

EMPLOYMENT

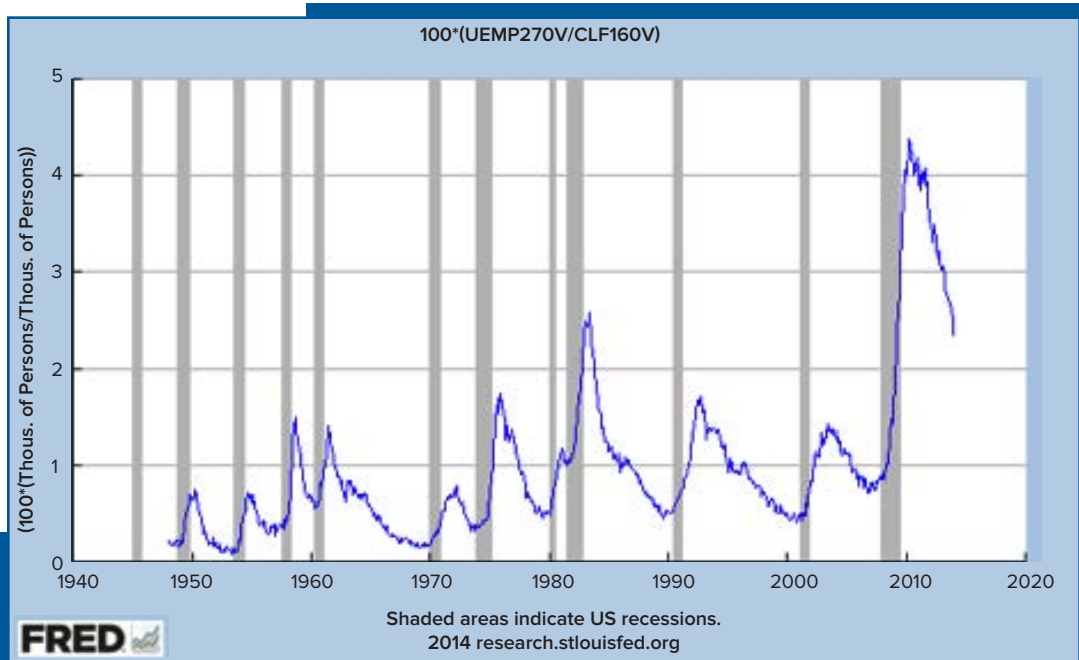
POLICIES TO GET AMERICANS WORKING AGAIN

MICHAEL R. STRAIN

Work is at the core of the American dream of earned success. Building a thriving job market must be at the heart of the effort to improve America's economic prospects, to strengthen the middle class, and to move more people into the middle class. Unfortunately, that means we have an awful lot of work to do, because America's labor force and labor markets confront some urgent near-term problems and some daunting long-term challenges.

The effects of the Great Recession are still with us. Long-term unemployment—spells of unemployment lasting six months or longer—has been an unprecedented problem in the current downturn, and although it has been declining it remains well above its postwar average nearly half a decade after the end of the recession.

The long-term unemployment rate



The long-term unemployed face serious problems because of their particular difficulty in getting jobs. Economists have carefully studied the long-term unemployed during the Great Recession, and have found that the chances of finding a job decrease significantly after a worker has been unemployed for six months.

The economic impact of long-term unemployment is significant. Millions of workers sitting on the sidelines or asking to be employed constitute a massive waste of economic resources. (Imagine if we let many factories or vast swaths of farmland sit idle, unused, for long periods.)

More importantly, long-term unemployment is a human tragedy. Divorce rates go up when unemployment is high for extended periods. The long-term unemployed have worse health outcomes. There is some evidence that the probability of suicide increases with extended unemployment. The children of the long-term unemployed suffer, sometimes for years after their parents' unemployment ends.

The sidelining of millions of workers also adds to social idleness and creates a less dynamic, less vibrant society.

And while long-term unemployment presents an urgent challenge, we also face some profound employment problems that long predate the Great Recession and may well speak to structural changes in our society that will shape our prospects for the future.

A principal concern is the declining rate at which men participate in the workforce. The chart below shows the share of the male population of prime working age that is either employed or actively looking for work. As you can see, over the last thirty years this share has dropped dramatically.

Labor force participation rate for men aged 25–54



Much of this decline is driven by men with less than a college education. Along with other changes to the labor market, falling wages for these men are likely an important cause of this decline. The consequences of this trend are, again, not merely economic. When men are not working, they are less likely to be married and more likely to be incarcerated. Such chronic unemployment diminishes economic mobility: It is harder to move up the relative income scale if you don't have a

job, and it will be much harder for your children to do better than you as well. Stagnation today robs the next generation of opportunity.

