4-1-1995

Employment Research, Vol. 2, No. 1, Spring 1995

Follow this and additional works at: https://research.upjohn.org/empl_research

Citation

W.E. Upjohn Institute. 1995. Employment Research 2(1). [https://doi.org/10.17848/1075-8445.2\(1\)](https://doi.org/10.17848/1075-8445.2(1))

This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.

UPJOHN INSTITUTE

Employment Research

SPRING 1995

Institute Celebrates
50th Anniversary

Economic Development
Incentive Wars

Moonlighting in
the United States

Institute Announces
Dissertation Award

New Books

Vol. 2, No.1

Employment Research is a publication of the W. E. Upjohn Institute for Employment Research, a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W. E. Upjohn Unemployment Trust Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W. E. Upjohn, founder of the Upjohn Company, to seek ways to counteract the loss of employment income during economic downturns.

W. E. Upjohn Institute
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686
(616) 343-5541

Randall W. Eberts
Executive Director

Timothy J. Bartik

Economic Development Incentive Wars

State and local competition for business expansions and new plants has grown fierce. Governments are offering businesses a wider variety of incentives—not only property tax abatements, but wage subsidies, worker training, new roads, and land. Incentive packages are getting larger. Alabama's 1993 incentive package for a new Mercedes plant was \$168,000 per new job. Tennessee's 1980 bid for a new Nissan plant was "only" \$11,000 for each new job.

How successful are these lavish incentive packages in influencing expansion and business location decisions? What are the costs and benefits that should be considered by state and local governments in designing their policies toward economic development incentives? These questions can be answered from two points of view: the perspective of a state or local government, and the national perspective.

The State and Local Perspective

Research and case study analysis suggest the following guidelines for state and local governments to use in incentive policy deliberations.

1. Economic development incentives are costly per job created. Incentives are not a free lunch.

Econometric research suggests that the effects of incentives on business location

and expansion decisions are modest. Many location and expansion decisions are unchanged by incentives. The cost of incentives to businesses whose location decisions are unchanged exceeds the taxes from businesses whose location decisions are changed. The average net governmental cost per job created by incentives is equivalent to around \$4,000 annually for the life of the plant. While policy makers may try to use incentives only when needed to tip the location decision, it is difficult to read the minds of business executives to tell whether an incentive will prove decisive.

2. Incentives should focus on maximizing labor market benefits for local residents. Fiscal benefits from incentives are often elusive, and should not be the main focus of incentive design.

Increased local employment has large labor market benefits for local residents. Increasing a metropolitan area's employment by 10 percent raises the average real earnings of local residents by 4 to 7 percent. About half of the increase in real earnings results from higher employment rates of local residents. The other half occurs because local residents move up to better-paying jobs.

Growth in local employment has greater benefits for disadvantaged groups.

(continued on p. 3)

From the Executive Director

This year marks the 50th anniversary of the Upjohn Institute. Anniversaries are a time to pause and reflect, to retell past stories, note the differences and similarities between now and then, track the evolution of events that brought us to this present time and place, and recheck our bearings and chart our future course.

Stories: There is no story related to the Institute that I enjoy recounting more than the establishment of the Trusteeship and its founder. The year was 1932 and the Great Depression had left 25 percent of the workforce jobless and countless families destitute. Dr. W.E. Upjohn, founder and head of the Upjohn Company, was concerned about the prospects of laying off his own workers and the broader problem of the hardships of the unemployed in the community. A few weeks before his death, he set aside a trust, which included a sizable parcel of farmland. He saw farming as the social safety net that could protect workers from the vagaries of an industrial economy. On this land, Dr. Upjohn envisioned laid-off workers growing enough food for their families and some extra to sell for other essential items.

Then and Now: The present-day Institute was not established until 13 years after Dr. Upjohn set in motion his grand experiment in subsistence farming. The farm program did not last long. Economic conditions soon began to improve, and the federal government stepped in to help the jobless by implementing public works programs and establishing an unemployment insurance system. Yet, the concern about unemployment and its flip side, sustainable full employment, remained a top national priority. Recognizing the changing nature of economic conditions and the need for informed policy making, the Trustees decided to establish an Institute that would focus its resources on research into the causes and consequences of unemployment.

