

POLICY LEVERS TO INCREASE JOBS AND INCREASE INCOME FROM WORK AFTER THE GREAT RECESSION

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Imperative to Increase Jobs and Income from Work in Aftermath of Great Recession

2

- Slow recovery of job creation (until very recently)
- Downward shift in LFP
- Increase in long-term unemployment
- Stagnant or declining wages for low/medium skilled jobs (longer-term)
- Greater rebound in low-wage than in higher-wage jobs

What Does Research Say about Policies to Increase Jobs or Increase Income from Work?

3

- Job creation policies
 - ▣ Hiring credits
 - ▣ Enterprise zones
 - ▣ The “business climate”
- Policies to increase income from work
 - ▣ The Earned Income Tax Credit
 - ▣ Minimum wages

Job Creation through Incentivizing Hiring/Employment: Hiring Credits

4

- Tax credits for hiring, which should lower the cost of labor and boost hiring
- Simpler in theory than in practice
 - ▣ Tricky to incentivize net new job creation
 - ▣ Stigma when applied to disadvantaged workers
- Credits enacted during and after a severe recession could be more effective
 - ▣ Unemployed less likely to suffer stigma effects
 - ▣ Less risk of windfalls since employment growth is low

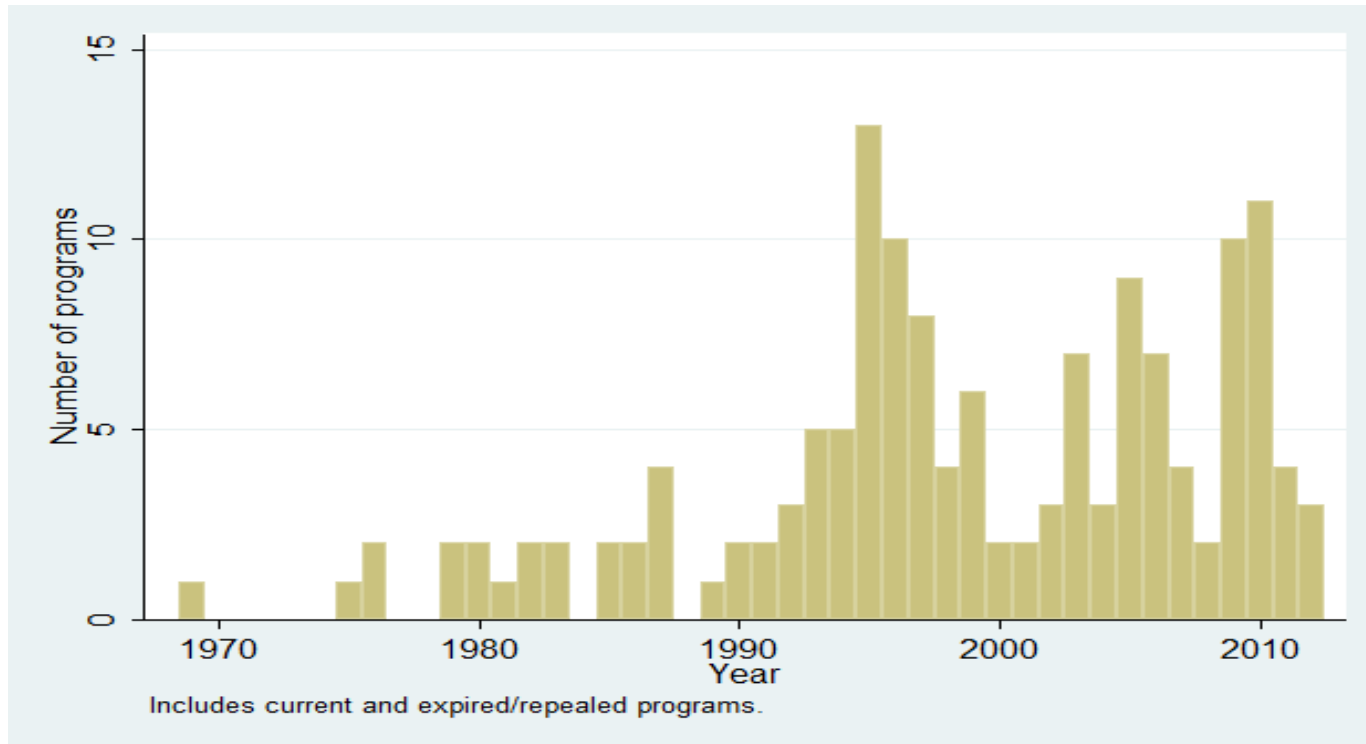
New Evidence: What Can We Learn from State Hiring Credits?

5

- Largely unexploited source of evidence is state hiring credits
- Neumark and Grijalva (2013) assemble detailed history of state hiring credits
- Focus on credits adopted during and after the Great Recession
- Estimate effects of different types of credits, with focus on:
 - ▣ Credits targeting the unemployed
 - ▣ Provisions to ensure net job creation