We have near-term and long-term employment problems, and America's political leaders are not doing a good job of confronting either. In the years since the Great Recession, liberal ideas have been tried and found wanting. Conservative ideas and intuitions have not yet been put to work on the problem. If they were, they could well point to some promising answers.

Make It Easier to Find Work

A good first step toward building a stronger labor market would be to lower the barriers that now keep workers from potential jobs.

Rolling back oppressive licensing requirements would be a big help. The Institute for Justice reports that the average cosmetologist spends 372

days in training to receive an occupational license from the government, while the average emergency medical technician trains for thirty-three days.¹ Which occupation seems like it should require more training? Government (especially at the state and local level) certainly has a role in ensuring that certain occupations are practiced only by well-trained workers, but it seems

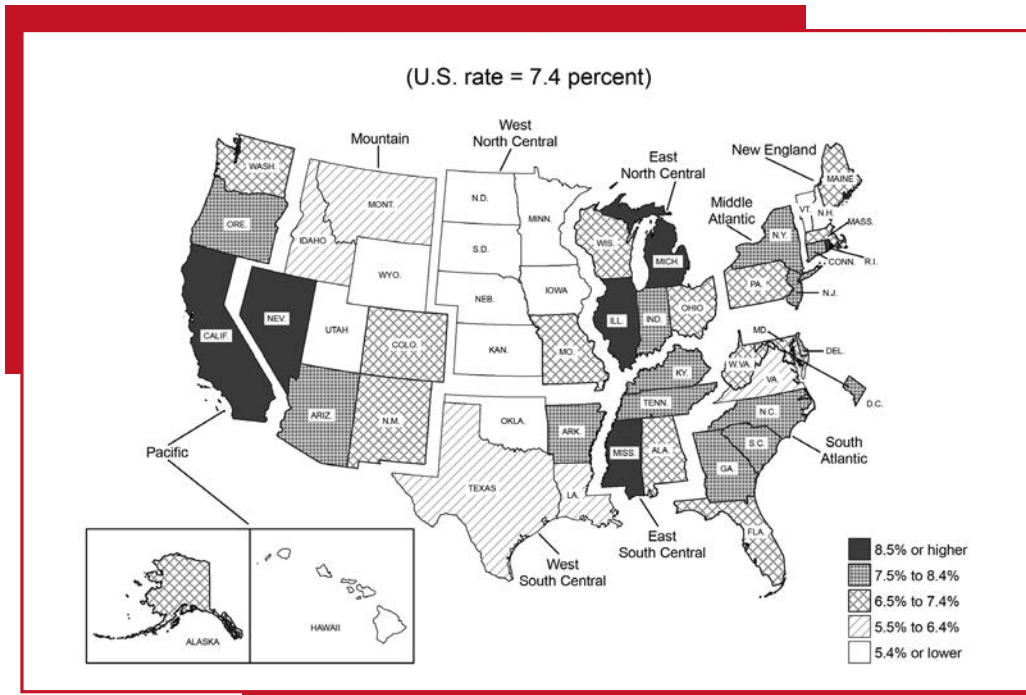
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obvious that we have gone too far. As part of their effort to put Americans back to work, conservatives should support scaling back unnecessary occupational licensing at every level of government in order to advance economic liberty and create jobs.

Conservatives should also rethink the way unemployment benefits are provided and allow workers interested in moving in search of employment to receive relocation assistance in place of continued unemployment benefits.

Labor market conditions vary quite a bit across America. In 2013, the unemployment rate in Rhode Island averaged 9.5 percent; in Illinois, 9.2 percent; and in California, 8.9 percent. Compare that with North Dakota's 2.9 percent, South Dakota's 3.8 percent, and Nebraska's 3.9 percent.

Unemployment rates by state, 2013 annual averages



Source: Bureau of Labor Statistics

It makes sense, therefore, to at least provide a long-term unemployed California worker with information about employment and earnings for his occupation and demographic group in different places, both in California and in other states. And it makes sense to help him to move to another state if he so chooses. This help could take the form of a grant (replacing potential unemployment benefits) to cover his moving expenses, a low-interest government-backed loan with repayment capped at a certain share of future earnings, or some combination of the two.

Using government to help workers connect with jobs could help more Americans earn their own success without requiring the government to manage complicated programs. These policies advance economic liberty and use limited but energetic government action to advance conservative goals.

Make It Easier to Hire Workers

While making it easier for workers to connect with jobs, policymakers should also champion policies that will make it easier for employers to hire new workers—and perhaps especially to hire the long-term unemployed.

