining fourth has involved firms with more than 1,000 employees (see Table 1).

The principal impediment to hiring at smaller businesses appears to be a lack of credit. According to the Federal Reserve's senior loan officer survey, banks are no longer aggressively tightening underwriting standards for loans to small and mid-sized businesses, but standards remain exceptionally tight.[8] This is evident in the credit data, as commercial and industrial loans outstanding continue to fall rapidly, and the number of bank credit cards has plummeted by nearly 90 million, or 25%, since peaking in mid-2008.[9] Most C&I loans go to large businesses, and credit cards go to consumers, but small businesses rely heavily on both loans and credit cards to finance their activities.

Small-business borrowers are also likely being hampered by the plunge in housing and commercial real estate prices. Real estate is often used by small-business owners as collateral for borrowing. With the value of that collateral less certain, lenders are less willing to make loans.

The likely impediment to job creation at large businesses is not credit—the cor-

[7] Job destruction and creation rates, measured as the ratio of layoffs and hires to the labor force, respectively, are from the BLS business employment dynamics survey.

[8] The Fed asks respondents whether they have tightened their underwriting or increased their loan spreads in the last quarter. Recent responses indicate that fewer lenders are tightening further, but there is no indication they have eased after the extreme tightening that occurred this time last year.

[9] It is difficult to disentangle the impact of credit standards and weaker credit demand on credit outstanding, but suffice it to say, standards have arguably never been as stringent.

Table 1: Very Small and Very Big Businesses Account for a Disproportionately Large Share of the Problems in the Job Market

Change between 2009Q1 and 2007, ths

	Job Creation	Job Destruction	Job Creation Less Destruction	Share of Jobs 2007	Share of Job Creation	Share of Job Destruction	Share of Job Creation Less Destruction
TOTAL	-1,648	1157	-2805				
0-49 employees	-649	340	-989	41.5	39.4	29.4	35.3
0-4 employees	***-146***	***92***	***-238***	***6.0***	***8.9***	***8.0***	***8.5***
5-9 employees	*-134*	*39*	*-173*	*8.0*	*8.1*	*3.4*	*6.2*
10-19 employees	*-155*	*67*	*-222*	*10.9*	*9.4*	*5.8*	*7.9*
20-49 employees	*-214*	*142*	*-356*	*16.6*	*13.0*	*12.3*	*12.7*
50-249 employees	-331	318	-649	29.0	20.1	27.5	23.1
50-99 employees	*-151*	*143*	*-294*	*12.9*	*9.2*	*12.4*	*10.5*
100-249 employees	*-180*	*175*	*-355*	*16.0*	*10.9*	*15.1*	*12.7*
Over 500 employees	-670	499	-1169	29.5	40.7	43.1	41.7
250-499 employees	*-119*	*116*	*-235*	*9.2*	*7.2*	*10.0*	*8.4*
500-999 employees	*-104*	*94*	*-198*	*6.9*	*6.3*	*8.1*	*7.1*
Over 1,000 employees	***-447***	***289***	***-736***	***13.4***	***27.1***	***24.9***	***26.2***
0-100 employees	-800	483	-1283	54.5	48.5	41.7	45.7
100-1,000 employees	-403	385	-788	32.1	24.5	33.3	28.1
Over 1,000 employees	-447	289	-736	13.4	27.1	24.9	26.2

Sources: BLS Business Employment Dynamics, Moody's Economy.com porate bond and commercial paper markets are functioning well—but rather policy uncertainty. Policy changes now being debated in Washington arguably have not been this sweeping since the Great Depression. The most obvious include reforms of healthcare, energy, financial regulation and tax policy. Except for the energy and climate change legislation, all seem likely to produce new laws during the coming year. Each could have enormous implications for businesses; thus, firms are likely holding back on expansion decisions until there is more clarity from Capitol Hill.

The potential of policy to impact job creation is amplified by the ability of large firms to shift activities overseas. Despite big productivity gains and lower labor costs in the U.S., costs and market opportunities in emerging economies are growing in attractiveness.

Uncertainty and indecision among business executives cannot be discounted as a reason for the poor job market. Business surveys broadly show sentiment has improved since this time last year, but it remains extraordinarily fragile (see Chart 4).[10] Many businesses suffered near-death experiences during the recession, and those memories remain fresh.

Job tax break

Given the struggling job market and the threat it poses to the recovery, it is appropriate for policymakers to consider steps to jump-start job creation. At the top of the list is a temporary tax break for firms that increase their payrolls. Businesses may expand payrolls by giving their existing employees more hours, raising wages, and/or hiring more workers. The tax breaks being considered take a number of forms, including reductions in payroll taxes and tax credits for adding and retaining employees.