Number of New Hiring Credits Each Year

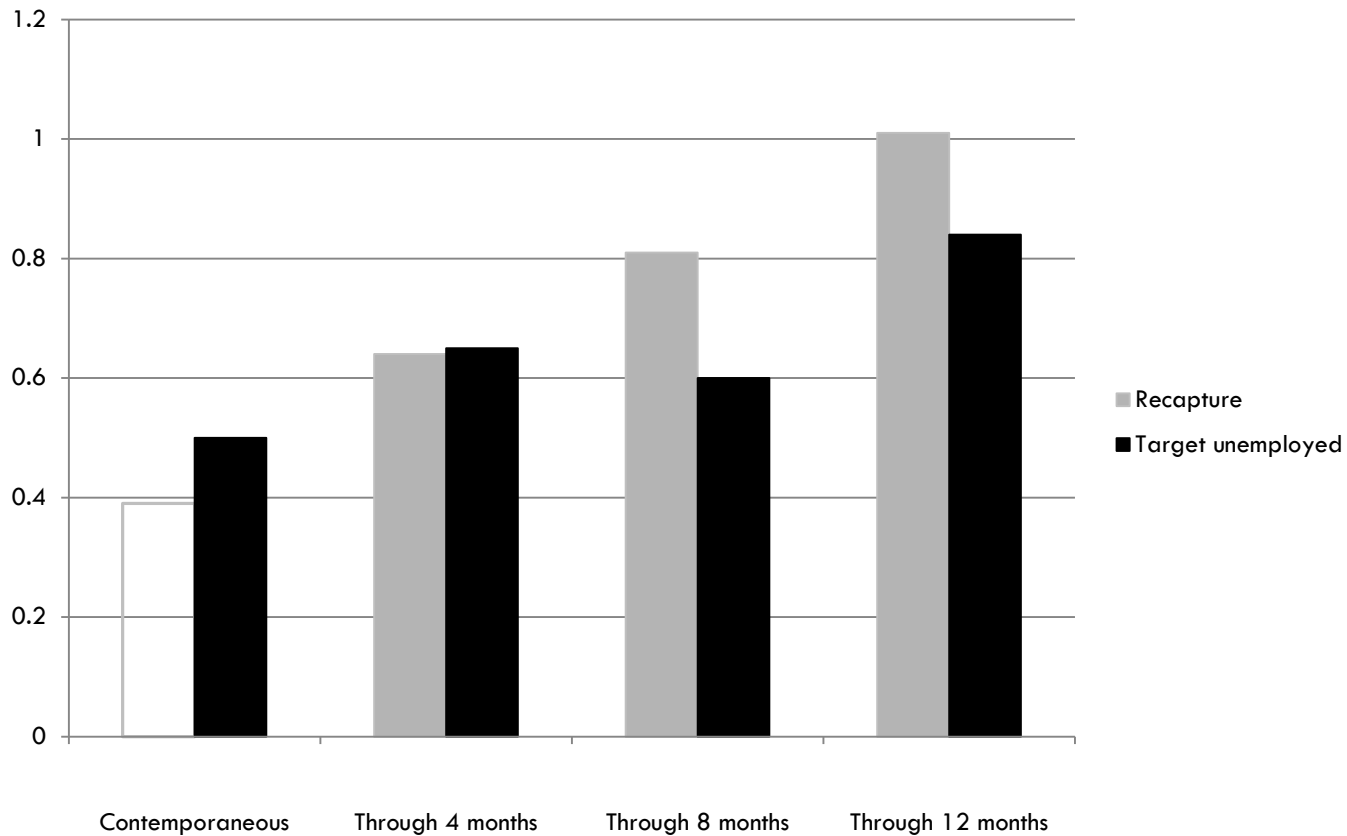
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- 147 in sample
- 9 during GR, 21 after
- 45 states adopted at least one credit in sample period shown

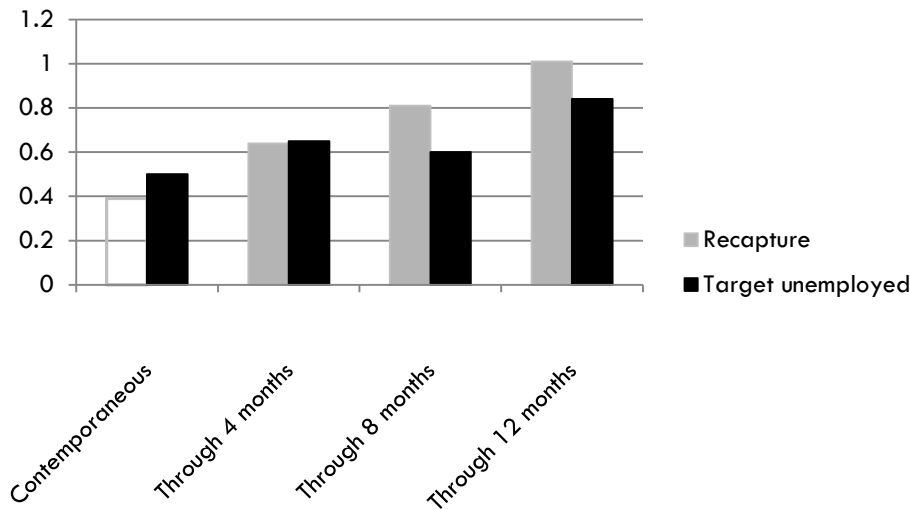
Effects of State Hiring Credits on Employment Growth (Percent Change), 2007-2011

7



Effects of State Hiring Credits on Employment Growth (Percent Change), 2007-2011

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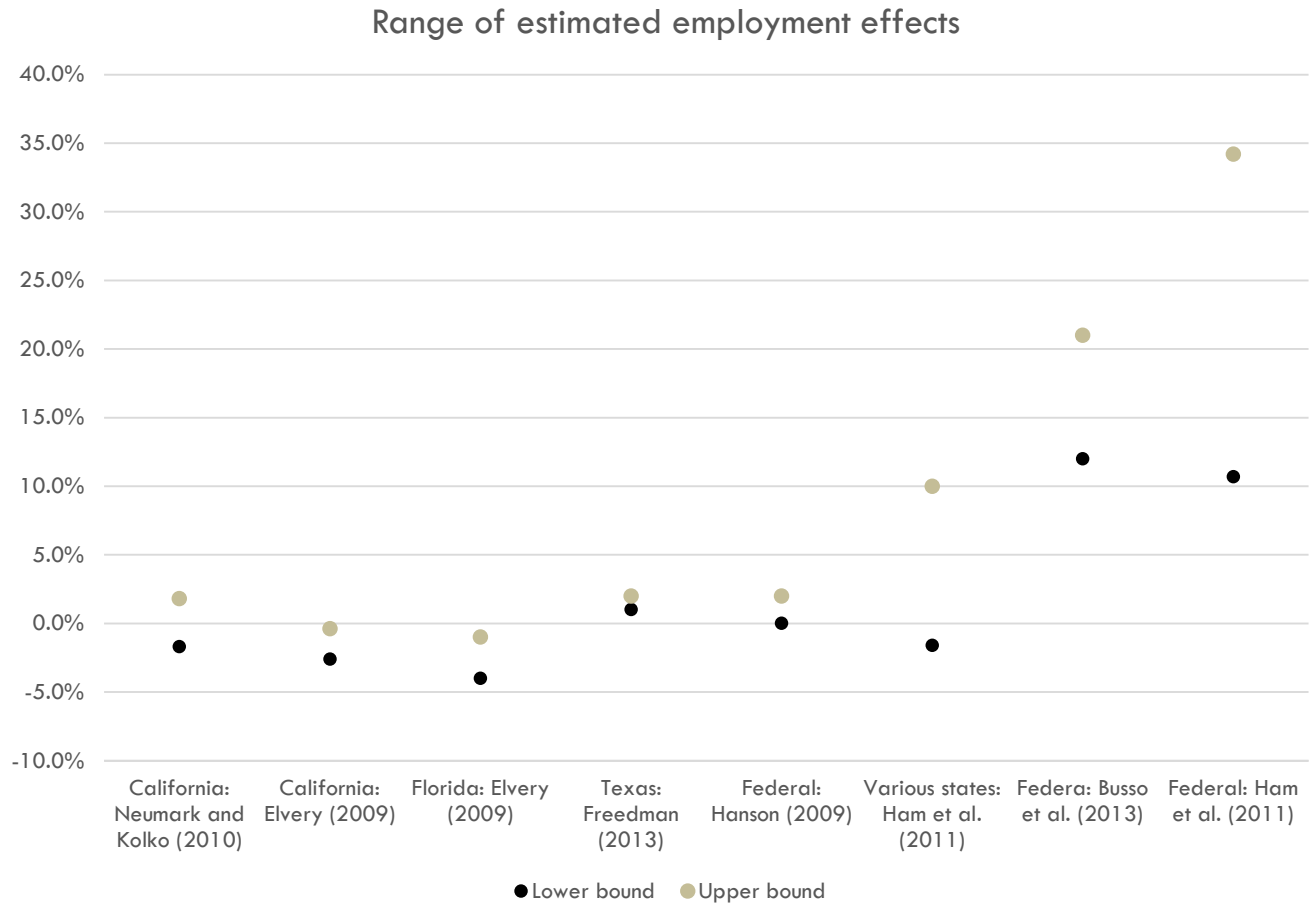
- There is “churning,” with effects on hiring 10X those on job growth, but still net job creation
- Other evidence of job creation from extensive wage subsidies adopted as part of ARRA

