1-1-2010

Employment Research, Vol. 17, No. 1, January 2010

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Citation

W.E. Upjohn Institute. 2010. Employment Research 17(1). [https://doi.org/10.17848/1075-8445.17\(1\)](https://doi.org/10.17848/1075-8445.17(1))

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JANUARY 2010

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Employment Research is published quarterly by the W.E. Upjohn Institute for Employment Research. Issues appear in January, April, July, and October.

The Institute is a nonprofit, independent research organization devoted to finding and promoting solutions to employment-related problems at the international, national, state, and local levels. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Timothy J. Bartik

A Proposal for Early Impact, Persistent, and Cost-Effective Job Creation Policies

Due to the recession, the U.S. economy has lost over 10 million jobs. Job creation rarely receives the focus it deserves in fiscal stimulus proposals, either in the one that has already been enacted or in many of the proposals currently being considered.

Job creation deserves greater focus because joblessness has large long-run economic costs. Because conventional fiscal stimulus does not focus on job creation—job creation is only a byproduct of boosting gross domestic product (GDP)—this fiscal stimulus is relatively costly per job created. As a result, current and proposed fiscal stimulus cannot create enough jobs at politically acceptable costs to meet the current job needs in the United States. If we are to sufficiently address these needs without overly adding to the budget deficit, we need to make job creation a central goal of a new fiscal stimulus package. This package must have a low cost per job created, address near-term job needs, and have persistent effects over the next several years.

Why Creating Jobs Is as Important as Generating GDP

Much of the debate over fiscal stimulus focuses on GDP multiplier effects. The number of jobs created receives less attention.

Job creation deserves special focus because of the enormous costs of joblessness in the long run. Joblessness erodes the unemployed's self-confidence and job skills, and damages their reputations with employers. Lengthy unemployment reduces a worker's employment rates and wage rates in the long run.¹ Therefore, combating the recession should place a great emphasis on creating jobs, not just on boosting GDP. The long-run productivity of many workers and the economy will be enhanced by antirecession policies that stress job creation, even if they do not have greater effects on GDP.

The Need for Immediate and Persistent Job Creation Policies

If joblessness damages long-run economic prospects, then the current recession is a disaster with long-run consequences. Losing millions of jobs not only imposes current pain, it also damages long-run economic productivity.

Since the start of the recession in December 2007, the employment-to-population ratio has dropped from 62.7 percent to 58.2 percent (as of December 2009). To restore employment conditions to prerecession levels, the economy would need an additional 10.7 million jobs.

Even though GDP has begun to recover, the labor market will likely have

large employment deficits for the next several years. In the last two recessions, employment-to-population rates did not increase from their trough level by more than 0.2 percent for more than two and a half years after the recovery in GDP had begun. If our current recovery in GDP began in mid-2009, history suggests that the employment-to-population ratio will not rise significantly above its current level until the beginning of 2012. One study finds that the U.S. economy will be short of 2007 employment rates by 10.7 million jobs in 2010, 8.5 million jobs in 2011, and 5.1 million jobs in 2012 (Schmitt and Baker 2009). Other analysts project that it will be seven years before unemployment rates dip below 5 percent (Bailey 2009; Thoma 2009).

These employment deficits are occurring despite the \$787 billion fiscal stimulus package passed in February 2009. The stimulus package is helping, but it is insufficient. Estimates from the Council of Economic Advisers (2009a, 2010) suggest that the stimulus has added over 1.5 million jobs so far and that it may add another 2 million jobs by the end of 2010. But the employment deficit numbers given above are after these job creation effects. Without the stimulus, we would be short even more jobs.

Targeted Job Creation Policies Are More Cost-Effective Than Conventional Fiscal Stimulus Policies

These large employment deficits are difficult to reduce through conventional fiscal stimulus, which focuses on reviving demand for goods and services through tax cuts or increased public spending. Job creation is a by-product of reviving demand. More targeted job creation policies, which directly increase jobs relative to GDP, are much less costly per job.

