2011

Employment Research, Vol. 18, No. 1, January 2011

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In this issue . . .

Labor Markets in Recession and Recovery

Nine articles address aspects of
• Job creation tax credits
• Retirement income and pensions
• Unemployment insurance
• Labor market adjustment
• Immigration

New Books

Vol. 18, No. 1


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Randall W. Eberts
President

Labor Markets in Recession and Recovery

Through its grant programs and staff research, the Upjohn Institute supports scholarly research that targets the causes and consequences of unemployment. On October 22–23, 2010, the Institute convened a conference in which presenters discussed their ongoing research and, in many cases, presented preliminary findings that address aspects of the labor market as it transitions from deep recession to (modest) recovery. The presenters were current or recent grantees or, in one case, a staff member. This issue of Employment Research presents synopses of the presentations.

Most of the conference presenters received policy research grants from the Upjohn Institute in a program that did not direct particular topics, but rather requested research that was applicable to a recovering labor market. The topics that were suggested from the field and that comprised the conference include job creation tax credits, retirement and pension issues, unemployment insurance, labor market adjustments, and immigration.

The synopses presented here give brief summaries of the research. The full papers will become Upjohn Institute Working Papers and Policy Briefs and will be available to download from www.upjohn.org.

JOB CREATION TAX CREDITS

Robert S. Chirinko and Daniel J. Wilson

Job Creation Tax Credits and Job Growth
Whether, When, and Where?

The postrecession job growth and persistently high unemployment rate have been disappointing. Naturally, policymakers have considered many approaches to stimulate private or public sector job growth, including job creation tax credits. Chirinko and Wilson point out that many states have enacted such credits over the past 20 years. Their study examines two effects of these credits, and the investigators plan to analyze a third. First, they investigate whether the job creation tax credits stimulate within state job growth. Second, they investigate when the effects occur. In particular, they test for negative anticipation effects between program enactment and when the credit goes into effect. If firms believe that they will get a tax credit for hiring at some future date, they may delay hiring until then, which will exacerbate the sluggish job growth. Third, the study plans to assess where increased employment comes from—in state or out.

Chirinko and Wilson document that between January 1990 and August 2009,
23 states enacted a job creation tax credit. (See Figure 1). This paper shows that the “nuts and bolts” of a job creation tax credit, especially the period of time of tax credit eligibility, is highly important. The state programs had timing variation that the authors exploited to estimate the impacts. In some cases, the tax credit was retroactive; job growth prior to the enactment of the legislation was eligible for the credit. In some cases, the implementation of the tax credit was coincident with its enactment. Finally, in other cases, the implementation of the credit occurred after its enactment, which would raise the specter of a negative anticipation effect.

The authors indicate that they intend to conduct considerable robustness testing of their results, but they believe that the initial results suggest a positive answer to the whether question. These preliminary results suggest that an unanticipated job creation tax credit leads to an increase in employment growth in a state of 0.10 percent during the first year of the tax credit after the credit becomes effective. They note, however, that there is some evidence of (negative) anticipation effects when implementation lags exist.

Robert S. Chirinko is at the University of Illinois at Chicago, and Daniel J. Wilson is at the Center for the Study of Innovation and Productivity at the Federal Reserve Bank of San Francisco.

Figure 1 States with Job Creation Tax Credits as of August 2009

Timothy J. Bartik

Estimating the Costs per Job Created of Employer Subsidy Programs

Tim Bartik presented cost per job created estimates from four recent projects that he has conducted. The information supplements nicely the Chirinko and Wilson presentation because some of Bartik’s estimates pertain to job creation tax credits. Bartik began with a stark accounting of the national job growth needed to restore the U.S. employment-to-population ratio to its level in December 2007. The bottom line is that the United States needs over 320,000 net jobs created per month to attain that goal in five years. Furthermore, as might be expected, the job gap is not evenly distributed throughout the population. Lower-educated groups and certain regions of the country lag other groups and areas in employment rates, for example.

A primary point of the Bartik presentation is that a conventional fiscal stimulus is too costly per job created to fill this huge job gap. The American Recovery and Reinvestment Act of 2009, which was an $814 billion stimulus, has an average cost per job created of about $112,000. The presentation suggests that if policies are focused solely on job creation, instead of as a byproduct of a fiscal stimulus, then the cost per job is significantly smaller and concomitantly, far more jobs can be created for the same level of funding.