Place-based Policies: Enterprise Zones

9

- Hiring credits and other incentives for businesses in or near poor, high-unemployment areas
- Under federal Empowerment Zones, block grants as well
- Intuitive appeal: concentrated incentives can spur underperforming areas to higher levels of jobs and job growth
- But mobility responses can complicate things:
 - ▣ Others move in, property prices increase
 - ▣ Relocates rather than increasing economic activity

Range of Estimated Employment Effects of Enterprise Zone Programs in the United States



Other Responses to Enterprise Zones Further Undermine Effectiveness

11

- Don't reduce poverty or help other low-income families
- Housing price increases
 - ▣ Including evidence from Texas program (Freedman, 2013)
- Negative spillovers to other areas

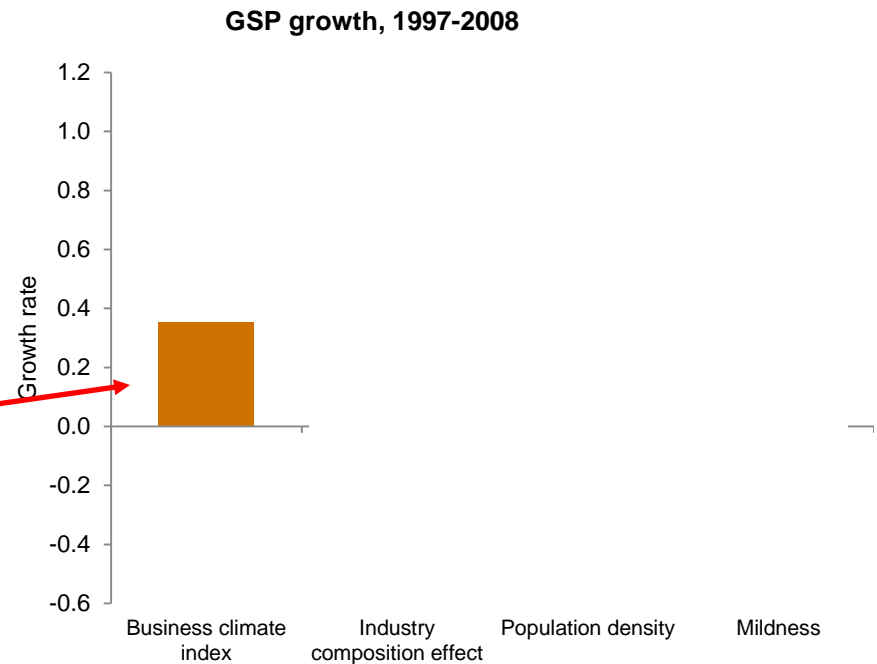
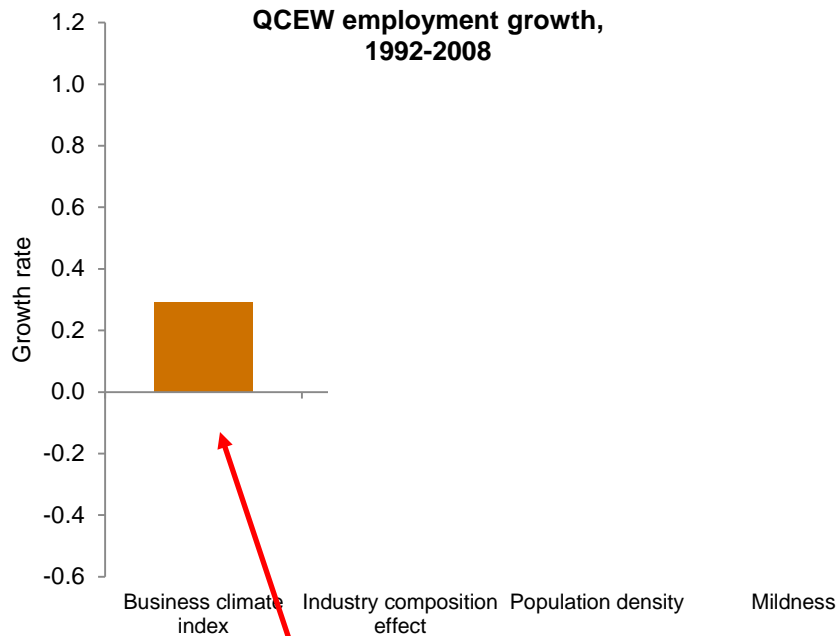
What is a “State Business Climate” and Does It Affect Job Growth?

12

- Cottage industry of business climate indexes
- Invoked (selectively?) in policy debate
- We analyze 11 indexes amenable to research
- 5 capture “productivity/quality of life” policies
- 5 capture “taxes and costs of doing business”
- States rank quite differently across indexes
 - CA: 15th on productivity/QoL, 46th on taxes/costs
 - TX: 25th on productivity/QoL, 13th on taxes/costs

