



Statement Prepared for the Joint Economic Committee Hearing on

“What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives”

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1. Introduction

The Great Recession has been severe on many measures, but particularly in its impact on the labor market. The most recent jobs report showed healthy job gains of 223,000 in June and an unemployment rate of 5.3 percent. However, labor force participation remains at a historically low rate of 62.6 percent. Nearly 6.5 million persons were employed part-time involuntarily because they could not find a full-time job, while another 1.9 million wanted a job but had not searched for work in the previous few months because they were too discouraged to look. Another 2.1 million workers have been jobless for 27 weeks or more.¹

Over the course of the Great Recession and recovery, the official unemployment rate initially increased from 5 percent in December 2007 to a peak of 10 percent in October 2009. This five percentage point increase in the unemployment rate is the largest in the postwar period. Since mid-2010, the rate has slowly fallen back to its pre-recession. However, the official unemployment rate, the U-3 rate, is not the only indicator of how well the labor market is doing. One reason is that only people who report themselves as currently searching for a job are counted as unemployed. A broader measure of underemployment, the U-6 rate, includes individuals who may be too discouraged to look for work, who may have settled for part-time jobs involuntarily, or who may only be marginally attached to the labor force because they have not looked for a job due to family responsibilities or schooling. The U-6 rate stands at 10.8 percent nearly double the official unemployment rate. Even though this rate has been declining over the course of the last few years, it remains elevated and this suggests that there are many more discontented individuals in the labor market than the official rate would suggest. The long-term unemployment rate is also at a postwar

¹ The most recent data from the Bureau of Labor Statistics is available at <http://www.bls.gov/news.release/empst.nr0.htm>

high. If workers are too discouraged about the prospects of finding a job, the labor force participation rate for the U.S. economy will continue to decline.

This is exactly what we see in the data. The labor force participation rate in the U.S. is at historic lows. In June 2015, nearly six years after the official end of the Great Recession, the labor force participation rate is at 62.6 percent, a rate not seen since 1978. Between 2007 and today, most economic indicators have been trending in the right direction but improving slowly, while labor force participation rates are trending in the wrong direction (See Figure 1 in Appendix). For instance, unemployment and the share of long-term unemployed have been declining while average wages have trended up marginally over the course of the recovery. However, labor force participation rates are still declining. This is a worrying trend that needs attention, particularly because participation is declining not just among retiring baby boomers but also among people at prime working age and youths. In a 2006 *Journal of Economic Perspectives* article, Juhn and Potter (2006) show that the 2001 recession resulted in a similar dip in the participation rates for men and women many years out into the recovery.² However, it was not clear whether this decline represented a mere slowing down in the participation rate or a more permanent withdrawal from the labor force for those who were not employed. We are witnessing something similar in this recession: it is not clear whether individuals have simply exited the labor market for good or whether they are temporarily discouraged and will rejoin the workforce once better times return.

This labor market slack has resulted in weak wage growth. A recent study from the Federal Reserve Bank of Atlanta suggests that the large supply of unemployed and underemployed workers, which include part-time workers who want full-time jobs, could be restraining wage

² Chinhui Juhn and Simon Potter, "Changes in Labor Force Participation in the United States," *Journal of Economic Perspectives* 20(3), Summer 2006. Accessed at <https://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.27>

growth.³ Further, while full-time workers experienced year-over-year median wage gains of 3 percent in 2014, part-timers experienced wage growth of about half as much as that of full-time workers from 2011 to 2013. Hence an elevated share of part-time workers may have depressed overall hourly wage growth.

There are many reasons why labor force participation may be low and significant slack still remains in this recovery which I will explore in my testimony. However, the more important question is whether we can adopt policies to increase participation and which policies may work. In the next two sections, I provide a brief overview of recent research studies focusing on the labor market during and after the Great Recession. In section IV, I discuss a set of policy ideas that may help raise participation rates. Section V concludes.

II. Recent Research on the Labor Market

A number of papers have attempted to study job loss, labor force participation and earnings over the course of the Great Recession and recovery. Most recently, Farber (2015) highlights how the mean duration of unemployment spells has been much higher, at 37 weeks, in the current recession as opposed to earlier recessions, where it averaged 27 weeks.⁴ Even five years after the end of the Great Recession, mean duration of unemployment remains above levels prior to the Great Recession. This paper also finds that job loss rates were significantly higher for less educated workers than for more educated workers. For instance, the job loss rate was 19.4 percent in 2007-2009 for workers with twelve years of education but was 11 percent for workers with sixteen years

³ Federal Reserve Bank of Atlanta, "Wage Growth a Missing Piece of the Full Employment Puzzle," *2014 Annual Report*. Accessed at <https://www.frbatlanta.org/about/publications/annual-reports/2014/wage-growth-missing.aspx>

⁴ Henry S. Farber, "Job loss in the Great Recession: Historical perspective from the displaced workers survey," National Bureau of Economic Research Working Paper No. 21216, May 2015. Accessed at <http://www.nber.org/papers/w21216>

of education. Using data from the Displaced Workers Survey, the study finds that the ability of workers who lost jobs to find employment varies with education, age, gender, race and tenure. In general, more educated, younger, male, white and workers with longer tenure, are more likely to get re-employment. However, on average, it is taking nearly 3-4 weeks longer to find a job today than it did prior to the Recession. Only about 35-40 percent of those who reported losing a job from 2007 to 2009 were employed full time in 2010.

