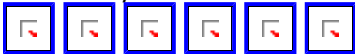




New Jersey Seeks to Prolong Unemployment

From Joseph E. Moser on Monday, September 21, 2009 12:14 PM



As if another bad idea couldn't possibly come out of New Jersey, Gov. Jon Corzine proves that nothing is impossible. In an effort to increase hiring of New Jersey's 45,000 residents who are no longer eligible for state unemployment insurance, [Corzine proposed a plan to encourage businesses to hire them by way of a \\$2,400 incentive.](#)

Both this plan and the state unemployment insurance system in general are flawed in numerous ways.

Firstly, state unemployment insurance (UI) systems are redistributive in nature, subsidized by those who are not working through their state and federal payroll taxes. [The Cato Institute](#) shows that UI reduces the incentive for the unemployed to seek work promptly and increases the incentive for employers to layoff in the first place. Employers who are at the maximum tax rate may find that it makes better sense to layoff workers than to make other adjustments at times of falling demand. Finally, UI reduces the likelihood people will save to the extent that benefits will be available to supplement income from savings. This is bad for long term economic growth because it is precisely the accumulation of funds in private accounts that expand the pool of capital.

Aside from the flaws of UI, Corzine's plan would continue the tax on businesses to fund UI, then, after the maximum payment of UI is issued, the state would cut a check to businesses to hire individuals through greater debt and future taxes. A better idea: cut taxes on businesses so that they have the money to hire workers now. This eliminates, instead of perpetuates, the incentive for workers to wait until benefits run out before looking for a job.

This scheme would be funded with \$8 million from the Feds, however it is certain the state will be asking for more -- much more. [A similar initiative was in place last year](#), offering businesses \$3,000 for each new position maintained for a year. Incredibly, the \$50 million program went broke in its first two months. It is obvious that \$8 million will not even get this plan off the ground.

Intergovernmental aid such as this is a major contributing factor in New Jersey's over-spending problem as [a report put out by the Mercatus Center](#) points out. Federal transfers help obscure the full costs of spending and "erode state and local policy autonomy by inducing further spending or directing state and local resources to areas that may not need it."

There are other ways to create jobs, rather than spending money taken from currently employed workers. One in particular is a reduction in corporate income tax rates. Lower rates keep businesses from moving to other jurisdictions with lower tax burdens. In addition, [a study from the Tax Foundation](#) points out that lower taxes result in higher wages for workers. For every \$1 reduction in state corporate taxes, wages rise by \$2.50. It's time that Corzine propose plans that promote job creation rather than prolonging unemployment and burdening hardworking New Jerseyans with higher taxes and more debt.

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