About one in five of the long-term unemployed are young workers, and about one in five have no high school diploma. Many of these long-term unemployed workers are likely applying for minimum wage jobs, but they aren't getting them.

The federal minimum wage requires that potential employers take a \$7.25 per hour risk on long-term unemployed workers—workers who are already seen as quite risky compared to applicants who are coming from other jobs or have been employed more recently. The government should lower the risk associated with hiring long-term unemployed workers

by temporarily lowering the minimum wage that firms must pay them.

Temporarily lower minimum wages for the long-term unemployed should be coupled with a temporary subsidy (through an enhanced Earned Income Tax Credit or a wage subsidy) to ensure that no one who works full time and heads a household lives in poverty. (More on that below.)

A similar approach to help the long-term unemployed would involve tax credits for hiring such workers. The evidence regarding the effectiveness of such credits is mixed, but they appear to work best when they are targeted at unemployed workers. By reducing a firm's tax liability in exchange for the firm's hiring a long-term unemployed worker, these credits create an incentive to get the long-term unemployed back into jobs. And could be more effective than a lower minimum wage for the long-term unemployed because they could apply to all long-term unemployed workers, not just minimum-wage workers. Likewise, we could exempt the long-term unemployed from the payroll tax (both the employer and employee side) for the first several months after they are hired as a targeted incentive to get them back to work.

Of course, lower minimum wages, hiring credits, and payroll tax holidays for only some workers will create winners and losers. For example, it is likely that some firms would hire a long-term unemployed worker at a \$4 minimum wage rather than a short-term unemployed worker at a \$7.25 minimum wage. The short-term unemployed worker would clearly be made worse off because of this policy.

But the fact that a policy creates winners and losers is not necessarily a reason not to pursue it; conservatives should not automatically oppose a government program simply because it causes a small distortion in the market. Some circumstances call for exceptions, and we should recognize that economic efficiency and other social goods will sometimes be in tension. Prudence must be employed on a case-by-case basis to determine which should trump. In this case, encouraging firms to hire the long-term unemployed is likely to be worth the cost of the distortion. Given how hard it is for long-term unemployed workers to get jobs, the benefits—both to them and to society—of moving them up in the queue are worth the costs that will be borne by other job seekers.

After all, relative to the size of the labor force there aren't that many long-term unemployed workers, so the distortions imposed on the labor market would be minimal. And in this case, encouraging firms to hire the long-term unemployed has a large upside—keeping these workers in the labor market, supporting their aspiration to provide for themselves and their families and to stay connected to society, offering partial relief from the damage done to them by the Great Recession, and removing the stigma of long-term unemployment from their résumés by helping them find jobs.

Keep Workers Working

Connecting workers with jobs and making hiring easier are essential steps. But policymakers also need to provide employers with more options for keeping workers in the jobs they have.

One policy that could advance this goal is worksharing. Imagine a firm with one

hundred workers, all of whom earn the same amount of money. A recession hits, and the firm needs to trim 20 percent from its payroll to survive. Today, that firm would lay off twenty workers, each of whom would receive a weekly unemployment benefit. Under work-sharing, every worker would reduce their hours by 20 percent—staying home on Fridays with no pay, for instance—and collect 20 percent of a weekly unemployment benefit. In both situations, the firm would cut its payroll by 20 percent and taxpayers would be on the hook for the same amount of money in unemployment benefits. But under work-sharing, no one would be laid off.

Of course, we wouldn't want to *force* firms to use work-sharing. Firms often use recessions to reorganize their production processes, and sometimes that means letting workers go. This process is necessary in a dynamic economy, and should not be discouraged.

But some firms would very much like to keep the workforce they have in place (think of a small shop with four or five workers, where everyone knows their corner of the store), and would take a hit if they had to lay off employees. Moreover, hiring is expensive, as is

training new workers in jobs that laid-off workers had down cold.

It stands to reason that many firms would welcome worksharing as an option. But worksharing is only available in about half the states, and most employers are not aware of it even in states where it is legal. Conservatives should work to set up worksharing programs in the states where it is now not available, and to make employers more aware

of it everywhere. Giving employers more flexibility is always preferable to forcing their hands—and giving them the flexibility to keep workers employed in a downturn would be a policy win-win.

Keeping employed workers working means keeping them in jobs, but it also means allowing them to work more hours if they choose. Obamacare poses an important obstacle to both

of these goals, as it is projected to significantly reduce labor supply over the next ten years among certain groups of people. How significantly? A whopping 2.5 million full-time equivalent workers, according to the Congressional Budget Office.