In the \$787 billion fiscal stimulus package, the average cost of creating one job per year was \$112,000. Tax cuts are estimated to cost \$145,000 per job created, state fiscal relief is estimated to cost \$117,000 per job created, and direct federal government spending is estimated to cost \$92,000 per job created (Council of Economic Advisers 2009a). The “Cash

for Clunkers” program has an estimated cost per job created of \$86,000 (Council of Economic Advisers 2009b). “Cash for Caulkers” is estimated to have a cost per job created of \$80,000 (Hendricks et al. 2009). Increases in unemployment benefits have an estimated cost per job created of around \$95,000.²

With costs of about \$100,000 per job created, it is difficult to have a conventional fiscal stimulus package large enough to significantly reduce our employment deficits.³ Suppose we wanted to create 5 million jobs in 2010 and 4 million jobs in 2011, which would address a little less than half of the expected employment deficits in those years. At a cost per job created of \$100,000, the fiscal stimulus package necessary to reach these job goals would total another \$900 billion. But the new fiscal stimulus/job creation packages that are thought to be currently politically

The current and proposed fiscal stimulus plans cannot create enough jobs at politically acceptable costs to meet the current job needs in the United States.

feasible are much smaller. For example, in December 2009 the U.S. House of Representatives passed by only five votes a \$154 billion jobs/fiscal stimulus package. Perhaps a bigger stimulus package can be considered, but a package close to the size of the original stimulus seems politically implausible.

Targeted job creation policies are more cost-effective than conventional fiscal stimulus because these targeted policies encourage employers to increase the ratio of jobs to GDP. Targeted job creation policies are around three times as cost-effective as conventional fiscal stimulus: \$35,000 per job versus \$100,000. The recent Job Creation Tax Credit proposal, which would provide employers with a wage subsidy for payroll expansions, has a gross cost per job created of \$29,000 (Bartik and Bishop 2009). One public service jobs program, the Minnesota Emergency Employment Development program (MEED), has a gross cost per

job created of \$34,000 (Bartik 2009). Other public service jobs proposals have a gross cost per job created of \$40,000 (Economic Policy Institute 2009). Finally, “work sharing” proposals (Abraham and Houseman 2009), which encourage employers to reduce working hours rather than lay off workers, have a gross cost per job saved of \$32,000 (Baker 2009).

The net costs of job creation programs will be reduced because more jobs and greater GDP will increase tax revenues and reduce social spending. Targeted job creation proposals may have fiscal benefits of about \$20,000 per job created (Bartik and Bishop 2009), which reduces the net cost to about \$15,000 per job created. Due to larger effects on GDP, conventional fiscal stimulus will have larger fiscal benefits: \$40,000 per job created.⁴ Net costs of conventional fiscal stimulus per job created will then be around \$60,000, but targeted job creation is still four times as effective in creating jobs, per dollar of net costs.

Options for a Job Creation Package

A possible stimulus package targeted only at job creation could include three components: 1) tax credits for employers creating jobs, 2) payments to employers for work sharing, and 3) public service job creation (see Table 1). This package would aim to create 5 million jobs in 2010 and 4 million jobs in 2011, filling a little less than half of the expected jobs deficit in each year. The gross cost of this package, as counted by the Office of Management and Budget and the Congressional Budget Office (CBO), would be \$276 billion, with a little over half of that for 2010. However, after accounting for the package’s effects in increasing tax revenue and reducing social spending, the net cost of this two-year package would be only \$108 billion. The gross cost per job created is around \$30,000; the net cost is about \$12,000.

Compared to the original fiscal stimulus of \$787 billion, this job creation stimulus would have a gross cost only one-third as much. However, it would create 9 million “job-years” (5 million in 2010, 4 million in 2011)—about one-third greater than the original fiscal

Table 1 A Possible Jobs Package

Effect analyzed	Year	Job creation tax credit	Job sharing tax credit	Public service employment	Total
Jobs created (millions)	2010	2.8	1.3	0.9	5.0
	2011	2.3	0.7	1.0	4.0
	Two-year total	5.1	2.0	1.9	9.0
Gross costs (\$, billions)	2010	80	43	31	154
	2011	67	21	34	122
	Two-year total	147	64	65	276
Net costs (\$, billions)	2010	13	30	17	60
	2011	14	15	19	48
	Two-year total	27	45	36	108

NOTE: Gross costs are costs as counted by budget agencies, without allowing for any effects of programs on job creation and GDP generation. Net costs allow for estimated increases in jobs and GDP and resulting effects on tax revenue and social spending.