States Ranked High on Tax/Cost Indexes Have Faster Economic Growth

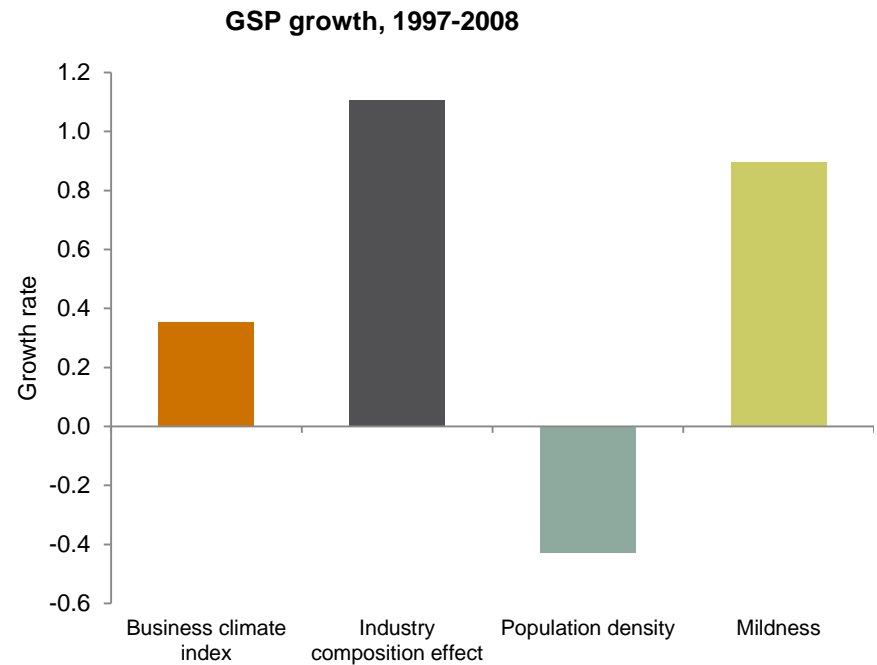
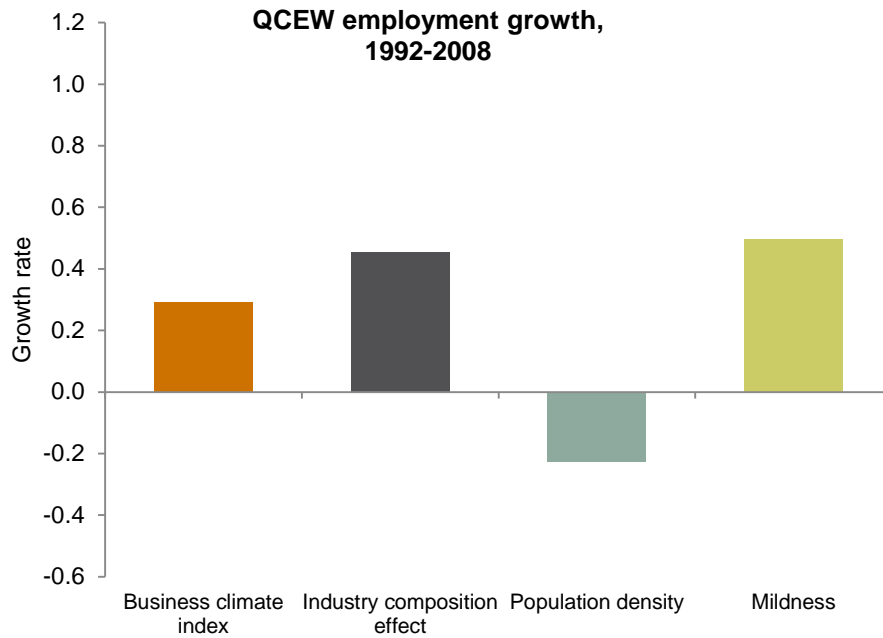
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Effects of 40th to 10th place on tax/cost indexes

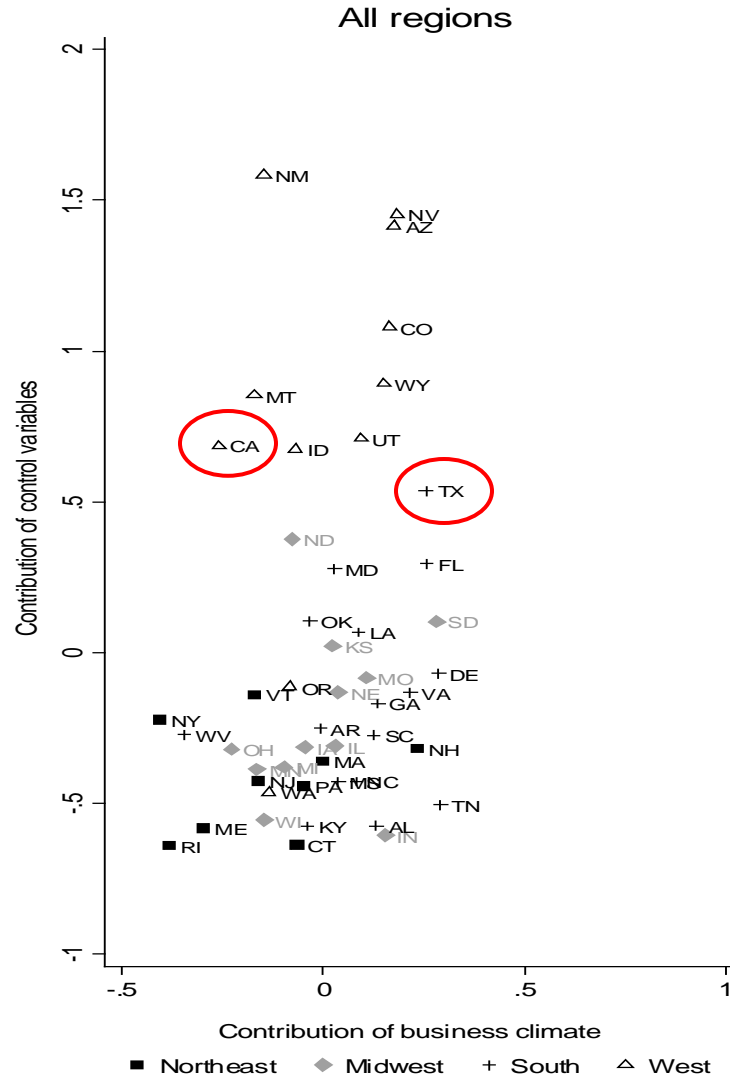
(No effect of productivity/QoL indexes)

But Non-Policy Factors Matter More (I)



But Non-Policy Factors Matter More (II)