All else being equal, mitigating “job lock”—the situation in which workers stay in a job only because they don't

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want to lose their health-insurance benefits—is a good idea, and reductions in labor supply caused by weakening the link between employment and health insurance should not lightly be criticized by conservatives. But the high implicit marginal income-tax rates in Obamacare are another matter. The law gives subsidies to households with income up to 400 percent of the federal poverty line (this year, that would mean up to \$94,200 for a family of four) in order to help with the cost of purchasing health insurance. The more money you make, the smaller the subsidy you receive. Because a little extra work results in losing some of the benefit workers receive from the government, the “subsidy phaseout” operates as a tax that discourages work.

Conservatives should oppose the work disincentives in Obamacare while working to further (and prudently) weaken the link between employment and health insurance. There are good ideas out there for how to do this—including the kinds of proposals discussed by James C. Capretta elsewhere in this book. Simply put, we need public policies that help keep workers working, rather than ones that nudge workers to leave their jobs and to reduce the number of hours they work. Amazingly enough, a commitment to that principle increasingly forms a dividing line between the Right and Left.

Make Work More Attractive

The deeper problem of declining workforce participation is connected to another public-policy challenge that conservatives must confront. It is tied to the ways in which some public anti-poverty programs tend to make work less attractive, and so to drive

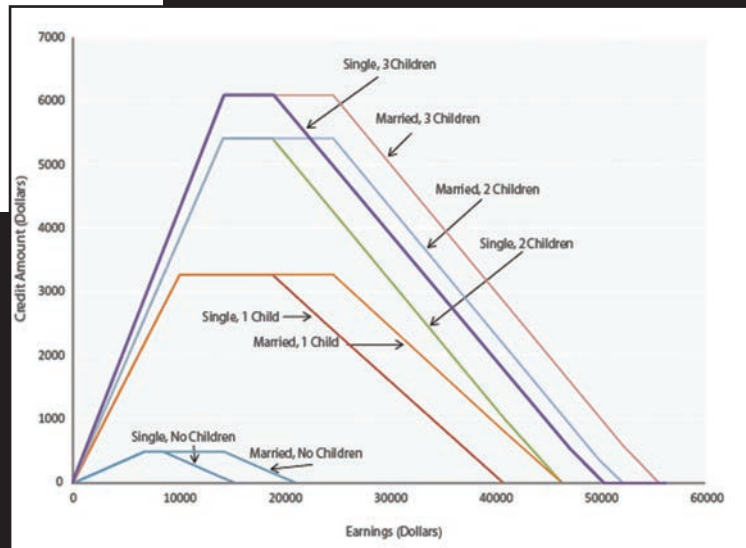
Americans with lower incomes and lower levels of skill away from employment.

The Social Security Disability Insurance (SSDI) program is particularly problematic in this regard. As of the end of 2013, nearly 11 million disabled workers and their dependents were receiving SSDI benefits. The share of adults receiving such benefits doubled between 1989 (2.3 percent) and 2009 (4.6 percent). A just society must ensure an adequate standard of living for the truly disabled, but there is compelling evidence that SSDI operates as a permanent unemployment program for many. Conservatives should make work more attractive for SSDI beneficiaries by making the program much more work friendly—changing it from the permanent exit from the labor force that it too often is today into a program that recognizes disability as a continuum and helps beneficiaries to work as many hours as they reasonably can.

Reforms of the Earned Income Tax Credit are also essential to making work more attractive. The EITC is one of the most successful anti-poverty and pro-work programs we have. It functions as an earnings subsidy for low-income households. In order to qualify for the refundable tax credit, you have to have a job, and the size of the credit increases with earnings over a sizeable range.

Given its design, it is no surprise that the EITC has increased the number of people who enter the labor force. In addition to drawing people into the workforce by increasing the rewards to working, it is also very well targeted to working-class households—it has lifted millions of people out of poverty.

Earned Income Tax Credit by Number of Children and Filing Status, 2014



Source: Tax Policy Center

The EITC is much more generous to households with children than to those without; in 2014, the most a childless worker will get from the EITC is \$496, while a worker with three or more children will get up to \$6,143.

As mentioned above, a major social and economic problem facing the United States is male non-employment—and many of those men do not have children in their households. Expanding the EITC for workers with children in the 1990s brought a lot of single mothers into the workforce. We should expand the EITC for childless workers in order to do the same for them.

There are, of course, good reasons for offering more generous support to workers with children than to workers without. But we could increase the maximum size of the credit for a childless worker by a factor of six and the maximum credit for a worker with one child would still be larger. So policymakers

should double or triple the credit available to childless workers, and fund the expansion by reducing tax benefits (like the mortgage-interest deduction and the state and local tax deduction) that now almost exclusively benefit higher-income households.