When the Institute opened its doors in 1945, the local economic concern had shifted from the hardships of unemployment to the problems of businesses finding suitable workers in a tight labor market. At the same time, the nation worried about finding jobs for returning veterans. In response, the Institute's first program centered on a plan for a closely coordinated comprehensive community manpower service system. It included vocational guidance, testing, counseling, training, placement, and job analysis. Its long list of initiatives closely resembled the current reform proposals for job training and employment service programs.

Institute celebrates 50th anniversary

Today, the Institute numbers 60 employees divided between two divisions. The research division, with nine Ph.D. economists and a support staff, continues the mission of conducting research and informing policy makers on practical solutions to employment-related problems. As a modern-day equivalent of the "farm" experiment, the Institute, through its Employment Management Services division also administers the JTPA programs and other employment-related programs for the local area.

Tracking the Changes: The Institute's research program has gone through several phases over the last half century. After concentrating on local issues for 10 years, the Institute expanded its scope to national issues of job separation, unemployment and income maintenance, hiring practices in a tight labor market, the job-seeking of youth, and unemployment insurance beneficiaries. As the federal government assumed an increasing role in addressing these problems, the Institute established a Washington, D.C. office to be a major

participant in designing and evaluating programs and in informing lawmakers. The Washington office spearheaded the Institute's national research agenda for nearly 15 years. Later, as these government programs were scaled back and research funding dwindled, the office was closed and research activities were consolidated in Kalamazoo in 1975.

During the last two decades, the Institute has maintained its focus on issues of national concern. As policy makers continue to seek a balance between the federal government and state and local entities in assuming responsibility for employment programs, the Institute's midwest location and long-standing involvement with regional governments has placed it in an advantageous position to pursue research on the full range of federal, state, and local initiatives. In addition, we have expanded our scope to include international issues, recognizing the global nature of economies and the lessons that can be shared across different institutions and cultures.

Future Course: The fact that the Institute can celebrate 50 years of researching and informing policy makers about innovative solutions to employment-related issues signifies the enduring importance of labor issues to the national agenda. Undoubtedly, the issues the Institute addressed during the last 50 years will be the same issues the nation will address during the next 50 years—worker displacement, long-term unemployment, skill development, job matching, to name a few. We plan to continue to supplement our in-house expertise with grants to outside experts. We also intend to enhance our dissemination of research findings through traditional printed monographs as well as new electronic means. We hope that during the next 50 years, as in the past, researchers and policy makers continue to look to the Upjohn Institute as a place where rigorous labor scholarship is pursued and as a resource and catalyst for those seeking innovative ways to address chronic employment problems.

Randall W. Eberts

Economic Development Incentive Wars (continued from p. 1)

The earnings of the less-educated increase by a greater percentage than those of the more-educated; the earnings of African-Americans increase by a greater percentage than those of whites (see figure below from Bartik, "Economic Development and Black Economic Success").

The earnings effects of local employment growth are greater for new jobs in high "wage premium" industries, which pay well compared with the skills they require. Metropolitan areas with more high wage premium jobs have greater labor force participation rates.

Because labor market benefits of growth are so important, greater incentives should go to firms that create more jobs at higher wages. Training

have lived elsewhere. Additional population requires spending on schools and infrastructure that is unlikely to be fully recovered from household taxes.

3. The social benefits of employment growth are greater in high-unemployment areas. High-unemployment states or metropolitan areas should be more aggressive in offering incentives than low-unemployment areas. States should consider targeting incentives to high-unemployment areas.

Benefits of employment growth are greater in high-unemployment areas because the unemployed there are more desperate for jobs. In low-unemployment areas, it is easier for people who place a high value on having a job to find one. Those who remain unemployed usually have preferred alternate uses of their time, such as child care, job training, or education. In high-unemployment areas,

politicians to face the costs of incentive policies. Incentives should be designed so that some funds can be recovered if the project does not work out.