In joint work with John Bishop of Cornell University, Bartik analyzes an updated version of the 1977–1978 New Jobs Tax Credit. Simulations of this policy yield gross costs per job created in the first year of $28,000 to about $50,000 (2008 $) depending on parameter assumptions. (A key assumption in these calculations is the labor demand wage elasticity; estimates of elasticities in the 0.10 range yield higher gross costs per job created than an estimate of 0.30, which comes from the literature.) Net costs per job created are estimated to be around $5,000.

In analyses of the Minnesota MEED job subsidy program, Bartik finds gross costs per job created of $34,000 and a net cost after federal and state offsets of about $7,000. In analyses of the Michigan MEGA Program, an economic development program featuring a refundable credit on business income taxes, Bartik, working with George Erickcek of the Upjohn Institute, estimates a cost (i.e., tax revenue foregone) of about $25,000 per job created.

Finally, Bartik summarizes the recommendations from a recent study he conducted for the Brookings Institution Hamilton Project.¹ In that study, which focuses on policies with efficacy to induce urban development, he recommends an expansion of enterprise zones (estimated cost per job created of $18,000), customized job training ($25,000), and expansion of the Manufacturing Extension Program, which has a cost estimate per job created of $8,500.


Timothy J. Bartik is at the Upjohn Institute.
The Economic Crisis and Retirement Income

A distressed labor market and a significant decline in investment returns, both of which have occurred during the recession, can affect retirees’ well-being through multiple conduits. Lower investment returns imply that pension wealth will not accumulate as much relative to more robust returns, which will dampen retirement income in later years. In response, many workers, especially high-skilled individuals, delay their retirements. On the other hand, higher unemployment rates mean that individuals who are near retirement age and who lose their jobs are unlikely to find other jobs and will initiate early Social Security benefits at age 62. These individuals will then have lower monthly benefits for the remainder of their lives relative to what they would have received if they claim Social Security at a later age level.

To estimate these phenomena, Coile and Levine use data from the 2000 census and 2001–2007 American Community Surveys to look at the economic circumstances of men aged 70–79. They omit women from their analyses because most women of this age are likely to receive Social Security benefits based on their husbands’ benefit levels either because their own work histories are insufficient to qualify for retired worker benefits or their dependent spouse benefits are greater than their own retired worker benefits. Consequently, it is the market conditions around the time that the husband retired that matter for the analysis. The authors use the unemployment rate of the man’s state of residence at age 62 to estimate the impact of labor market conditions and growth in the Standard & Poor’s 500 Index when the survey observation turned 50, 55, 60, and 65 to estimate the effect of the stock market.

Coile and Levine’s empirical findings imply that weakness in the labor market and stock market had deleterious effects on retirees. Income levels of retirees between 70 and 79 in the bottom one-third of the income distribution are lower if the unemployment rate was higher when they were 62. The magnitude of the effect is roughly equal to the benefit reduction that would be associated with retiring earlier than the normal retirement age. Secondly, for workers in the top one-third of the income distribution, long-term declines in stock prices when the workers were in their 50s and 60s resulted in lower investment income when they were aged 70–79.

In short, falling stock prices harm the well-being of more-advantaged older workers by causing them to delay retirement and reducing their retirement income. Rising unemployment hurts the well-being of less-advantaged older workers by forcing them to withdraw from the labor market sooner than they want and reducing their retirement income. However, Coile and Levine estimate that, compared to more-advantaged workers, a greater number of less-advantaged workers changed their retirement behavior because of the economic crisis. Moreover, the relative impact of unemployment at age 62 on less-advantaged workers’ retiree income is much larger (especially in percentage terms) than the impact of experiencing poor equity returns on more advantaged workers’ retiree income. The inescapable conclusion is that the problems that low-income older workers face in the light of labor market weakness are of greater concern than the problems that upper-income older workers have when equity markets weaken.