SOURCE: Estimated effects for the Job Creation Tax Credit are from Bartik and Bishop (2009); for work sharing, Baker (2009); for public service jobs programs, my unpublished estimates for MEED (see Bartik [2009] and references therein).

stimulus's estimated effect of creating 6.8 million "job-years." (One job created for one year is one "job-year.") About half of the package would be a tax credit for employers adding to payroll, one-quarter would go to subsidies encouraging employers to offer work sharing, and one-quarter would go to the creation of public service jobs.

Tax credits for job creation and subsidies for work sharing could very quickly be put into effect. And contrary to some comments (McArdle 2009), it is feasible to expand public service jobs quite quickly to the 1.1 million job slots of this package.⁵ During the Great Depression, the Civil Works Administration created 4.3 million jobs in two months, and the Works Progress Administration created 2.7 million jobs within eight months (Kesselman 1978; Howard 1943). More recently, in 1983 MEED created the equivalent nationally of 500,000 jobs within six months.⁶ Rapid public service job creation is quite feasible if government administrators are given strong incentives to reach job creation goals in a timely fashion.

What if policymakers want fiscal stimulus to also achieve other goals in addition to job creation? For example, they may also want to extend access to unemployment benefits or maintain state and local public services. A fiscal

stimulus package can also achieve these goals, but only at higher costs or some sacrifice of job creation. We could add \$100 billion to the package in conventional fiscal stimulus, which at \$100,000 per job would create about 1 million jobs. We could then still create 9 million jobs if we reduced job creation stimulus to \$246 billion. The fiscal stimulus package would then have to be \$346 billion to achieve the same job creation goals. Alternatively, we

**Targeted job creation policies
are around three times as
cost effective as conventional
fiscal stimulus: \$35,000
per job versus \$100,000.**

could keep the overall package at \$276 billion by letting the \$100 billion in conventional fiscal stimulus replace \$100 billion in targeted job creation stimulus. But then the package's job creation would be lowered from 9 million jobs to 6.7 million jobs.

Policymakers must decide the importance of job creation versus other goals of fiscal stimulus. If it is important to create a significant number of jobs at politically feasible costs—and economic research suggests that short-term job creation is important to long-term economic prospects—then targeted job

creation policies should be a major part of any new fiscal stimulus package.

Notes

1. The long-run loss of earnings due to unemployment is at least one-fifth of the short-run effects. For example, displaced workers suffer a 25 percent loss of earnings in the year of displacement. Ten years later, displaced workers still suffer a 6 percent earnings loss (Stevens 1997). As another example, graduating from college in a year with 1 percent higher unemployment initially reduces the graduate's wages by 6 percent. Fifteen years later, these unlucky graduates' wages are still 2.5 percent lower (Kahn forthcoming). As a final example, when state employment declines, about two-thirds of the drop is reflected initially in state residents having a lower employment-to-population ratio (one-third is reflected in lower state population). After 17 years, the employment-to-population ratio in the state is still lower, by about 25 percent of the initial shock to employment (Bartik, 2001, pp. 141–145).

2. This is based on taking the midpoint of the CBO's November 2009 estimates that such transfer payments have a GDP multiplier somewhere between 0.8 and 2.2. I also use the Council of Economic Advisers' estimates (2009a) that a 1 percent increase in GDP is needed to induce 1 million new jobs. At current GDP levels of \$14.2 trillion, this implies a GDP per job created figure of \$142,000. Dividing by 1.5 yields \$95,000.

3. The reason conventional fiscal stimulus measures cost \$100,000 per job created can be explained intuitively: they only indirectly boost job creation by increasing output demand. Suppose one dollar of fiscal stimulus increases demand for GDP by one dollar (a multiplier of 1.0), and that a boost to GDP increased job creation by the average ratio of GDP to jobs, which is \$105,000 (Council of Economic Advisers 2009a). Then the cost per job created of conventional fiscal stimulus would be \$105,000. Some conventional fiscal stimulus may have multipliers greater than 1, which would lower the cost per job created. But boosts to GDP during a recession may raise GDP by a greater percentage than employment by increasing weekly work hours and worker productivity per hour. Even with fiscal multipliers of 1.5, it is difficult for the cost per job created to be much less than \$100,000.