Corporate executives discount future cash flows heavily. Surveys show that executives discount future cash flows using a "real interest rate"—the interest rate minus the inflation rate—of 12 percent (i.e., a nominal rate of 15 percent

Because labor market benefits of growth are so important, greater incentives should go to firms that create more jobs at higher wages.

when inflation is 3 percent). This real interest rate far exceeds the interest rate that society should use to discount future benefits and costs, and it far exceeds the interest rates at which state and local governments borrow. Providing larger incentives now, and smaller incentives later, may have greater effects on business location decisions and also cause fewer long-run fiscal problems.

Up-front incentives also encourage politicians to be appropriately cautious in their use of incentives. Although the economic benefits of new jobs are long term, the political benefits are immediate, and the governor or mayor who announces the new plant gets the political credit. If politicians can pass incentive costs on to their successors, they may be tempted to offer excessive incentives.

The risk of up-front incentives is that the business location or expansion may fail, and the incentive funds will have been wasted. This risk can be reduced by attaching "clawback" provisions to incentive offers. Under "clawback" rules, some of the incentive must be repaid by the business if the new jobs do not last for a specified period.

The risk of up-front incentives can also be reduced by providing more of the incentive package as training or infrastructure. If a training incentive provided generally useful skills, then the trained workers should still be more productive and better paid even if the new

**Percentage Effects on Real Earnings
of a 10 Percent Increase in Metropolitan Area Employment**

incentives may also help target more new jobs to local residents.

The claimed fiscal benefits from new jobs often reflect incomplete accounting. New jobs attract people; on average, four out of five new jobs in a local economy will go to people who otherwise would

more of the unemployed will be people who place a high value on having a job but cannot find one.

4. Incentives provided up front may be more cost-effective than long-term incentives. Up-front incentives force

plant leaves. Roads would still provide benefits for local residents and businesses with or without the new plant. A better-trained workforce and better infrastructure may also help in attracting other jobs.

The National Perspective

From a national perspective, the benefits of attracting jobs to one area are at least partially offset by the loss of these jobs to other areas. Some net national benefits will remain from incentives that attract jobs to high-unemployment areas. Some national benefits may also occur from incentives such as worker training and improved infrastructure. Overall national productivity should increase if training and infrastructure improvements are provided efficiently.

Federal policy makers should consider discouraging economic development incentives in low-unemployment areas. They should also consider encouraging state and local governments to focus more on productivity-enhancing incentives. The federal government could encourage better incentive policies by attaching penalties to development-related federal grants. The current political mood, however, is to reduce federal intervention in state and local government.

Perhaps national benefits from the incentive wars will increase as state and local governments become more sophisticated. Incentive packages are tending to focus more on employment expansion, higher wage jobs, worker training, and infrastructure improvements. The press and state legislatures are beginning to force economic developers to analyze the benefits and costs of incentives. If such scrutiny results in some low-unemployment areas refusing to offer large incentives while high-unemployment areas continue to do so, the nation will benefit. This state and local competition will then help redistribute jobs to the places and people that need jobs the most.

Timothy J. Bartik is a senior economist at the Upjohn Institute.

Suggested Readings

Timothy J. Bartik. *Who Benefits from State and Local Economic Development Policies?*, Upjohn Institute, 1991.

_____. "Economic Development and Black Economic Success," Upjohn Institute Technical Report No. 93-001, 1993.

_____. "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" *National Tax Journal* (December) 1994.

_____. "Economic Development Strategies." Forthcoming in *Management Policies in Local Government Finance*, International City/County Management Association. Draft available as Upjohn Institute Working Paper.

William F. Fox and David Mayes. "Are Economic Development Incentives Too Large?" University of Tennessee Working Paper.

Alan H. Peters. "Clawbacks and the Administration of Economic Development Policy in the Midwest," *Economic Development Quarterly* 7(4) (1993).

Jean Kimmel

Moonlighting in the United States

Moonlighting workers represent a significant portion of the U.S. labor market, and their numbers are growing due to increasing rates among women. Moonlighting, or multiple-job holding, reflects an increased need for flexibility to combine work and family, growing financial stress, and a need to develop alternative job prospects. It takes many forms, and workers choose to take a second job for numerous reasons.