The principal economic logic behind such a tax break is that temporarily reducing the cost of labor will prod businesses to expand. The time appears increasingly opportune for such an inducement. For businesses to add to their payrolls they must first be confident that there is sufficient demand for whatever their new employees will produce. Demand, as measured by real final sales, has been increasing modestly since the recession ended last summer. Gains in exports have been particularly notable. Policy efforts to shore up demand remain substantial; moreover, federal money could soon fund additional emergency unemployment insurance benefits and increased aid to financially strapped state governments.

Many businesses also need access to credit to finance expansion and increase hiring. While credit remains constrained, particularly to smaller businesses, there are substantial policy efforts underway that should soon bear fruit. The Small Business Administration has been empowered to extend more credit, and substantive changes to the SBA's loan guarantee programs have made them more effective. The Obama administration has also proposed funneling leftover TARP funds to small banks, to enable them to make more small-business loans.

Only when demand is sufficiently strong and credit is ample do businesses focus on the cost of labor and whether it makes sense to add jobs. Demand should be firmer and credit flowing more freely by this summer—just about the time a tax break for hiring would be in full swing.

There are some meaningful downsides to providing tax breaks for hiring. The most obvious is their cost. The proposals

Chart 4: Near-Death Experiences Undermine Animal Spirits
Net % of small businesses planning to increase total employment

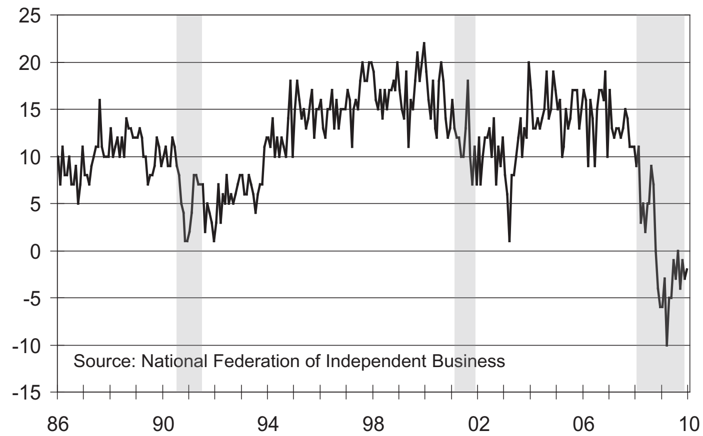


Table 2: Fiscal Stimulus Bang for the Buck

Tax Cuts	Bang for the Buck
Nonrefundable lump-sum tax rebate	1.01
Refundable lump-sum tax rebate	1.22
Temporary tax cuts	
Payroll tax holiday	1.24
Job tax credit	1.30
Across-the-board tax cut	1.02
Accelerated depreciation	0.25
Loss carryback	0.22
Housing tax credit	0.90
Permanent tax cuts	
Extend alternative minimum tax patch	0.51
Make Bush income tax cuts permanent	0.32
Make dividend and capital gains tax cuts permanent	0.37
Cut in corporate tax rate	0.32
Spending Increases	**Bang for the Buck**
Extending unemployment insurance benefits	1.61
Temporary federal financing of work-share programs	1.69
Temporary increase in food stamps	1.74
General aid to state governments	1.41
Increased infrastructure spending	1.57

Note: The bang for the buck is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending.

Source: Moody's Economy.com

[10] The National Federation of Independent Survey of small businesses, the Conference Board survey, and Business Roundtable surveys of large businesses, and the Moody's Economy.com weekly global business survey all roughly show this.

being debated have upfront costs ranging from approximately $12 billion to $35 billion. The ultimate costs—after accounting for the additional tax revenues and lower government spending from a better job market and stronger economy—are lower. Still, unless these costs are covered, they will add to the nation's already-daunting long-term fiscal problems. It is worth noting that the bang-for-the-buck from a job tax break—the increase in real GDP per dollar of budgetary cost—is the highest among various tax cuts often considered as part of the fiscal stimulus (see Table 2).

Job tax breaks are also not particularly efficient, in that most firms that receive the benefit would arguably have increased their payrolls without it. It probably is not a bad thing to provide a boost to these businesses, as they likely are the engines of job growth, but the number of jobs directly created because of firms' temporarily lower taxes is modest.

Another potentially serious problem is the potential for gaming by businesses. It is difficult for policymakers to anticipate all the ways businesses might take unintended or inappropriate advantage of a job tax break. Various safeguards can be put in place to mitigate this, but the tighter the safeguards, the more complex the process becomes, reducing businesses' participation and thus the number of jobs ultimately created.