Leslie A. Muller and John A. Turner

The Persistence of Employee 401(k) Contributions over a Major Stock Market Cycle

Evidence on the Limited Power of Inertia on Savings Behavior

Muller and Turner presented preliminary findings from a study that is closely related to the issue of the effects of weakness in the stock market on retiree income. They point out that middle-income workers save for retirement largely through 401(k) plans, and they suggest that the low account balances of older workers may indicate that these vehicles are not sufficient to insure adequate retirement savings. In particular, Muller and Turner suggest that workers are not persistent (continuing once a worker has started) in contributing, and a weak stock market exacerbates the problem.

The notions of inertia and dollar-cost averaging suggest that persistency should not be an issue because it would automatically occur and would be desirable behavior. Behavioral economics would suggest that inertia would cause workers who began contributing to their 401(k) plans to continue doing so as long as they remained with the same employer. Dollar-cost averaging is an investment strategy that advisors recommend in which investors invest a constant amount each period so that one is buying fewer shares when the price is high and buying more when prices are low. Despite these theoretical considerations, Muller and
Turner document low rates of persistency that are procyclical (lower contributions when the market is low).

Using panel data (Panel Study of Income Dynamics) covering a six-year time span from 1999 to 2005, the authors present descriptive and econometric evidence about the persistency behavior of individuals with 401(k) accounts. In particular, the PSID data that were analyzed come from four biannual waves in 1999, 2001, 2003, and 2005. Descriptive data show that of the sample of household heads aged 21–65 in 2005 who were employed in every time period, only about one-third (35 percent) contributed to their plan in all four waves. Job changing had an impact. However, even for individuals in the sample who did not change jobs, less than half (46 percent) contributed in all four years of the survey.

Muller and Turner reported on the results from estimating an equation modeling 401(k) contribution behavior using logit regression analysis. When this model was estimated with the sample of individuals who were employed in each panel and with the sample of individuals who were employed in each panel and never changed jobs, the coefficient on the Dow Jones Industrial Average was positive and significant. Workers contributed to their plans when the market was up. The authors call this investment error herd investing, where individuals get into the market when it is high and not when it is low.

The authors conclude that their findings have important implications for the pension system and adequacy of retirement income. Projections of future retirement income readiness that assume that workers persistently contribute over their working lives greatly exaggerate the future levels of pension assets workers will have accumulated.

Leslie A. Muller is at Hope College, and John A. Turner is at the Pension Policy Center.

**UNEMPLOYMENT INSURANCE**

Luke Shaefer and Liyun Wu

Unemployment Insurance and Low-Educated Single Working Mothers after Welfare Reform

New Evidence from the SIPP

Cash assistance through the Aid to Families with Dependent Children (AFDC) and its successor program, Temporary Assistance for Needy Families (TANF), was a major source of support for low-educated single mothers prior to welfare reform in 1996. Because of that reform, as well as the expansion of the Earned Income Tax Credit and the robust economy of the late 1990s, these mothers substantially increased their labor force participation. It might be anticipated that concomitant with the increased labor force participation, this population of workers would increase their access to unemployment insurance (UI).

Shaefer and Wu address three questions: 1) Has the large growth in labor force participation among adult single mothers since the early 1990s been accompanied by a growth in UI participation by this population when they experience a spell of unemployment? 2) Has eligibility for UI changed over time, and are nonmonetary or monetary eligibility requirements more important? 3) Has the relative importance of three major support programs—UI,

![Figure 2](image_url)

**Figure 2 UI Program Participation and Eligibility of Low-Educated Single Women, Aged 22–55 (%)**

NOTE: *Statistically significantly different from same-column estimate for the preform period (1990–1994) at the 0.05 level.

SOURCE: Authors’ calculations from a pooled sample of the 1990–2004 SIPP panels.
Food Stamps, and cash welfare—changed for single mothers who enter a spell of unemployment?

Shaefer and Wu use the Survey of Income and Program Participation (SIPP) to address these questions. The empirical strategy they employ is to compare low-educated single mothers to low-educated single childless women. This type of comparison controls for competing explanatory variables and strengthens the notion that it is a program effect that is being estimated. Shaefer and Wu find the surprising result that even though they have increased their likelihood of meeting both monetary and nonmonetary eligibility requirements relative to low-educated childless women, the low-educated mothers are no more likely to receive UI benefits. Less surprising is the result that UI has become a more common income support for single mothers who become unemployed than cash assistance.