Moonlighters might hold two part-time jobs in order to schedule work hours around family obligations; they might add a part-time job to a primary full-time job because of financial hardship or as a way to improve their standard of living; or they might work at an additional job as a way of learning new skills or preparing for a career change.

In many cases, moonlighting reflects the individual's best choice when faced with the need for a flexible work schedule, but in many others it reflects growing economic hardship that threatens

the financial stability of families. Moonlighting trends are linked to a growing divergence between rich and poor, as well as a general sense that families are working more for less. Multiple-job holding by women has increased in recent years as a result of the increasing percentage of families headed by females, low relative wages, and stagnant male earnings.

Moonlighting Trends

How prevalent is moonlighting in the U.S. labor market? Approximately 5.9 percent of workers reported holding two jobs at some point in 1994, but a much larger percentage of workers moonlight at some time during their working lives. Figure 1 shows that moonlighting rates for males have fluctuated around a fairly stable level for many years. However, rates for women have increased dramatically, growing from one-third of the male moonlighting rate in 1970 to equal the male rate in 1994. Also, female

moonlighting patterns have become somewhat more like those of their male counterparts in recent years—holding a full-time job plus a part-time job. The rates for females and males job-packaging in this way are 60 percent and 80 percent of moonlighters.

previously married and never-married women have climbed substantially in the past two decades, currently standing at 7.2 percent and 6.7 percent, respectively. These rates are much higher than the rates for married women or for any group of men. The rate for married women is 5 percent, up from 3 percent in the late

need flexible job arrangements in order to work around their children's school schedules.

Many moonlighters hold the second job due to economic hardship (i.e., to meet regular expenses or to pay off debts). The percentage of moonlighting for this reason has held fairly steady since the early 1970s—40 to 45 percent for women and consistently about 8 percent less for men. Previously-married single women have the highest rate of moonlighting due to economic hardship; they report a rate of 63 percent, nearly 20 percent above the highest rate for any male marital status group. This group of women is likely to be newly poor, often working two jobs in an attempt to retain the standard of living experienced during the marriage.

For the most part, moonlighters tend to come from both low- and medium-income families. Those at the bottom of the pay scale are packaging jobs to achieve a subsistence standard of living, while those in the middle-class range are moonlighting to achieve a higher standard of living. Also, many workers moonlight to develop alternative job prospects as insurance against possible job loss. Finally, there are substantial differences across race in moonlighting rates and motivations. Blacks and people of Hispanic origin, of either gender, moonlight at much higher rates and more often due to economic hardship than Whites.

Problems and Solutions

To what extent does moonlighting represent a symptom of a problem, and what are possible solutions? In many cases, moonlighting represents the positive choice of options available to individual workers. However, the data show that moonlighting often reflects poor returns to work, coupled with rising living costs and changing family structure. (There are no studies that provide a careful empirical disentanglement of these multiple causes.) The key societal concern is the financial stability and overall well-being of families.

Figure 1
Trend in Moonlighting Rates by Gender

So, who is the typical moonlighter? The jobs most often associated with moonlighting are in services, entertainment, public administration, and college teaching. A typical male occupation with a high moonlighting rate is protective services.

Moonlighting rates vary significantly according to marital status. Rates for

1970s. The highest rate for men is the 6.1 percent reported by married men.

Moonlighting rates for all unmarried women reflect the rise in female-headed households and continued gender wage disparity. Women are much more likely than men to be employed in low-paying, often part-time, service-sector jobs.

Women are also more likely than men to

Persistently high male moonlighting rates and rising rates for women are linked to growing time pressures faced by workers. From the late 1970s to the late 1980s, while family incomes were falling or stagnant, the percentage of the full-time workforce working 49 or more hours per week rose from 18 to 24 percent.

Clearly, financial pressures facing families have intensified in the past two decades. Many families are striving to achieve a comfortable standard of living

The labor market problems of which moonlighting is a symptom can be summarized as bad jobs and high costs of work.

by increasing weekly hours of work and by additional income from working wives. However, this effort is often hindered by declining earnings and nonwage compensation, in addition to increased housing costs.

