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Timothy J. Bartik
W.E. Upjohn Institute for Employment Research, bartik@upjohn.org

Upjohn Author(s) ORCID Identifier:
https://orcid.org/0000-0002-6238-8181

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In my new book, *Jobs for the Poor: Can Labor Demand Policies Help?*, I argue that U.S. antipoverty policy would be more effective with a more balanced use of labor demand and supply policies. Current U.S. policy overemphasizes labor supply policies. The book suggests new labor demand policies to increase both overall labor demand and labor demand for the poor.

Labor supply policies directly interact with the poor to increase their labor supply, job skills, or wages. Examples of labor supply policies include welfare reform, job training, and the Earned Income Tax Credit (EITC). *Labor demand* policies directly interact with employers to affect the number of poor persons hired. Examples of labor demand policies include public works programs of the 1930s, public service jobs funded by the Comprehensive Employment and Training Act (CETA) during the 1970s, and tax credits for employers hiring the disadvantaged (1970s to the present).

What are the arguments for greater use of labor demand policies? The first is that despite the economic boom of the 1990s, more jobs are still needed by America's poor. For example, in order for each poor, non-elderly U.S. household to have one full-time, full-year worker, we would need 9 million more full-time, full-year jobs. Employment rates for low-education groups are still low compared to past norms. For example, suppose our goal was to increase the employment rates of all working-age heads of households without a college degree to the employment rate that similar white males experienced in 1979. Achieving this goal would require 5 million more jobs.

A second argument for labor demand policies is that labor supply policies by themselves have significant limitations. One limitation is that it is difficult or expensive (either financially or socially) for labor supply policies to cause large increases in the employment of the poor. Welfare reform has pushed over a million persons into the labor force, but 40 percent of these new labor force entrants are not employed, which is a significant social cost. Job training programs have benefits that exceed their modest costs, but their benefits are also modest (an increase in earnings of perhaps $1000 annually per trainee). Wage supplements to the poor such as the EITC help many working Americans out of poverty but usually only have modest effects in increasing employment; for example, the EITC has increased employment by at most one-half million persons.

A further limitation of labor supply policies is that they cause displacement effects. When labor supply increases, labor demand does not instantly go up by the same amount. As a result, some jobs obtained by the new labor force participants result in fewer job openings for others. For example, estimates suggest that for every 10 jobs obtained by former welfare recipients, 3 to 7 jobs are lost by other less-educated workers.

A third argument for labor demand policies is that aggregate demand policies are necessary but insufficient to solve poverty. Estimates suggest that a 1 percent lower unemployment rate will lower the poverty rate by 0.3 percent to 0.9 percent, which would bring 0.9 million to 2.6 million people out of poverty; yet unemployment rates cannot be lowered sufficiently to solve poverty. In 1999, the U.S. unemployment rate was 4.2 percent and poverty was 11.8 percent. Even lowering unemployment to zero would not eliminate poverty.

A fourth argument is that targeted demand programs can be effective. Over the years, the United States has experimented with a number of programs that hire targeted low-employment groups for public service jobs or subsidized jobs with private employers. During the subsidy period, these programs typically result in huge increases in employment rates. It is common for the earnings or employment of the target group to increase by 60 percent or more of the earnings and employment subsidized by the program (see Table 1). This means that these programs are effective in identifying individuals who otherwise would have been jobless. These targeted demand programs also usually yield jobs that are productive; employers often are surprised at the high productivity of these subsidized hires.

Table 1 In-Program Impacts of Subsidized Jobs Programs

Program	Ratio[a]
Supported Work (1970s)	0.79
Youth Incentive Entitlement Pilot Projects (1970s)	0.61
Youth Corps (1990s)	0.57
New Hope (1990s)	0.68
Summer Youth Jobs	0.67

[a]This ratio shows the estimated net impact of the program on the employment and earnings of program participants during the period in which subsidized employment was provided divided by the employment or earnings directly provided by the program.
SOURCE: Bartik, Timothy J. 2001. *Jobs for the Poor: Can Labor Demand Policies Help?* Table 7.1, p. 182.

Targeted demand programs can cause significant earnings increases that persist long after the subsidy period. For example, the Supported Work program of the late 1970s yielded increases in earnings for former welfare recipients of about 25 percent of in-program earnings that persisted largely unchanged for at least eight years after the program. Why does short-run subsidized employment have long-run earnings effects? A plausible explanation is that a well- run subsidized jobs program increases workers' "soft" job skills. Soft skills include, for example, showing up at work consistently and getting along with supervisors, co-workers, and customers. Studies suggest that problems with soft skills explain why many disadvantaged workers lose their jobs. Soft skills are difficult to teach in a classroom; they are better learned through a supportive job experience.

What specific labor demand policies do I recommend? First, I recommend that the United States permanently enact a revised version of the New Jobs Tax Credit that was in place in 1977 and 1978. This revised tax credit would provide subsidies to all employers that expanded overall employment (not just jobs for the poor) above some baseline level if they are located in high-unemployment local labor markets. This subsidy would be credited against payroll taxes (the Social Security and Medicare trust funds would be reimbursed from general revenues, so the subsidy would encourage employment expansion by all employers: for-profit, non-profit, and public). In periods of low national unemployment such as we have now recently experienced, this tax credit would only apply to the few high-unemployment areas. Research shows that geographically targeting labor demand increases on high-unemployment local labor markets reduces inflationary pressures; but, if the U.S. economy went into a prolonged recession, the revised New Jobs Tax Credit would apply nationwide. Studies suggest that such a credit might offset about one- fourth of the normal job loss caused by a recession.

Second, I recommend we adopt a revised version of the MEED program used by the state of Minnesota in the 1980s. Local workforce boards would, on a discretionary basis, award wage subsidies to selected employers that hired selected individuals from disadvantaged groups. The subsidies could go to either public or private employers. To reduce displacement of current workers, the subsidies could only go for newly created jobs. The subsidies would be targeted on individuals in poverty who are unlikely to find a steady job on their own, based on their own past history and the results of a trial job search. The subsidy period would be no more than six months, which is sufficient to provide training in soft skills. Preference in awarding subsidies would go to employers that can provide good on-the-job training in both soft and "hard" skills and that are willing to “roll over” subsidized hires into permanent jobs with some prospect for advancement.

Discretionary control of this program by local boards is a crucial distinction from our current tax subsidies to employers hiring the disadvantaged. Our current program is an entitlement that goes, for example, to many restaurants for hiring workers they would have hired anyway. Under a discretionary program, the wage subsidies can be more carefully targeted on both workers and employers. Wage subsidies should be limited to persons unlikely to find steady work in other ways and to employers that are willing to change hiring practices and provide career opportunities to those who are hard to employ.

Running these two demand programs at a level sufficient to make a large difference to poverty would require tens of billions of dollars per year in additional government spending or tax credits. However, no realistic antipoverty policy is cheap. The aggregate poverty gap in the United States—the difference between the incomes of the poor and the income needed to be out of poverty—is $65 billion annually. Are we serious in promoting employment as a solution to poverty? If so, we must commit the resources needed to significantly increase the employment and earnings of the poor.

Timothy J. Bartik is a senior economist at the W.E. Upjohn Institute for Employment Research. Jobs for the Poor: Can Labor Demand Policies Help? *is jointly published by the Russell Sage Foundation and the Upjohn Institute, and is available for purchase at http://russellsage.org/publications/titles/jobs_poor.htm. The research for this book was supported by the Russell Sage and Rockefeller Foundations and the Upjohn Institute. This article and the book reflect the findings and views of the author and may not reflect the views of the sponsors of this research.*