The descriptive data that Shaefer and Wu present show that prior to welfare reform (i.e., 1990–1994), about 28.7 percent of single mothers entering unemployment participated in UI; whereas 31.4 percent of childless single women participated in UI. In the postreform years (2001–2005), about 21.4 percent of single mothers participated in UI upon entering a spell of unemployment compared to 25.5 percent of childless women. Multivariate analyses confirmed these differences. Figure 2 shows the differences in the descriptive data.

The authors note that while single mothers experienced improved monetary and nonmonetary eligibility rates relative to single childless women, they did not see relative improvement in receipt of benefits. The authors suggest that this may be due to a lack of knowledge about the program, a lack of understanding of a complex bureaucratic process, a lack of need for benefits (as a result of increased take-up of Food Stamps), or a quick transition back to work. They call for future research to disentangle these explanations.

Ralph Smith

The Secular Rise in Unemployment Insurance Exhaustions and What Can Be Done about It

Smith notes that since the mid-1970s, the percentage of UI recipients exhausting their entitlement to regular benefits has increased by between 3 and 4 percentage points per decade, after adjusting for fluctuations associated with cyclical variation and the implementation of temporary benefit extensions. Smith further notes that the average duration of spells of UI receipt has also risen by about one week per decade.

The increased rate of exhaustions and benefit duration are undoubtedly related to an increase in the percentage of job losers who are permanently separated rather than temporarily laid off, according to Smith. But he counters that parallel trends in long-term unemployment among new entrants and reentrants into the labor force suggest that the secular rises are part of a broader transformation in the labor market.

The adverse consequences of long-term unemployment and benefit exhaustion affect the unemployed workers, the overall economy, and government budgets. Many individuals who exhaust UI benefits see their family incomes fall below poverty, and when and if they return to work, they earn much less than previously and never resume their previous earnings trajectories. Long periods of involuntary unemployment by experienced workers mean that the nation’s productive capacity is not being used and additional outlays for UI benefits must be made.

Smith suggests that research has been undertaken that points the way to ameliorative policies. A substantial body of evidence indicates that strengthened job search requirements and increased job search assistance can reduce the duration of compensated unemployment. Experiments conducted in the 1980s showed that providing financial inducements for unemployed workers to search for work more intensively or to accept job offers that they might have otherwise spurned can also shorten durations. Finally, results from program evaluations suggest that selective use of retraining to acquire new skills can increase the subsequent earnings of the unemployed, but care needs to be taken to match course taking to participants’ skills and abilities, and to assure that jobs will be available.

Ralph Smith is retired from the Congressional Budget Office.

LABOR MARKET ADJUSTMENT

Luojia Hu and Christopher Taber

Displacement, Asymmetric Information, and Heterogeneous Human Capital

Theory and empirical research, based on the importance of asymmetric information in the labor market outcomes, have shown that white-collar workers who are laid off fare worse in subsequent employment than do white-collar workers who lose their jobs because of a plant closing. The notion is that the layoff is a negative signal to future employers, whereas a plant closing is not.

Hu and Taber look at this story using 13 national cross-sectional surveys of displaced workers—the biennial Displaced Worker Surveys between 1984 and 2008. In particular, they explore the prediction of an advantage in future earnings for workers after a plant closing vis-à-vis workers who are individually laid off, by race and sex. Surprisingly, they find that the asymmetric information
Françoise Carré and Chris Tilly

Short Hours, Long Hours, Flexible Hours

Hours Levels and Hours Adjustments in the Retail Industry in the United States, Canada, and Mexico

Carré and Tilly remind us that recessions not only result in significant levels of unemployment, but also spikes in involuntary part-time employment. Between 2007 and 2009, as unemployment rose from 4.6 to 9.3 percent, involuntary part-time employment also more than doubled, from 3.1 to 6.6 percent. Similarly, average weekly hours of production and nonsupervisory workers fell.

To gain an understanding of how employers adjust hours of employment, Carré and Tilly have collected qualitative data on the retail sector in the United States, Canada, and Mexico and have analyzed quantitative data. Retail is an interesting sector because it is known to have fluctuating work hours and a high rate of part-time employment. Also, to provide customer convenience, establishments need to have employees for very long hours of operation. The managerial burdens in this environment are to control costs and to deploy adequate staffing levels at all times.