15



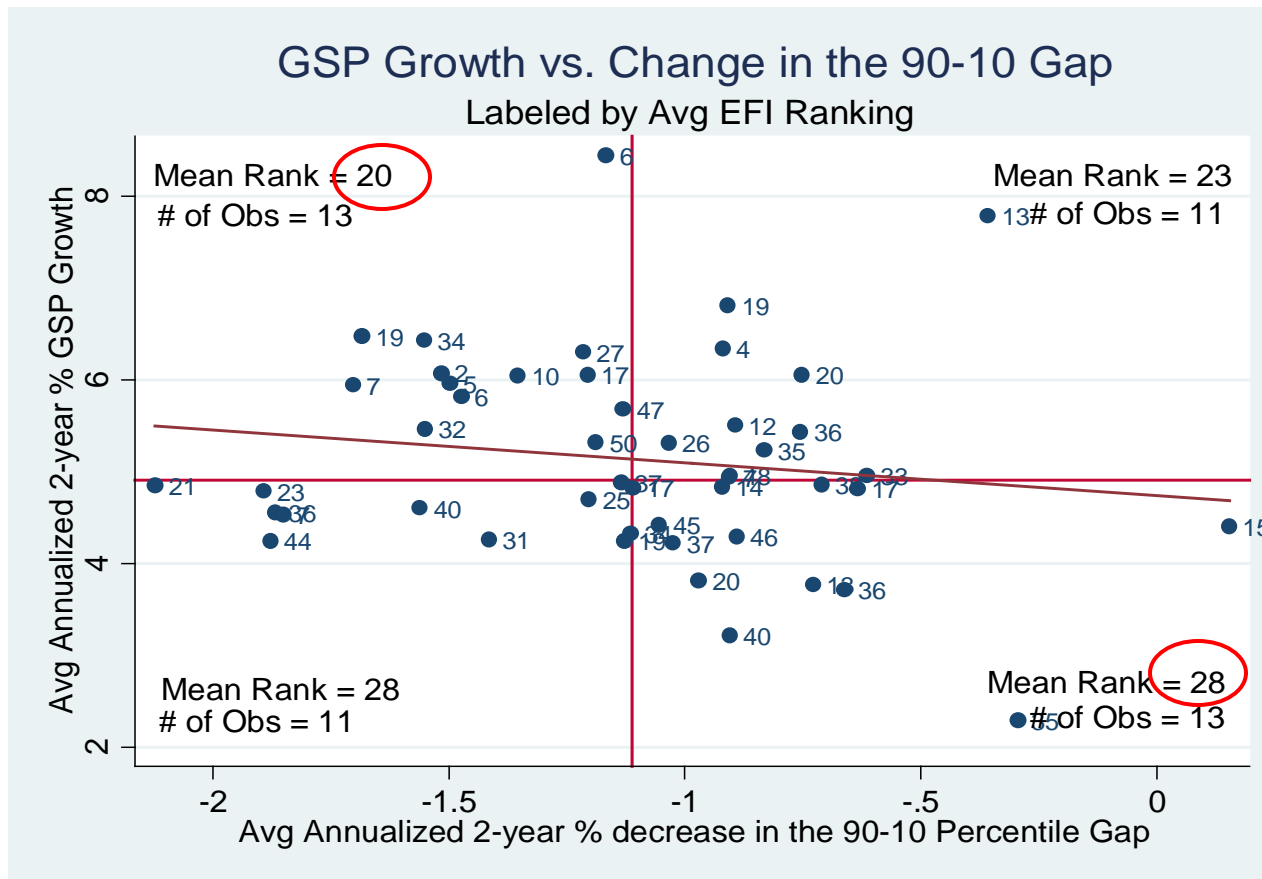
What About Effects on Inequality?

16

- Another criterion for evaluating policies, especially in era of growing inequality – although growth is likely a prerequisite for more redistribution
- Productivity/QoL indexes *also* aren't associated with less inequality
- But lower taxes/costs (higher index rankings) *are* associated with more rapid increases in inequality
- Safety net spending and transfers appear to be the subset of policies that drive the growth and inequality results

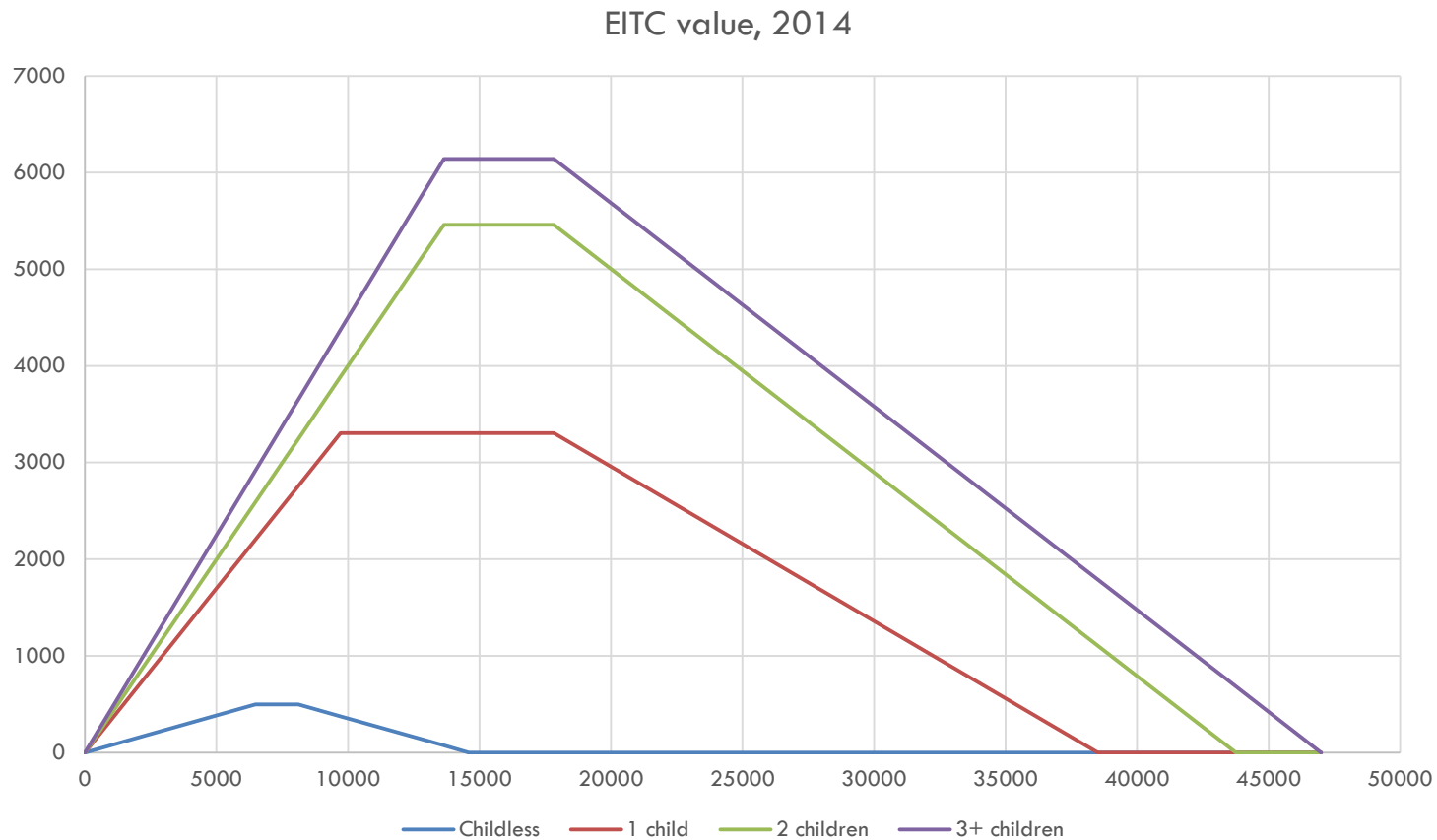
States Ranked Higher on Tax/Cost Index Had Faster Increases in Inequality