Conservatives should also make the case for an expanded EITC as part of their bottom-up, organic alternative to the Left's top-down, technocratic job-training programs: The EITC provides assistance to workers at the bottom of the labor market to acquire skills and to build careers, but uses employers to provide this training in an individualized way rather than pretending that a central bureaucracy knows what skills people need.

Conservative Labor-Market Reforms

Our labor market is badly damaged, suffering from both urgent and slow-burning problems. Workers cannot properly connect with jobs, employers

face too many obstacles to hiring, we are failing to make alternatives to layoffs available, and our welfare system makes work unattractive for too many able-bodied Americans.

Policymakers need an approach to reforming our labor-market policies that empowers individuals and supports their higher aspirations—giving them the

the danger of dependency. We must not try to direct the market; instead, we should try to use the market as a means to promote positive ends.

Ultimately, this is not a technical debate but a philosophical one. Work is essential to any notion of the good life. The policies of the Left often undermine the good life by denying people access to the

Policymakers need an approach to reforming our labor-market policies that empowers individuals and supports their higher aspirations—giving them the chance to lead flourishing lives through work.

chance to lead flourishing lives through work. In some cases, such reforms should get government out of the way. In others, limited but energetic government should be prudently deployed to support work, to match workers with firms, and to help the long-term unemployed.

What these problems require is not the Left's approach, with its over-emphasis on making unemployment and non-employment materially comfortable, its relative lack of concern about fostering dependency and the limits of government competence, its desire to "support" the economy through massive spending programs, and its tendency towards top-down, technocratic micromanagement.

Instead, we need reforms that advance social dynamism and vitality while evincing skepticism about government's ability to do complicated things well. We must promote earned success while recognizing the power of the law of unintended consequences and

preconditions for thriving. The Right needs to offer an alternative that is neither liberalism-lite nor a cold shoulder to neighbors in need. Instead, conservatives should encourage the good life by encouraging the virtue and dignity that only work can provide.



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The Solution: A conservative governing vision to restore America's promise YUVAL LEVIN

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9. Congressional Research Service (“Memorandum”). Multiplying the \$746 billion federal total by 1.35 yields a federal-state total of \$1.01 trillion.
10. Council of Economic Advisors, “Chapter 6. The War on Poverty 50 Years Later: A Progress Report,” *Economic Report of the President* (2014), 221–268, <http://www.gpo.gov/fdsys/pkg/ERP-2014/pdf/ERP-2014-chapter6.pdf>. The report cites Wimer et al. (2013).
11. The figures in the Wimer et al. paper, as noted in note 4, improve on the official poverty rate in various ways. In contrast to the results for child poverty, the paper shows that poverty among the elderly falls much less over time if Social Security benefits are not taken into account. That suggests that Social Security (even ignoring the health benefits provided by Medicare and the long-term care provided by Medicaid), reduced elderly poverty significantly. But in the absence of these programs, it is possible that private pensions and retiree health coverage would have expanded more robustly and that other market solutions would have evolved.
12. For example, in economic expansions prior to 1990, poverty rates among families headed by a single mother fell less than among two-parent families. See Scott Winship and Christopher Jencks, “How Did the Social Policy Changes of the 1990s Affect Material Hardship among Single Mothers? Evidence from the CPS Food Security Supplement,” Harvard University, John F. Kennedy School of Government Faculty Research Working Paper Series, No. RWP04-027 (2004), <https://research.hks.harvard.edu/publications/getFile.aspx?Id=127>. Research showed that most spells on welfare were brief but that any point in time a large fraction of recipients were in the middle of a long spell. See June A. O’Neill, Laurie J. Bassi, and Douglas A. Wolf, “The Duration of Welfare Spells,” *Review of Economics and Statistics* 69(2) (1987): 241–8; March Jo Bane and David T. Ellwood, *Transitions from Welfare to Work* (Cambridge, MA: Urban Systems and Engineering Inc., 1983); David T. Ellwood, *Targeting “Would-Be” Long-Term Recipients of AFDC* (Princeton, NJ: Mathematica Policy Research, 1986).
13. Scott Winship, “The Dream Abides: Economic Mobility in America from the Golden Age to the Great Recession” (forthcoming). A recent paper by a team of Harvard University and University of California Berkeley economists is the latest in a long line of research to find that intergenerational mobility has been roughly constant over the long run. See Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, and Nicholas Turner, “Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility,” NBER Working Paper No. 19844. (Cambridge, MA: National Bureau of Economic Research, 2014), http://obs.rc.fas.harvard.edu/chetty/mobility_trends.pdf.
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