4. Based on CBO data, Bartik and Bishop (2009) estimate fiscal benefits of 38 percent of the GDP boost. If conventional fiscal stimulus has a GDP-to-job created ratio of \$105,000, then fiscal benefits per job created will be 38

percent of \$105,000, which is around \$40,000. Targeted job creation proposals have lower effects on GDP per job created, which reduces their fiscal benefits to around \$20,000 per job.

5. To create 0.9 million jobs through public service jobs requires somewhat more job slots. The model assumes some substitution of public service job slots for jobs that would have been created anyway, as well as some multiplier effects of this spending for public service jobs.

6. Personal communication between the author and former MEED administrators.

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John A. Turner

Pension Policy

The Search for Better Solutions

The primary goals of the U.S. pension system are to provide secure and adequate retirement income and to cover all or most workers. In each of these respects, the system needs better solutions. With the decline in defined benefit (DB) plans and the increasing reliance on 401(k) plans, future retirees will have less secure and less adequate retirement income than current retirees.

These issues are addressed in the book *Pension Policy: The Search for Better Solutions*, which was recently published by the Upjohn Institute (see p. 7). This article summarizes the main policy recommendations from the book.

Policy Recommendations for 401(k) Plans

Since the 1980s, the role of 401(k) plans has changed from being mainly supplementary, offered by employers who also offer a DB plan, to often being the only plan employers provide. However, 401(k) plan regulation has lagged in recognizing its increasingly important role.

The regulation of 401(k) plans should be changed so that two types of plans would be recognized. First, 401(k) *retirement* plans would be the primary or sole plan provided by an employer and would be regulated as retirement plans rather than savings plans. The goal here is to close the regulatory gap between DB plans and 401(k) plans. For example, the 401(k) *retirement* plan would be required to offer an annuity as the default payout option, with spousal consent for not taking a joint and survivor's annuity, similar to the spousal protections provided by DB plans.

The second type, a 401(k) *savings* plan, would be offered by employers that also offer DB plans meeting minimum standards as to generosity. These plans would continue to be regulated as they currently are, reflecting their historical

roots as secondary plans that supplement DB plans. Having this two-tier regulation of 401(k) plans could encourage employers to offer DB plans because it would permit them to offer 401(k) plans meeting less rigorous standards.

Participants in 401(k) plans often unknowingly bear the plan's investment costs and typically also the administrative costs. The fees they pay (in dollars), as well as the expense ratio for investment expenses, should be disclosed on annual and quarterly account statements. This type of disclosure is done in Australia for administrative fees and by the Janus mutual funds for investment costs.

While the focus of much pension research is on inertia by pension participants, a seldom discussed problem with the coverage provided by

With the decline in defined benefit plans, future retirees will have less secure retirement income than current retirees.

defined contribution plans is the lack of persistency of contributions by many workers. The lack of persistency explains in part the surprisingly low account balances that many 401(k) participants have. Policy has not been developed to address this problem.

Policy Recommendations for Defined Benefit Plans

Some analysts consider the decline in DB plans as an inevitable outcome because those plans are unable to adapt to a changing economic and demographic environment. A number of policies could be considered, however, based on the view that their endangered status is due in part to their regulatory environment.

Private sector DB plans are the only major type of pension plan in the United States that does not permit

employee tax deductible contributions. Those contributions are permitted for 401(k) and DB plans for state and local government employees. Extending tax deductibility to private sector DB plan participants would help level the playing field between DB and 401(k) plans.

The increase in life expectancy appears to have contributed to the decline in DB plans, because DB plans are not flexible enough to deal readily with

The role of 401(k) plans has changed from being mainly supplementary to often being the only plan employers provide.

this continued rise in cost. In the United States, some plans have reduced their generosity, but generally this change is only done for new hires and thus has limited effect on the plan sponsor's costs.