The authors argue that the two managerial burdens lead retailers in the United States and Canada to expand part-time jobs and to shorten hours, whereas in Mexico, they lead them to lengthen hours. The differences in the three countries are due to distinct institutional configurations. It should be noted that the analyses presented at the conference were preliminary.

In the United States and Canada, managers achieve labor cost control through the control of unit labor cost and the control of labor deployment. Unit labor costs are controlled by paying part-timers less, by rationing the access of part-timers to benefits, and by controlling entry-level wage rates. Labor deployment is managed by matching staffing with customer flows, flexing up or down on short notice, and avoiding overtime premia.

In Mexico, the dominant institutional constraints in retail seem to be an overtime premium that only takes effect at 48 hours per week and a minimum daily wage. The latter implies no advantage to having workers just cover a few peak hours, because the employer must pay the daily minimum regardless of the number of hours worked.

Françoise Carré is at the Center for Social Policy, and Chris Tilly is at the Institute for Research on Labor and Employment.

Kirk B. Doran and George J. Borjas

Employment, Innovation, and High-Skill Immigration

Two policy prescriptions have been brought forward to attempt to bolster U.S. economic growth, especially as it climbs slowly out of recession. First, some analysts suggest major investments in promoting research and development and knowledge creation. Second, some argue for an increase in high-skill immigration. Doran and Borjas argue that little is known about the effect of high-skill immigrants on knowledge creation or about the effect of knowledge creation on the employment of existing workers.

On the one hand, high-skill immigrants could be responsible for increasing the rate of innovation of existing workers if they are responsible for knowledge spillovers (or if they induce existing workers to work harder because of increased competition). This would presumably generate hours and employment for existing workers. On the other hand, high-skill immigrants could negatively impact the labor market experiences of existing workers if they dampen wages or employment levels through a supply shift or because of the lack of knowledge spillovers.

Doran and Borjas intend to focus on a specific case: the substantial immigration-induced increase of mathematicians in the 1990s following the collapse of the Soviet Union. Because these mathematicians were unevenly distributed across subfields, the variation in impacts across subfields may identify the impacts of the immigration. Doran and Borjas noted at the conference that they are just now getting access to the data.

Kirk B. Doran is at Notre Dame University, and George J. Borjas is at Harvard University.
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Early Childhood Programs and Local Economic Development  
Timothy J. Bartik |
| “State and local economic development officials need new strategies, ones backed by fact and evidence. Tim Bartik provides exactly this in his powerfully researched book that documents the link between economic development and investing in your children in ways never done before. Now business leaders and development officials have a sober, fact-based framework for increasing personal incomes, local and state workforce competitiveness, and national fiscal strength. This is a framework for getting our country back on its feet and keeping it there.” |
| –Robert Dugger, founder and managing partner of Hanover Investment Group; Chairman of the Advisory Board, Partnership for America’s Economic Success |
| “Tim Bartik has written a thoughtful book on the value of a local approach to financing and creating early interventions to foster child development. The economic case for supplementing the early environments of disadvantaged children is compelling. Annual rates of return of 7–10 percent per annum have been estimated—higher than return on stocks over the period 1945–2008 . . . In an era of stringent federal budgets, Bartik offers a plan for raising the support needed to put effective programs into place.” |
| –James Heckman, Nobel Prize–winning economist, University of Chicago |
| 417 pp. $45 cloth 978-0-88099-373-9  
| **The Time Use of Mothers in the United States at the Beginning of the 21st Century**  
Rachel Connelly and Jean Kimmel |
| How mothers in the United States choose to spend their time has critical implications for the well-being of their children. Gaining insight into how mothers choose to spend their time, whether it’s at paid or unpaid work, caregiving, or leisure is thus hugely important from child development and policy perspectives. |
| Basing their analysis on the American Time Use Survey, Connelly and Kimmel delve into the time use of mothers of preteenaged children in the United States and connect their time uses with their children’s development. This leads to interesting findings that should inform policymakers addressing issues related to taxation, education, and child care subsidies. |
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Andrew R. Feldman |
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