Yet weighing all the potential pluses and minuses, a job tax break still seems a worthwhile policy effort at this point in the recovery. A well-designed and appropriately sized tax break will measurably raise the odds that hiring will revive in earnest and that the recovery will evolve into a self-sustaining economic expansion by this time next year.

The Obama plan

The Obama plan, known as the "Small Business Jobs and Wages Tax Cut," provides a credit of up to $5,000 to be applied against a firm's payroll taxes for each net new employee hired in 2010. The credit is available for all businesses, regardless of their size, and new startup firms may claim a credit of up to $2,500.

Small businesses, defined as firms with fewer than 50 employees, would also not be required to pay their 6.2% share of Social Security payroll taxes on wage increases above the rate of inflation. This benefit is based on Social Security payrolls and would thus not apply to wage increases above the current taxable maximum of $106,800.

The credit would be claimed quarterly by businesses and the total tax benefit per business would be capped at $500,000. Nonprofit organizations would be eligible but state and local governments would not.

The upfront cost of the Obama plan is estimated at $33 billion (see Table 3).[11] At its peak employment impact, reached at the end of 2010, the plan would add close to 725,000 jobs.[12] The upfront cost per additional employee, a measure of its efficiency, is also the lowest among the plans at $45,500. After accounting for the increase in other tax revenues and lower government spending resulting from the plan's impact on broader economic activity, the ultimate cost per additional employee is $36,400. It is the most cost efficient of the plans, although differences among the plans are modest and within the margin of error involved in making such estimates.

The Obama plan's ability to spur additional job growth is enhanced by the size of the tax credit for adding workers. This is a substantial incentive to businesses to add jobs rather than give existing workers more hours or raise wages. With hours worked near a record low, businesses have a strong incentive to increase hours rather than employment. Providing nonprofits and startups with a tax break also increases the plan's reach and the number of jobs created.

Another nice feature, common to all of the proposals, is allowing businesses to claim part of the credit each quarter instead of waiting to file annual tax returns. Businesses will appreciate the quick cash to defray some of their hiring and other costs.

Limiting the job creation potential of the Obama plan is its $500,000 cap on the tax break per business. The intent is to limit the plan's cost, to ensure that smaller businesses are able to receive much of the benefit, and to guard against some forms of gaming; but the cap also limits the plan's efficacy. The plan is also relatively complex, reducing its job impact, but as such, it is also the best at dealing with potential abuse by businesses.

The Casey-Gillibrand plan

The Casey-Gillibrand plan, "Job Creation Tax Credit," provides a credit against payroll taxes equal to 20% of the increase in payroll costs for small firms with less than 100 employees. Large firms would receive a 15% credit but only if they have at least a 3% increase in payroll over the past year. To claim the credit firms must have more employees than they did in the same quarter in the prior year. The credit is based on Social Security payrolls and thus does not apply to wage increases above the current taxable maximum of $106,800.

As in the Obama plan, the credit would be claimed quarterly by businesses, but the total tax benefit per business would be capped at a lower $350,000. The credit is nonrefundable which means that nonprofits and state and local governments are not eligible for the credit.

[11] This cost estimate is very similar to the administration's own estimate of the plan's cost.

[12] The job tax benefit is assumed to begin in April 2010 for all of the plans considered in this analysis.

Table 3: Employment Impact and Cost of Job Tax Break Proposals

	Maximum Additional Jobs	Upfront Cost	Upfront Cost Per Employee	Ultimate Cost Per Employee
Obama	726,532	33,049,800,000	45,490	36,392
Schumer/Hatch	249,600	11,678,120,000	46,787	43,980
Casey/Gillibrand	667,277	35,088,000,000	52,584	43,119

Source: Moody's Economy.com

The upfront cost of the Casey plan is estimated at $35 billion, and its peak employment impact early in 2011 is 670,000 additional jobs. The upfront cost per additional job is thus $52,600 and its ultimate cost per additional job after accounting for the impact of a stronger economy on tax revenues and government spending is $43,100.

The Casey plan's most significant advantage is the size of the tax credit, which is the largest of the proposals. The tax savings to businesses are large enough that it should get their attention and encourage widespread and quick participation. Enhancing the plan's impact is that more than half of employment is in firms with fewer than 100 employees that get the large 20% credit.

The plan is also relatively straightforward and can be easily implemented by businesses, but does not appear to be vulnerable to serious abuse. It is also the friendliest of the plans towards smaller businesses.

The Casey plan's job impact is reduced because it does not provide an explicit incentive for businesses to add jobs. Only firms that add to or at least maintain their payrolls qualify for the credit, but with so many workers already on reduced hours, firms have a strong incentive to extend their hours before hiring more employees. The relatively low dollar cap on businesses and the exclusion of nonprofits also limit the plan's reach.

