White House officials and Democratic lawmakers are considering proposals to extend enhanced unemployment insurance benefits beyond Dec. 31, 2009, when they are set to expire. These proposals would provide extra income support and health insurance benefits for laid-off workers, but they suffer from two major drawbacks. First, these unemployment insurance benefits are very expensive, with an estimated price tag as high as $100 billion per year. Second, they weaken rather than strengthen the financial incentives for the unemployed to seek new employment. In short, these proposals would deepen the government's gaping fiscal hole and add to the upward pressure on unemployment.

Another proposal circulating in Washington would offer tax credits for employers to create new jobs. Under one version, an employer receives a tax credit of $8,000 in the first year of a new job and $5,000 in the second year. But this proposal is even more costly than the proposal for unemployment insurance benefits.

To see why, consider that U.S. employers added 27 million new payroll jobs in 2008. Many new jobs survive less than two years and would not qualify for the full tax credit. Yet, even if only 20 million new jobs qualify for the full tax credit, the aggregate cost would exceed $250 billion. Plans to whittle down the cost by restricting eligibility for the new-jobs credit would inevitably favor some employers and harm others. Eligibility restrictions would also inject greater complexity into our already-byzantine tax code.

These proposals attract attention despite their enormous costs and other major flaws, because the U.S. labor market remains on a downhill slide. Employment fell for the 21st consecutive month in September. The unemployment rate, at 9.8% of the labor force, has doubled since early 2008. The job vacancy rate is mired at 1.8% of employment, the lowest level in the history of the series.

How should policymakers respond to these grim facts? What steps should they take to foster job creation and reverse the steep rise in unemployment? Here are four proposals that won't bust the budget or raise tax burdens.

1. Roll back costly benefit mandates for health insurance. The high cost of health insurance acts as a drag on job creation and wage growth. Benefit mandates set by the states prevent health insurance companies from offering inexpensive, no-frills plans. State-level mandates cover acupuncture, alcoholism treatments, chiropractors, fertility treatments, marriage counseling and much more--about 1,900 mandates across the 50 states. The effect is to limit choice among insurance plans, raise health insurance costs for employers and individuals and depress job creation. State governments should undo these harmful effects by repealing costly benefit mandates.
A bigger step is to eliminate barriers to interstate commerce in health insurance. Under current law, most employers cannot shop across state lines for health insurance. As a result, employers in states with onerous benefit mandates are stuck with high-cost health insurance. Barriers to interstate commerce limit choice, suppress competition and raise health insurance costs. One of the harmful consequences is to depress job creation.

Some argue that health care reform demands a comprehensive approach. However, there is no sound economic reason to delay proposals that would cultivate greater competition in the current system, expand choice for employers and workers, shrink labor costs and stimulate job creation.

2. Suspend federal minimum wage mandates. The current unemployment rate among American teenagers is nearly 26%. Minimum wage mandates are among the factors that drive teen unemployment rates to such high levels. These mandates raise the cost of labor for employers who would otherwise hire unskilled and inexperienced workers. As a result, employers substitute away from these workers and rely instead on capital-intensive production methods, skilled workers and self-service by customers. In this way, minimum wage laws undercut job opportunities for the least skilled and the least experienced. The effects are especially pernicious for the young, who are robbed of opportunities to land a job, acquire valuable training and experience, and demonstrate their worth to employers.

To help young and unskilled workers gain a foothold in the labor market, the federal government should suspend minimum wage mandates until unemployment returns to normal levels. Better yet, abolish the federal minimum wage. If these steps are too radical, then allow states to opt out of the federal minimum or set a lower state floor. States and localities already have the option to set a higher minimum and, unwisely, many have taken that path.

3. Renounce the grossly misnamed Employee Free Choice Act. This legislation, currently before Congress, threatens to stack the deck against employers in the union certification process. Current law requires a secret ballot election among workers when the employer opposes union certification. If the union wins majority support, the National Labor Relations Board certifies the union as the exclusive workplace representative in collective bargaining with the employer.

The Free Choice Act would eliminate the secret ballot requirement. Instead, union certification would require only that a majority of workers sign cards supplied by the union. This "card check" process is rife with potential for strong-arm tactics and intimidation by union supporters. Sign here or else!

It's unclear whether the Free Choice Act and card-check provision will become law. Fears that the act might become law are enough to chill investment by firms that could be targets of card-check union certification. To allay these fears and remove the chill from investment, President Obama and congressional leaders should forcefully renounce the act now. If they won't, moderate Democrats should step forward and publicly announce
their opposition to the act. By taking this step, they would help restore business confidence and set the stage for more job-creating investments.

4. Experiment with how best to put the unemployed back to work and assess the results. Government agencies and community organizations have tried many programs to help the unemployed return to work. Some programs focus on job search assistance and interviewing skills. Others provide counseling about education and training opportunities. Yet others rely on re-employment bonuses for job losers or financial inducements to hire the unemployed. There is much potential to learn from these programs about which approaches are cost effective, and which are not.

Unfortunately, it's very hard to assess effectiveness unless programs are properly designed and implemented. Reliable evaluation requires careful measurement of program features, participant characteristics, local economic conditions and outcomes. It also requires the systematic use of treatment and control groups, as in testing regimes for new drugs and medical procedures. Each new unemployment assistance program that does not include a reliable evaluation regime is a wasted opportunity to learn about what works, and under what conditions.

There are several useful roles for the federal government here. One is to develop robust guidelines for evaluating programs that aid the unemployed. Another is technical assistance to governments or other organizations that seek to follow the guidelines. The federal government should also offer financial incentives to encourage experimentation and reliable program evaluation.

How should the government cover the cost of the financial incentives? Let the states re-channel a small portion of the funds for extended unemployment benefits into new programs for putting the unemployed back to work, provided that the new programs include a reliable method for program evaluation.

Experimentation and program evaluation won't solve the immediate jobs crisis, but they will help develop more powerful and cost-effective tools for putting the unemployed back to work in the future. Effective evaluations will also help identify ineffective programs that drain government coffers.

These four proposals will foster job creation and help reverse the downward slide in the labor market--and unlike the proposals attracting attention in Washington, they won't break the budget or raise tax burdens.

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