Real earnings declined 30 percent from the early 1970s to the late 1980s for those with a high school education or less and for all young families. Overall, real median income grew only by 0.4 percent, while employer-provided nonwage benefits fell. In addition, the real median price of a home grew 20 percent and real rental costs grew 13 percent during the same time period. Finally, college tuition costs (another serious family financial burden), grew well above the rate of inflation during the same period. (See *The State of America's Children 1994*.)

The labor market problems of which moonlighting is a symptom can be summarized as bad jobs and high costs of work. These issues can be addressed with a combination of policies aimed at supporting the development of high-skilled workers and jobs, and making work pay. Sustained economic growth will relieve some portion of the problem, as will policies designed to encourage individuals to invest in their own human capital. An indirect effect of improving employment prospects for low-skilled

workers could be to improve marriage rates.

An additional concern is the weakness of the social safety net for working mothers. The problems facing females heading households are acute, and significant improvement could be achieved by strengthening child support awards and enforcement mechanisms. Policies designed to make work pay also must focus on the costs of work, including child care, transportation, and replacement of public health insurance with employer-provided coverage.

Whether or not one favors active policy intervention, the problems that have resulted in sustained use of the moonlighting option by men and increased usage by women should weigh heavily with policy makers in Congress as they debate the variety of reforms currently under consideration. Highest priority should be given to those policies that will benefit working-poor and true middle-class families.

Jean Kimmel is an economist at the Upjohn Institute.

Suggested Readings

Karen Conway and Jean Kimmel, "Male Labor Supply Estimates and the Decision to Moonlight," W.E. Upjohn Institute Working Paper No. 92-09, revised June 1994.

Jean Kimmel and Karen Conway, "A Duration Model of Moonlighting," W.E. Upjohn Institute Working Paper, forthcoming June 1995.

Alec R. Levenson, "Where Have All the Part-Timers Gone? Recent Trends and New Evidence on Dual-Jobs," Milken Institute for Job & Capital Formation Working Paper No. 95-1, January 1995.

The State of America's Children, 1994. Washington, DC: Children's Defense Fund.

Dr. John Stinson, periodic articles in *The Monthly Labor Review*. Some statistics reported here have appeared in various BLS reports; others were obtained directly from Dr. Stinson. His generous assistance is much appreciated.

Institute Announces Dissertation Award

On the occasion of its 50th Anniversary, the W. E. Upjohn Institute for Employment Research has established an annual prize for the best Ph.D. dissertation on employment-related issues.

A first prize of \$2,000 is being offered. Up to two honorable mention awards of \$500 may also be given.

The dissertation may come from any academic discipline, but it must have a substantial policy thrust. Dissertations will be evaluated by a panel of economists using the following criteria:

- Policy relevance
- Technical quality of research
- Potential impact on real-world problems
- Presentation

Any individual whose dissertation has been accepted during the 12-month period of July 1, 1994 to June 30, 1995 is eligible for the 1995 prize. The deadline for submission is June 1, 1995. Applicants should send a 10-page summary of the dissertation and a letter of endorsement from their dissertation advisor to the Institute.

A copy of the entire dissertation will be required from finalists.

For additional information call the Institute at (616) 343-5541.

New Books from the Upjohn Institute

Pension Incentives and Job Mobility

Alan L. Gustman
Dartmouth College and NBER

Thomas L. Steinmeier
Western Michigan University

The conventional view that pensions—particularly backloaded pensions—deter job mobility is

challenged in this new book by two noted researchers, Alan L. Gustman and Thomas L. Steinmeier.

Using models developed for this study that incorporate an array of behaviors generally omitted

from conventional models relating backloading to turnover, the authors find that the higher wages typically paid for pension-covered jobs play a greater role in reducing mobility than do the pensions themselves. Backloading, the authors say, plays only a very slight role in explaining mobility differences associated with pension coverage.

