

## [Unfortunately, work subsidies don't actually work](#) [1]

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Within the autumn statement, one proposal in particular caught attention, and it was a policy earlier announced by the Deputy Prime Minister Nick Clegg. The UK government wants to subsidize businesses in hiring young unemployed workers, precisely from the ages of 16 to 24, by offering £1bn to the private sector to take young workers into apprentice schemes.

Under a typically political decision and explanation, youth unemployment is supposed to be tackled by offering money to private sector firms to take on temporary workers so that the young might get more experience. How this is supposed to create value for the private sector and how is such a policy sustainable in the long run, no one in the government knows or cares about.

The coalition is obviously desperate to cut youth unemployment as it fails to see the paradox in its claim that a subsidy to employ a young person is a way to create 'lasting' jobs in the private sector. A temporary subsidy will be of just that effect - it will be temporary. Even if it does produce some youth jobs this won't be due to an increase in real demand for workers, but due to an artificial increase in demand for workers.

A private sector business will be able to assess by itself the best whom to hire and how long to keep them. By creating a distorted incentive the government is directing the firms' employment policies. In a crisis of confidence with many lay-offs it is natural that the young suffer the most. They lack the experience older laid-off workers possess and cannot compete with them. By creating a subsidy to employ only the youth, the government discourages hiring of older workers and distorts the labour market against them (discriminates against them). These are not just too old workers, but all those older than 24, meaning that younger workers, university graduates, still may get discriminated against. A subsidy, wherever it is enforced, will always yield similar effects - it will distort the market in favour of the subsidized and against every other market participant. In addition, the effect is always temporary and works only if the subsidies carry on indefinitely, which is of course extremely costly.

Subsidies create a political market for the companies to compete on. The difference is they don't compete for customers, they compete for bureaucrats, or more precisely the favourability to bureaucrats in extorting funds.

A far better idea would be to create incentives for hiring temporary workers, not via subsidies but via decreased taxes and cutting employment regulations to encourage businesses to start hiring again. An NIC holiday for small businesses (actually proposed by the Chancellor) or removing it altogether, lower income taxes for the young, removing any regulatory confinements for hiring temporary workers and those on zero based contracts, reducing the rigidity of dismissal rules, removing financial repercussions for employers and further reform of the employment law. These are just some of the policies that would work

much better than a subsidy.

First of all, they will cost less to implement. There will be no need to increase public spending and waste resources. Second, a tax cut creates a completely different incentive to the private sector business. Instead of competing for public money, it will decrease its costs by hiring another worker. It will lead to lowering of the entire unemployment rate and create more scope for businesses to make higher revenue. This will eventually decrease youth employment as well, as it will go down once the economy starts recovering with a higher pace.

In addition, if they really want to help the young get more working experience there is a particular policy decision preventing the young to do so ? minimum wage. By removing the minimum wage for young workers the government will make it much more affordable for the private sector to offer them temporary jobs and work placements. The young are willing to work for a lower rate than the market rate to get some work experience. This is why they engage into internships and volunteering, hoping to get more experience and be more competitive on the market. Removing the minimum wage would yield exactly the effect Nick Clegg is hoping for ? it will offer more jobs to more young people and help them get more experience. The subsidy, on the other hand, will fail to result in the same effect and is a prime example of wastefulness of the taxpayers' money.

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