Life expectancy risk can be divided into the idiosyncratic risk that a particular individual will live longer than expected and the cohort risk that an entire cohort on average will live longer than expected. Annuity providers are able to manage idiosyncratic risk by pooling it across large numbers of people, effectively diversifying it away. However, cohort risk cannot be pooled because it is correlated across participants. Life expectancy indexing of benefits is one way of dealing with this risk. With that approach, cohort risk is borne by workers, who are the beneficiaries of the improved life expectancy and thus are best able to bear the risk.

A policy innovation, following the Notional Defined Contribution plan in Sweden, would be to permit life expectancy indexing of benefits at retirement. For each new retirement cohort, the generosity of the plan would be adjusted downward to reflect the trend toward greater life expectancy. Under current U.S. law, this innovation would be prohibited because it would violate the anticutback rule, which is defined in terms of annual benefits. If that rule were redefined to take an economist's perspective and use lifetime benefits as the measure, life expectancy indexing would not constitute a cutback in lifetime benefits.

The tax system could be used to encourage broader coverage through DB plans. For example, to tie the interests of management to those of workers, the allowable maximum income considered for determining DB plan benefits could be raised in plans that provide coverage to all full-time workers. Another option could require employers that provide a DB plan for management to also provide a similar plan for employees.

Workers in DB plans who are laid off suffer losses on the benefits they have already accrued. Their benefits are frozen in nominal terms at layoff, and the real value of those benefits is eroded by inflation between that point and the point at which they qualify for retirement benefits. DB plans can make these workers wait until age 65 to receive benefits. For laid-off workers, the loss of pension benefits can be more serious than

The fees that participants pay (in dollars), as well as the expense ratio for investment expenses, should be disclosed on annual and quarterly account statements.

the loss of wages, while for employers the loss of pension benefits gives them a bonus for laying off workers.

One policy option is to require firms that lay off workers in corporate restructuring to price index the benefits of those workers until retirement. This obligation in a certain sense would not impose a new cost on employers, it just would mandate that they pay the benefits to these workers that they had promised to pay assuming continued employment.

Funding rules prohibit employers from contributing to DB plans in years that funding exceeds a certain level. This requirement of zero contributions generally occurs when the stock market and companies are performing well. Because pension plans are long-term commitments, and because of the fluctuations in the stock market, at a later date plan sponsors then generally are required to contribute. This requirement generally occurs when the stock market and companies are performing poorly.

The temporal pattern of contributions not only increases the volatility of contributions, it forces plan sponsors to contribute on a schedule that is exactly opposite to what they would choose.

To reduce the volatility and timing problem of employer contributions for DB plan funding, the maximum contribution requirements can be eased. For example, plans could be allowed to contribute 25 percent of the normal cost any year, regardless of the level of funding, thus allowing plan sponsors to contribute every year. This is the desired pattern for pension plans, which are ongoing entities that are accruing liabilities every year.

Losing track of pensions is a problem for workers who are laid off or who change jobs. It can be difficult for a worker to find a pension from a former employer, particularly if that employer has gone out of business. Both the United Kingdom and Australia have gone further than the United States in assisting people

facing this problem. A national registry, perhaps as an expansion of the registry maintained by the Pension Benefit Guaranty Corporation, would be an improvement in this area.

Conclusions

Pension policy is an evolving product of social institutions and the economy. With the decline in DB plans and the increasing role of 401(k) plans, improvement is needed in the way pensions are provided to U.S. workers. The regulation of 401(k) plans needs to be updated to recognize that they generally are no longer supplementary plans. Policies need to be enacted to strengthen DB plans by making them more flexible and improving the ways they are funded.

John A. Turner is the director of the Pension Policy Center.

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New Books

Pension Policy

The Search for Better Solutions

John A. Turner

In his latest book, John A. Turner tackles the current problems facing pension policy for U.S. private sector

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- How can pension coverage be increased?
- Should defined benefit plans be saved, and if so, what can be done?
- How can annuitization be increased in defined contribution plans?
- How should pension policy adjust to continuing increases in life expectancy?

Readers seeking an overall introduction to pension policy will be rewarded by reading the book from cover to cover; other readers may find it more profitable to read individual chapters for Turner's analyses of issues of particular interest. In either case, this book offers specific solutions aimed at improving pension policy, and ultimately the lives of retirees, in the United States and elsewhere.

243 pp. \$40 cloth 978-0-88099-355-5
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William Lazonick

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