This study of factors influencing job mobility is also relevant for its models of wage determination and its analysis of industry and compensating wage differentials. Because human resource policies often incorporate pensions as a tool for affecting mobility and productivity, this book should be of interest to human resource managers as well as academics interested in pensions.

1995. 174 pp. \$14 paper ISBN 0-88099-151-8
\$24 cloth ISBN 0-88099-152-6

Assisting Workers Displaced by Structural Change

An International Perspective

Duane E. Leigh
Washington State University

The United States is just one of a number of developed nations that have implemented programs to assist displaced workers. Some of these other nations' programs have proved successful and, according to Leigh, should serve as examples to U.S. policy makers.

Leigh summarizes the evolution of labor market programs in seven industrialized countries: Australia, Canada, Germany, Japan, Sweden, the United Kingdom, and the U.S. He points out that several of these nations are dealing with long-term unemployment by linking unemployment insurance benefits to participation in

labor market programs, and that this is a requirement which U.S. policy makers should examine closely.

As a result of his informal cross-country evaluation, Leigh proposes a three-level active labor market program for the U.S., based on the success of programs in other countries.

1995. 220 pp. \$15 paper ISBN 0-88099-153-4
\$25 cloth ISBN 0-88099-154-2

Private Pension Policies in Industrialized Countries

John A. Turner
U.S. Department of Labor
Noriyasu Watanabe
Tokai University

In many industrialized nations, the costs of government-operated retirement programs (social security) are steadily rising as a share of the economy, prompting cutbacks in benefit generosity and increased payroll taxes. These changes reduce the rate of return on social

security for individuals, and in turn, encourage the development of private pension systems, as has occurred in countries such as Japan, Germany, the U.S., Chile, and the U.K.

Turner and Watanabe provide an extensive discussion of the fundamental issues that must be addressed as countries adopt and expand private pension systems. Included are analyses of specific private pension policies and their effectiveness in dealing with those key issues. Topics addressed include:

- The degree of privatization
- Tax policy
- Risk and insurance from risk
- Pension financing
- Labor market issues
- Retirement income

The authors also provide a compendium on the trends in pensions which are being experienced.

1995. 170 pp. \$14 paper ISBN 0-88099-149-6
\$24 cloth ISBN 0-88099-150-X

ORDER FORM

Book/Author	Qty Paper	Qty Cloth	Total Price
Pension Incentives and Job Mobility Gustman/Steinmeier	_____ @ \$14.00	_____ @ \$24.00	_____
Assisting Workers Displaced by Structural Change Leigh	_____ @ \$15.00	_____ @ \$25.00	_____
Private Pension Policies in Industrialized Countries Turner	_____ @ \$14.00	_____ @ \$24.00	_____
Quantity Discount 5-9=10% 10-24=20% 25-99=30% 100 & up=35%	Less Discount		_____
Shipping/Handling U.S. and Canada \$3 first book, .50 cents each additional book. Foreign \$3 first book, \$1.50 each additional book.	Shipping		_____
	TOTAL \$		_____

SHIP TO: _____ **BILL TO: (must attach purchase order)** _____

Name	Name
Organization	Organization
Address	Address
City State Zip	City State Zip

If an associate of yours would like to be on the mailing list for *Employment Research*, please check here ☐ and complete the "SHIP TO" information above.

To order a publication or request a catalog, mail, phone, or fax:
W. E. UPJOHN INSTITUTE
 300 S. Westnedge Avenue
 Kalamazoo, MI 49007-4686
 Phone 616/343-4330
 FAX 616/343-7310

PAYMENT: All orders must include payment by check, credit card information, or purchase order. Checks must be payable to the W. E. Upjohn Institute in U.S. funds drawn on a U.S. bank. All prices are subject to change without notice.

_____ check enclosed
 _____ VISA
 _____ MasterCard
 _____ P.O. # _____

signature _____

credit card # _____

expiration date _____

phone _____

W. E. UPJOHN INSTITUTE
 for Employment Research
 300 S. Westnedge Avenue
 Kalamazoo, MI 49007-4686

Nonprofit Org.
 U.S. POSTAGE
 PAID
 Kalamazoo MI
 Permit No. 756