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Question - What Can Be Done to Promote Inner City Development?: Answer - Focus on Labor Demand Policies to Increase Employment of the Poor

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**Question: WHAT CAN BE DONE TO PROMOTE
INNER CITY DEVELOPMENT?
Answer: FOCUS ON LABOR DEMAND POLICIES TO
INCREASE EMPLOYMENT OF THE POOR**

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INCREASES IN LABOR DEMAND CAN SIGNIFICANTLY REDUCE POVERTY, BOTH IN SHORT-RUN AND LONG-RUN

- In short-run, a shock to local labor demand that reduces unemployment by 1 % reduces poverty rate by 7/10ths of 1 %. (Bartik, 1996; Tobin, 1994)
- In long-run, an increase in local employment of 10% increases labor force participation rates by 2% and advances individuals to occupations that pay 2% more. Earnings effects are greater in percentage terms for less-skilled.(Unemployment rates and occupational real wages are unaffected.) (Bartik, 1993a, 1991)
- During Boston boom from 1980-88, black family poverty in Boston dropped from 29% to 13% (Osterman,1991).

KEY FEATURES OF THE LOW-WAGE LABOR MARKET

- **Many disadvantaged persons without jobs can, if given a chance and minimal training, be as productive as the current work force. Many disadvantaged persons with jobs could work productively at higher wage jobs.**

Evidence:

--- Demand studies previously cited.

--- YIEPP program from 1978-81 suggested that increased demand can make black youth employment rates similar to those of whites, and that 80% of employers are satisfied with the productivity of these extra workers. (Farkas et al, 1982; Ball et al, 1981)

KEY FEATURES OF THE LOW-WAGE LABOR MARKET

- **Employers have poor information about productivity of those they hire, which contributes to inefficiency and discrimination in the hiring process.**

Evidence:

--- In small and medium-sized firms, more than one-quarter of new hires are less than 75% as productive as expected (Bishop, 1993).

--- Interview studies: many employers reluctant to hire disadvantaged, particularly black males from ghetto (Kirschenman and Neckerman, 1991). Audit studies confirm discrimination (Fix and Struyk, 1992).

--- Temporary help agencies and temp-to-perm hiring is market response to imperfect information about hires.

KEY FEATURES OF THE LOW-WAGE LABOR MARKET

- **Labor demand shocks can have long-run effects by improving credentials, skills, and self-esteem.**

Evidence:

--- Demand studies previously cited.

--- In ongoing research, I find for high school dropouts that 40-50% of a positive earnings shock will persist for at least five years.

--- Supported Work program: Experimental findings indicate that effects of this program persisted without much depreciation up to 8 years later. (Couch, 1992)

KEY FEATURES OF THE LOW-WAGE LABOR MARKET

- **Labor markets are probably more closely approximated by metropolitan areas than by the nation or the neighborhood.**

Evidence:

--- Controlling for metropolitan labor market conditions, national variables have the wrong sign or are insignificant in explaining local wages and employment rates (Bartik, 1994; Blanchflower and Oswald, 1994).

--- In explaining the poor's employment, "job access" falls in significance when other neighborhood variables are added. (O'Regan and Quigley, 1996).

--- Firm location affects who is hired for firms that use help wanted signs, not firms that use newspaper ads (Holzer and Ihlanfeldt, 1996).

--- In explaining black earnings, metropolitan growth dominates central city county growth (Bartik, 1993b).

--- Ghettos near downtown often have employment problems (Ellwood, 1986; Bartik et al, 1994).

--- Inner city residents who move to suburbs cite lower crime, not just job access, as explaining why their employment increased (Rosenbaum and Popkin, 1991).

KEY FEATURES OF THE LOW-WAGE LABOR MARKET

- **Taxes do matter to labor demand, but one has to worry about stigma effects due to tax subsidies for hiring the disadvantaged.**

Evidence:

--- Numerous studies show that taxes have important effects on labor demand at MSA or state level, and very large effects on labor demand at different locations within an MSA. (Bartik, 1991, 1992, 1995)

--- In YIEPP program (1978-81), 18% of firms willing to participate at 100% wage subsidy, 10% at 75% subsidy, 5% at 50% subsidy (Ball et al, 1981).

--- One experiment suggests that hire rates are lower for welfare recipients who inform employers of wage subsidy offer (13% hire rate vs. 21% for control group). (Burtless, 1985)

--- Evaluations of Targeted Jobs Tax Credit give mixed results (Katz, 1996).

VISIONARY BUT INFEASIBLE IDEAS

- Increase macro labor demand by general employment subsidies. (Phelps et al, 1994; Layard et al, 1991).
- Regional policy: explicit federal policy for helping local economies with weak labor demand.
- Public service jobs

THREE KEY FEATURES OF PROPOSED PROGRAM

- Job development intermediary to provide information, job matching, and job retention services to both selected employers and disadvantaged clients.
- Discretionary wage subsidies awarded as needed by job developers to selected employers for hiring disadvantaged clients.
- Extra wage subsidies for net new jobs in export-base sector of local economy, when disadvantaged clients are hired.

LESSONS FROM SIMILAR PROGRAMS

PROGRAM	DESCRIPTION	RESULT
CET (Center for Employment Training)	Job training program that includes job development	Most successful job training program ever evaluated using random assignment (U.S. DOL, 1995)
Riverside County (CA) GAIN program	Welfare-to-work program with heavy emphasis on job development	One of most successful welfare-to-work programs ever evaluated using random assignment. (Riccio et al, 1994)
JTPA-OJT	On-the-job-training subsidy paid to employer; job development usually a component.	JTPA experiment indicates OJT successful for both adult women and men(Orr et al, 1996). Recent reforms have made OJT harder to use.
America Works	Private for-profit welfare-to-work program in New York City and other cities; heavy emphasis on job development, some subsidies received by America Works	Success much touted, but has never been rigorously evaluated.
MEED (Minnesota Employment and Economic Development)	Program active from 1983-89; provided \$4 per hour wage subsidy to businesses creating new jobs for disadvantaged persons, with preferences for export-based small businesses.	No rigorous evaluations, but surveys of assisted firms indicate that 55-60% claim would not have created the jobs without the subsidy. This percentage is higher for smaller firms. (Jobs Now Coalition, 1988)
Portland (Oregon) JobNet	Firms receiving economic development subsidies from Portland are required to consider referrals from JobNet, a consortium of trainers and community groups.	No evaluation

ISSUES AND TENTATIVE ANSWERS

- **Wage subsidy rate and length of time:** 6-months; \$2/hr. for vacancies, \$5/hr. for new jobs.
- **Location of job:** No restriction.
- **Location of residents:** EZ/EC residents?
- **Size of program:** 16 million poor, ages 18-64, who do not work full-time. 500,000 jobs would cost \$1.75 billion in tax credits if half jobs are new (cost per job is \$3500). If each job developer annually places 30-60 persons, and costs \$45,000, then job development intermediary costs \$375-\$750 million (\$750-\$1500 per placement).
- **Targeting types of jobs:** Favor small business.
- **Who controls funds:** Distributed by feds to local Service Delivery Areas/Workforce Development Boards based on competitive application process.
- **Local administration:** Possible subcontracting to wide variety of organizations; random assignment?
- **Accountability:** Future grant applications depend on past placements and retention, net new jobs created.
- **Financing:** Work Opportunity Tax Credit is \$380 million per year, new welfare tax credit is \$120 million. Local match?
- **Relationship to welfare reform:** Consider incentives to ensure some help for adult males and youths.

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