The Schumer-Hatch plan

The Schumer-Hatch plan, the "Hire Now Tax Cut," is the simplest and most straightforward of the proposals. It is effectively a payroll tax holiday, equal to 6.2% of payroll costs, for all workers hired in 2010 who have been unemployed at least 60 days. Businesses of all sizes are eligible for the tax benefit, as are nonprofits; state and local governments are not. Since businesses would simply not have to pay their portion of new workers' payroll taxes, they would benefit immediately. The Schumer plan also includes a retention bonus equal to $1,000 for each new worker still employed a year after they were hired.

The Schumer plan is significantly less expensive than the other proposals, with an estimated upfront cost of about $12 billion. Largely reflecting the plan's smaller size, the maximum employment impact is 250,000 additional jobs. The peak employment impact would likely occur a few months earlier than the other plans, as the value of the tax benefit to businesses will be very small during the last months of the year. The upfront cost per additional job comes in at $46,800, and its ultimate cost per additional job is $44,000.

The Schumer proposal's biggest advantage is its simplicity. There are no constraints on eligibility, and the plan is easy to explain—no employer payroll taxes on unemployed workers in 2010. This may bring rapid and broad participation by businesses. The restriction that firms must hire unemployed workers also has the clear advantage of targeting the most disadvantaged.

The plan's simplicity does increase the chance of abuse. Unemployed workers would have to sign affidavits saying they had been unemployed more than two months, yet there would be no formal oversight. Employers could also replace current employees with unemployed workers at a lower cost. Although this would be prohibited, the plan contains no formal enforcement mechanism. Targeting the unemployed could also slow or even reduce hiring, since it could be difficult to match open positions with the skills and education of the unemployed in some industries and regions.

A Suggestion

Any tax cut plan's success will be determined by how much more rapidly businesses hire than would have been the case without the tax benefit. One way to accelerate businesses' response would be to cap the dollar amount of the program, and provide it to those firms that hire first. First come, first serve worked particularly well for the cash-for-clunkers program: vehicle buyers were given a reason to act quickly or lose the tax break. Funding was quickly exhausted as vehicle sales soared last fall.

The same principle could be used for the job tax cut. Using the Obama proposal as a framework, suppose the government committed $25 billion to a plan offering a $5,000 credit against payroll taxes paid on any net new employee hired in 2010. Or use the Schumer idea to focus the tax break to benefit the unemployed: the plan would provide a credit of up to $7,000 for any new hire of a previously unemployed worker. The credit would be payable quarterly and the total tax benefit per business would be capped at $500,000. Nonprofit organizations would be eligible but state and local governments would not. The tax benefits would be provided until the $25 billion was used up.

Businesses would have to hire quickly or lose the opportunity for a tax benefit. Hesitant firms would have a reason to put aside their concerns and hire. Aside from accelerating job creation, an advantage of the plan would be that less of the $25 billion would go to firms that would have hired anyway. The peak employment impact under this plan would occur in the third quarter of this year, when an additional 615,000 jobs would be created. The upfront cost per employee would be $41,000 and the ultimate net cost $36,000. This plan would thus create jobs somewhat more quickly than the other plans being considered, at a somewhat lower cost.

Conclusions

If history is a guide, job growth should resume this spring. Positive signs point this way: Initial claims for unemployment insurance have fallen significantly, temporary hiring is up, weekly hours worked are off the bottom, and various business surveys suggest firms are more open to expanding payrolls. With the government set to create more than a million temp jobs to conduct the 2010 Census, it is hard to believe job growth will not resume soon.

Yet there are reasons to be nervous that hiring will not revive in earnest, and may even peter out after the census is finished this summer. A lack of credit, particularly among small businesses, and a loss of confidence across all businesses threaten to short-circuit the job machine.

With a jobs revival and full economic recovery not assured, policymakers are rightly focused on providing further support to the economy. Fiscal policymakers are contemplating a bill to jump-start hiring. This legislation would boost credit to small businesses, infrastructure spending, and public service and summer youth jobs. A jobs tax break, which would lower the cost of adding to firms' payrolls, is also being considered. A tax break for hiring could be particularly effective this summer. By then, businesses will have had more time to come to terms with the Great Recession, and banks should be extending credit somewhat more freely by then.

While the recovery is likely to slowly gain traction even without more help from policymakers, the odds remain uncomfortably high—about one in four—that it will not. And if the economy backtracks into recession, unemployment will surge, igniting a vicious deflationary cycle that even more aggressive action by the Fed would have difficulty breaking. The fiscal outlook would quickly become untenable. Providing a bit more policy help this year to avoid this very dark scenario seems worth the cost.