17



Increasing Income from Work: The Earned Income Tax Credit

18

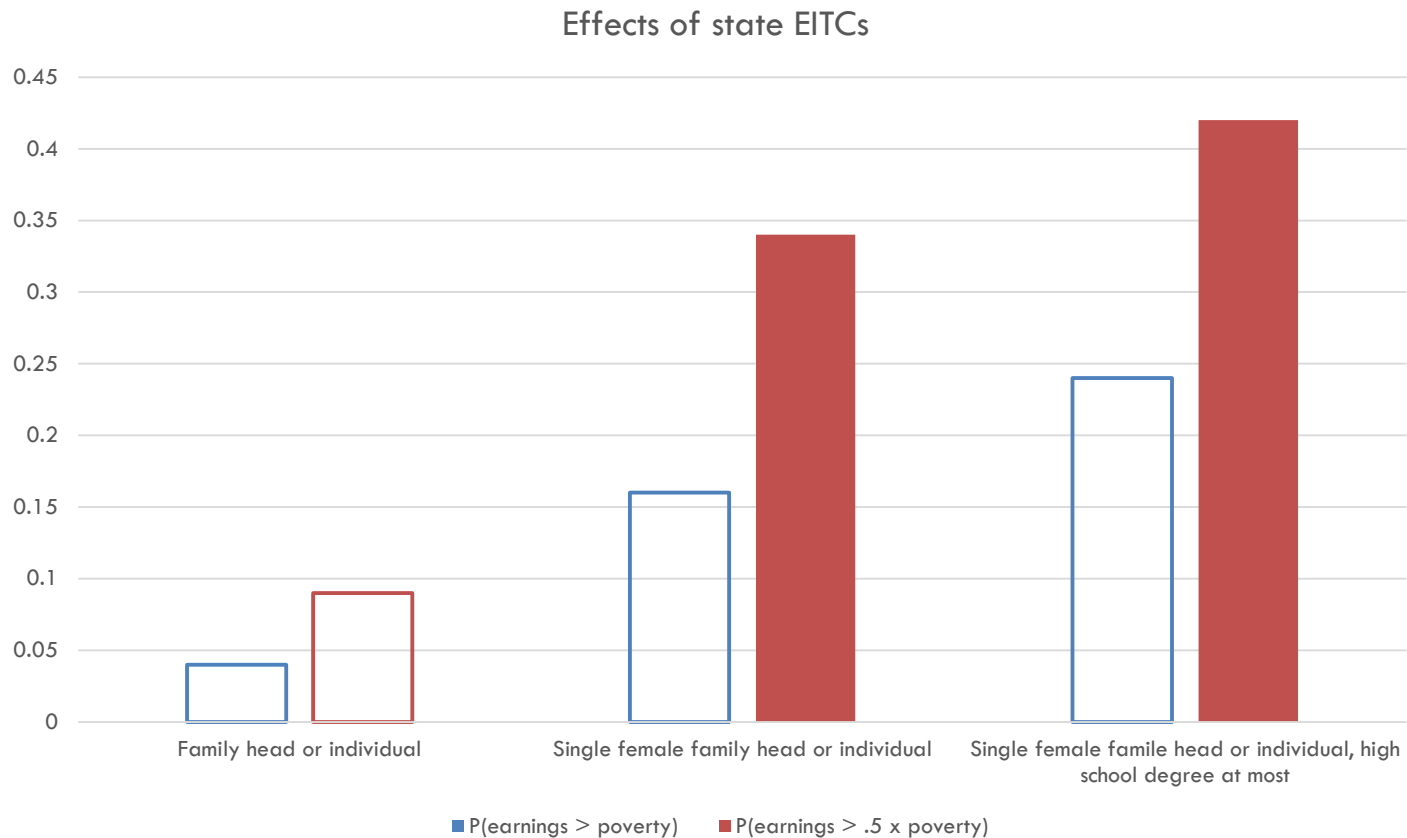


The EITC Is Effective at Increasing Income from Work

19

- Proven effectiveness at increasing employment, income, and earnings of single mothers
- Targets large share of benefits to poor families
- Confirmed in recent research focusing on state expansions of EITCs
 - ▣ Increase in number of states with higher EITC from 7 to 19 in 1996-2007 period
 - ▣ Results show increase in *earnings*, which captures incentive effects; increase in income surely larger (accounting for EITC payment)

State EITC's Adopted in 2000s Helped Families Earn Their Way Out of Poverty/Extreme Poverty



President has Proposed Increasing Generosity of EITC for “Childless” (Targeting Men)

21

- Seen as response to declining wages for low-skilled men (similar to argument for raising the minimum wage)
- Conjectured benefits
 - ▣ Increased experience
 - ▣ More attractive marriage partners
 - ▣ Decreased relative attractiveness of crime
 - ▣ Some evidence these effects could occur
- Potential tradeoff: increased labor supply from childless eligibles who compete with current EITC recipients
 - ▣ Only evidence comes from “other direction” – current EITC *reduces* employment and earnings of low-skilled, childless

Increasing Income from Work: The Minimum Wage

22

- Most research points to disemployment effects
 - ▣ Our extensive review: 2/3 of over 100 studies find negative effects, only 8 find positive effects, and 85% of most reliable studies find negative effects
 - ▣ Contested, most recently by labor economists at Berkeley and UMass-Amherst
 - ▣ Our recent work takes strong issue with the methods used in these studies, and reaffirms job loss
- Claims that the literature is centered on no disemployment effect – or even that “no studies find disemployment effects” – are selective or even worse
- But all that job loss implies is that there are losers as well as winners

Minimum Wages Target the Poor Inefficiently (WSJ op-ed, 7/6/14)

23



Minimum Wages Target the Poor Inefficiently (WSJ op-ed, 7/6/14)

24



“... if we were to raise the minimum wage to \$10.10 nationally, 18% of the benefits of the higher wages (holding employment fixed) would go to poor families. Twenty-nine percent would go to families with incomes three times the poverty level or higher.

...applying the same calculation as above for a \$15 per hour minimum, the share of benefits going to poor families would decline to 12%, and the share to families more than three times the poverty line would increase to 36%.”

