Free to Lose

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Consider, for a moment, a tale of two countries. Both have suffered a severe recession and lost jobs as a result — but not on the same scale. In Country A, employment has fallen more than 5 percent, and the unemployment rate has more than doubled. In Country B, employment has fallen only half a percent, and unemployment is only slightly higher than it was before the crisis.

Don't you think Country A might have something to learn from Country B?

This story isn't hypothetical. Country A is the United States, where stocks are up, G.D.P. is rising, but the terrible employment situation just keeps getting worse. Country B is Germany, which took a hit to its G.D.P. when world trade collapsed, but has been remarkably successful at avoiding mass job losses. Germany's jobs miracle hasn't received much attention in this country — but it's real, it's striking, and it raises serious questions about whether the U.S. government is doing the right things to fight unemployment.

Here in America, the philosophy behind jobs policy can be summarized as "if you grow it, they will come." That is, we don't really have a jobs policy: we have a G.D.P. policy. The theory is that by stimulating overall spending we can make G.D.P. grow faster, and this will induce companies to stop firing and resume hiring.

The alternative would be policies that address the job issue more directly. We could, for example, have New-Deal-style employment programs. Perhaps such a thing is politically impossible now — Glenn Beck would describe anything like the Works Progress Administration as a plan to recruit pro-Obama brownshirts — but we should note, for the record, that at their peak, the W.P.A. and the Civilian Conservation Corps employed millions of Americans, at relatively low cost to the budget.

Alternatively, or in addition, we could have policies that support private-sector employment. Such policies could range from labor rules that discourage firing to financial incentives for companies that either add workers or reduce hours to avoid layoffs.

And that's what the Germans have done. Germany came into the Great Recession with strong employment protection legislation. This has been supplemented with a "short-time work scheme," which provides subsidies to employers who reduce workers' hours rather than laying them off. These measures didn't prevent a nasty recession, but Germany got through the recession with remarkably few job losses.

Should America be trying anything along these lines? In a recent interview, Lawrence Summers, the Obama administration's highest-ranking economist, was dismissive: "It may be desirable to have a given amount of work shared among more people. But that's not as desirable as expanding the total amount of work." True. But we are not, in fact, expanding the total amount of work — and Congress doesn't seem willing to spend enough on stimulus to change that unfortunate fact. So shouldn't we be considering other measures, if only as a stopgap?

Now, the usual objection to European-style employment policies is that they're bad for long-run growth — that protecting jobs and encouraging work-sharing makes companies in expanding sectors less likely to hire and reduces the incentives for workers to move to more productive occupations. And in normal times there's something to be said for American-style "free to lose" labor markets, in which employers can fire workers at will but also face few barriers to new hiring.

But these aren't normal times. Right now, workers who lose their jobs aren't moving to the jobs of the future; they're entering the ranks of the unemployed and staying there. Long-term unemployment is already at its highest levels since the 1930s, and it's still on the rise.

And long-term unemployment inflicts long-term damage. Workers who have been out of a job for too long often find it hard to get back into the labor market even when conditions improve. And there are hidden costs, too — not least for children, who suffer physically and emotionally when their parents spend months or years unemployed.

So it's time to try something different.

Just to be clear, I believe that a large enough conventional stimulus would do the trick. But since that doesn't seem to be in the cards, we need to talk about cheaper alternatives that address the job problem directly. Should we introduce an employment tax credit, like the one proposed by the Economic Policy Institute? Should we introduce the German-style job-sharing subsidy proposed by the Center for Economic Policy Research? Both are worthy of consideration.

The point is that we need to start doing something more than, and different from, what we're already doing. And the experience of other countries suggests that it's time for a policy that explicitly and directly targets job creation.