

SUBSIDISING JOBS

In March 1989 the E.S.R.I. published 'Subsidising Jobs: an Evaluation of the Employment Incentive Scheme'. Employment subsidies are paid by the State to employers to:

- (1) encourage them to create jobs they would not otherwise have created, and / or
- (2) encourage them to employ people who face particular obstacles in the job market.

The Employment Incentive Scheme is expected to do both of the above. Between 1977 and 1988 almost 70,000 people were recruited to jobs subsidised under the E.I.S., though the numbers varied significantly from year to year. The scheme is a very cheap initiative - in fact for all practical purposes it pays for itself as the costs are cancelled out by savings in social welfare payments and increased tax receipts. However though the scheme produced some new jobs, it seems that most of the jobs subsidised would have been created anyway.

The scheme had more success in re-directing recruitment towards the particular categories of job-seeker eligible for subsidy. However, the report argues that many of the people subsidised into employment were not the most disadvantaged in the labour market. This was because the categories of jobseeker to which the subsidy applied were too broad - covering all people on the live register for more than thirteen weeks. To date the EIS has had limited success in re-directing hiring towards the long-term unemployed, even though the subsidy in such cases was £60, twice that for other categories. Only 15% of hirings under the scheme have gone to the long-term unemployed. The authors of the report draw some important conclusions. They do not believe that the job-creation potential of the scheme can be significantly increased. They argue that the best use of the Employment Incentive Scheme would be to target it primarily on the long-term unemployed, in order to re-direct hiring towards this group.

In September the Minister of Labour announced a number of changes in the scheme which are a move in this direction. Under the new arrangements the subsidy will only apply to long-term unemployed people over 25 years old, early school leavers and handicapped persons. The subsidy will be paid for a longer period - 39 weeks as against 24 weeks. It will be £60 per week for the long-term unemployed and £45 per week for early school leavers and handicapped persons.

The E.S.R.I. suggest that such changes might result might result in a fall in demand for the subsidy but that this might be offset by greater marketing of the scheme by FAS. They also suggest that the 'incremental' restriction whereby subsidies only apply to additional jobs being created in firms might need to be re-examined, particularly if there is a large drop in demand for the scheme. Such a change would mean dropping the job creation aim of the scheme and focusing it entirely on re-directing recruitment to the long-term unemployed. While not without difficulties the potential of such a change merits examination. In fact a recent OECD study ('Measures to assist the Long-Term Unemployed' Paris 1988) recommends such an approach, pointing out that 'One would expect a significant increase in the intake on such schemes; this appears to be borne out by the recent experience in Denmark' (p. 69)