Inefficient Targeting of the Poor is Strike Against Minimum Wage, but Questions Remain

25

- Somewhat contested result, although mainly from flawed methods
- Targeting has improved slightly:
 - ▣ Teen employment rate has fallen sharply
 - ▣ Decline in earnings of near-poor workers has made more adults likely to be affected by minimum wage
- Combining higher minimum with more generous EITC can improve distributional effects (but still costs jobs)

Conclusion 1: Policymakers Not Powerless to Boost Employment or Increase Income from Work

26

- Well-designed hiring credits or steep wage subsidies can increase job growth
- Business-friendly tax policies may help, although may spur inequality

Conclusion 2: Some Policies Have Not Worked Well

27

- Enterprise zones probably not effective, but better design of hiring credits might help
- Minimum wage entails job loss and is not effective at delivering benefits to the poor

Conclusion 3: Question Conclusions 1 and 2

28

- May be possible to make policies work better – like better designed hiring credits in EZ programs
- Business climate evidence does more to establish correlation than causation
- Evidence on minimum wage effects on employment is strongly contested by some (but agreement on lousy targeting is widespread)

Conclusion 4: Even Policies that Appear to Work Have Limitations

29

- EITC doesn't help families with no workers
- Many other types of hiring credits adopted by states didn't spur job growth
- And policies pose tradeoffs
 - ▣ Business climate indexes: growth vs. equity
 - ▣ Expanding EITC for childless
- Private sector plays the predominant role, and responds to policies in ways that can undermine effectiveness

Policy Has to Be Grounded in Evidence

30

- Policy debate so often ignores the evidence or uses it selectively
- We can make headway based on evidence, even if the answer isn't always clear
- Claims about policy effects need to be based on research findings

Extra Slides

Table 2: Estimated Effects of State Hiring Credits on Employment, Credit Dummy Variables Specifications, First Differences, 2007-2011 (QCEW)

Credit variable(s)	Contemp.	+4 lags	+8 lags	+12 lags
Recapture	0.0039	0.0064	0.0081	0.0101
	(0.0023)	(0.0025)	(0.0020)	(0.0027)
No recapture	0.0026	0.0004	-0.0020	-0.0019
	(0.0013)	(0.0024)	(0.0019)	(0.0020)
Unemployed	0.0050	0.0065	0.0060	0.0084
	(0.0020)	(0.0015)	(0.0033)	(0.0050)
Disabled	-0.0105	-0.0012	-0.0009	-0.0013
	(0.0007)	(0.0010)	(0.0026)	(0.0022)
No targeting	0.0014	0.0021	-0.0014	-0.0025
	(0.0016)	(0.0016)	(0.0039)	(0.0043)

- Generally no evidence of positive effects of other kinds of credits (see paper)
 - ▣ One exception – weak positive effects of refundable credits, which *should* be the most valuable
- Two key results indicating positive effects
 - ▣ Credits targeting unemployed
 - E.g., boosts employment by 0.84 percent after 12 months
 - ▣ Credits with recapture provisions

Table 4: Estimated Effects of EITC on Family Earnings Relative to Poverty, Family Heads or Individuals, Aged 21-44, 1997-2006 (CPS)

	Family head or individual	Single female family head or individual	Single female family head or individual, high school degree at most	Single female family head or individual, black or Hispanic
P(Earnings < Poverty)	(1)	(2)	(3)	(4)
EITC × kids	-.04 (.07)	-.16 (.17)	-.24 (.18)	.06 (.28)
EITC	-.00 (.05)	-.06 (.08)	-.02 (.10)	-.12 (.18)
P(Earnings < .5·Poverty)				
EITC × kids	-.09 (.06)	-.34* (.18)	-.42* (.23)	-.14 (.25)
EITC	.02 (.04)	.00 (.06)	.05 (.09)	-.14 (.14)

Source: Neumark and Wascher (2011).

Table 5: Estimated Effects of EITC on Low-Skilled, Childless Individuals, Aged 21-34, 1997-2006 (CPS)

Low-skilled treatment group:	Less-educated individuals	Less-educated black or Hispanic	Less-educated single black or Hispanic men
Log wages	(1)	(2)	(3)
EITC × low-skill	-.10 (.09)	-.11 (.08)	-.13 (.09)
EITC	.08 (.07)	.06 (.10)	.08 (.11)
Employment			
EITC × low-skill	-.05 (.05)	-.12** (.05)	-.16*** (.05)
EITC	.02 (.04)	.03 (.03)	.01 (.03)
Log earnings			
EITC × low-skill	-.58 (.49)	-1.32*** (.44)	-1.75*** (.56)
EITC	.35 (.38)	.40 (.37)	.35 (.29)

Source: Neumark and Wascher (2011).

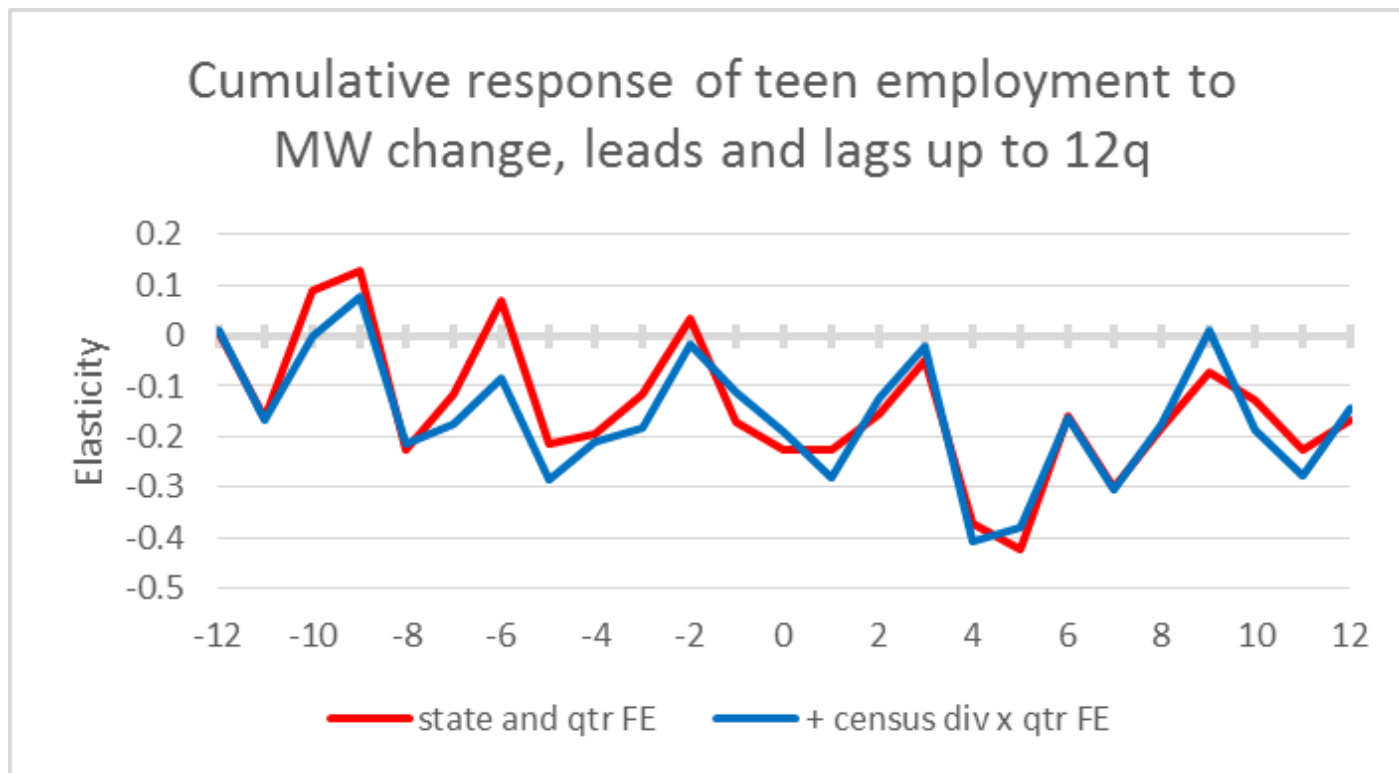
Table 6: Estimated EITC Effects on Low-Skilled (Less-Educated), Childless Individuals, Aged 21-34, Variation with Share Affected by EITC, 1998-2006 (CPS)

	Using share filing for EITC	Using share of single mothers
Log wages	(1)	(2)
EITC × low-skill	-.22*** (.05)	-.05 (.04)
EITC	.09 (.08)	.01 (.07)
EITC × low-skill × 1997 filing/single mother share (× 10)	-.38** (.15)	-.84** (.34)
Employment		
EITC × low-skill	-.14*** (.01)	-.04** (.02)
EITC	-.02 (.05)	-.03 (.04)
EITC × low-skill × 1997 filing/single mother share (× 10)	-.21*** (.06)	-.55*** (.15)
Log earnings		
EITC × low-skill	-1.54*** (.16)	-.43** (.18)
EITC	-.03 (.53)	-.19 (.48)
EITC × low-skill × 1997 filing/single mother share (× 10 ²)	-.23*** (.07)	-.60*** (.16)

Source: Neumark and Wascher (2011).

Figure 4: Leads (“Pre-trends”) and Lags for Alternative Estimators, CPS Data, 1990-2010 (I)

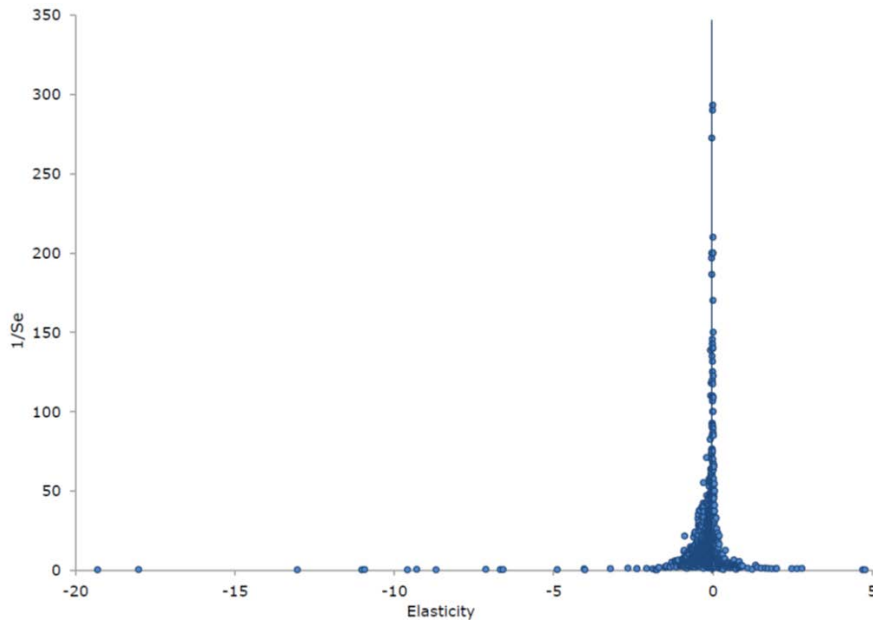
36



Source: Neumark et al. (in progress).

Estimated Minimum Wage Effects in the Literature (Figure 1 from Doucouliagos and Stanley, 2009)

37



Misleading/confusing graph:

- Note $1/SE$ on vertical axis – when t-stats above 3 or 4 are rare
- Note range of horizontal axis – when even a generous range is about -1 to a bit more than 0 (NW, 2007). What would graph look like with restricted range?
- “The uncorrected average elasticity is $-0.19 \dots$ ” (Doucouliagos and Stanley, 2009)
- DS explore larger issue of publication bias, but it is very hard to infer this from the MW literature

Table 7: Minimum Wages and Poverty (I) (CPS)

Description of estimate	Parameter	Sample	Estimate	Elasticity	With state linear trends	
					Estimate	Elasticity
A. Reported by Dube, based on NW (2011, Table 6a)	Effect on P(earnings<poverty)	Ages 21-44	-0.055	-0.29
B. Recomputed from NW data w/o EITC variables, and dropping kids-state, kids-year interactions (standard panel specification)	Effect on P(earnings<poverty)	Ages 21-44	-0.051** (0.023)	-0.27	-0.055** (0.025)	-0.29
C. Same as B, but for poverty	Effect on P(income<poverty)	Ages 21-44	-0.032 (0.022)	-0.22	-0.052 (0.032)	-0.35
D. Same as B, but without upper age restriction	Effect on P(income<poverty)	Age ≥ 21	-0.013 (0.013)	-0.04	-0.018 (0.024)	-0.06
E. Same as C, but without upper age restriction	Effect on P(income<poverty)	Age ≥ 21	-0.020 (0.017)	-0.15	-0.014 (0.018)	-0.11

Table 7: Minimum Wages and Poverty (II) (CPS)

Description of estimate	Parameter	Sample	Estimate	Elasticity	With state linear trends	
					Estimate	Elasticity
Subgroups						
F. With kids	Effect on P(income < poverty)	Age ≥ 21	-0.024 (0.018)	-0.18	-0.029 (0.031)	-0.21
G. HS education or less	Effect on P(income < poverty)	Age ≥ 21	-0.031 (0.028)	-0.19	-0.001 (0.022)	-0.01
H. Black or Hispanic	Effect on P(income < poverty)	Age ≥ 21	-0.035 (0.029)	-0.15	-0.026 (0.035)	-0.12
I. Single females with kids	Effect on P(income < poverty)	Age ≥ 21	-0.108*** (0.040)	-0.30	-0.048 (0.081)	-0.14
J. Single females with HS education or less	Effect on P(income < poverty)	Age ≥ 21	-0.033 (0.039)	-0.12	-0.008 (0.041)	-0.03
K. Single females, black or Hispanic	Effect on P(income < poverty)	Age ≥ 21	-0.026 (0.051)	-0.07	-0.093 (0.065)	-0.26