It is also interesting that females are more likely to exit the labor force subsequent to job loss. Similarly, workers aged 55-64 are more likely to exit and take early retirement following a job loss. The paper shows that many job losers take up part-time jobs subsequent to job loss. This implies they have lower weekly or hourly earnings and less access to benefits like health insurance as compared to full time workers. On average, earnings for workers who lost full time jobs, declined by 12 percent or more over the Great Recession. This is somewhat steeper than in earlier recessions.

In general, the Great Recession has resulted in much worse outcomes for individuals than in earlier recessions. Even those who lost a job two to four years after the Great Recession have had very low re-employment rates and very low full time employment rates by historical standards. The long run consequences of having long spells of unemployment amplify the problem since such workers may be perceived by employers as less able workers and may have even more trouble finding work.

The labor market is also seeing an increasing polarization in work. Polarization can be a consequence of automation, which happens when machines or computers replace workers in routine tasks. Or it can occur due to international trade or the offshoring of jobs to countries where wages are lower. Jobs in the middle part of the skill distribution are thought to be particularly

vulnerable to these two factors since these more generally involve routinized tasks rather than high skill or low skill jobs.⁵⁶ Data show that over the Recession, middle skill jobs experienced a sharper and more long lasting employment decline than high or low skill jobs. The paper finds that middle skill workers (primarily in manufacturing, construction or clerical work) with no college degree typically leave unemployment and exit the labor market, rather than finding low skill or high skill jobs. This can be explained by the fact that when transitioning out of a job, a middle skill worker needs to invest in more education in order to get a high skill job. About 85 percent of high-skill workers have taken at least some college courses, as opposed to half of middle skill workers. On the other hand, middle skill workers earn considerably more than low skill workers which affects their willingness to take up low skill jobs. In general, participation appears to be a function of education. Workers with the lowest education levels have the lowest participation rates. Results from this study suggest that falling labor force participation among prime-age males can be primarily explained by a lack of demand for middle-skill workers providing a strong link between polarization and labor force participation.

Job to job mobility is a central feature of labor markets and it is generally thought that workers move towards job of better quality overall.⁷ However, job mobility declined significantly during the Great Recession. This implies that workers were unable to move from poor quality jobs to good quality jobs as easily during the recession as they would have been able to during normal times. A recent paper finds that workers matching during the recession were more likely to match with a low-paying firm and one year later, were less likely to have moved onto a better paying

⁵ Low skill workers typically include cooks, waiters, security guards etc.

⁶ Christopher L. Foote and Richard W. Ryan, "Labor market polarization over the business cycle," National Bureau of Economic Research Working Paper No. 21030, March 2015. Accessed at <http://www.nber.org/papers/w21030>

⁷ Lisa B. Kahn and Erika McEntarfer, "Employment Cyclicalities and Firm Quality," National Bureau of Economic Research Working Paper No. 20698, March 2015. Accessed at <http://www.nber.org/papers/w20698.pdf>

firm. Results suggest that movement up the job ladder, from poor to better quality firms, was 20 percent slower for those working at the lowest paying firms, and as a result average firm pay was nearly 3 percent lower for those who found a job during the recession. Hence on average job quality went down over the recession. This also affects workers graduating in a recession. The paper finds that these firm dynamics can account for a third of the initial earnings losses experienced by workers graduating into a large recession, and much of the persistence of earnings losses over the early years of the career.

In another paper, authors study labor market slack by studying changes in employment, participation and underemployment.⁸ They argue, as I did above, that the unemployment rate is not an accurate measure of labor market slack since for large periods of time in 2010 and 2011, the decline in the unemployment rate occurred mainly because people gave up looking for work and left the labor force, and were therefore not classified as “unemployed”. The underemployment rate refers to people working at part-time jobs involuntarily. As a fraction of total employment, the underemployment rate reached a peak in 2009 but has not declined very quickly and is still significantly above pre-recession levels. As a result of low levels of participation and high levels of underemployment, wage growth has been weak and will continue to be weak until these rates decline further.

Part-time work has increased significantly over the course of the recession. What is troubling is the extent of increase in involuntary part-time work. Between December 2007 and June 2009, the number of involuntary part-time workers increased by almost 96 percent. In June of this year, there were 6.5 million people who were involuntarily employed in part-time jobs. These workers show up in the broader U-6 rate, also produced by the Bureau of Labor Statistics, which captures

⁸ David G. Blanchflower and Andrew T. Levin, “Labor Market Slack and Monetary Policy,” National Bureau of Economic Research Working Paper No. 21094, April 2015. Accessed at <http://www.nber.org/papers/w21094>

all workers who are unemployed, discouraged, or employed only part-time for lack of a full-time job. If we look at the ratio of the U-6 to the U-3 official unemployment rate, there has been a sharp increase in the ratio since 2009.⁹ In fact, the ratio has been steadily trending up since the end of the recession (See Figure 2 in Appendix). According to the Bureau of Labor Statistics, the reason for the increase in the ratio is that the number of unemployed workers has fallen faster in relative terms compared to the number of workers who are employed part-time for economic reasons.¹⁰ An increase in part-time work is perhaps to be expected as employers respond to economic uncertainties and possible increases in labor costs, perhaps due to minimum wage changes, regulations and increased expenses associated with the Affordable Care Act. As business conditions improve and employers adjust to new regulations, one would expect these elevated levels of part-time work to decline. However, the slow decline in involuntary part-time work, despite six years of recovery, is a cause for concern. Even as we celebrate the recovery and the strength of the job market, it is important to figure out ways to move people not only out of unemployment, but out of jobs that are dissatisfying and into full-time jobs that are better suited to their needs.

III. Research on Possible Explanations of Labor Market Trends

What could explain some of the observed trends in the labor market discussed above? Davis and Haltiwanger show that slack in the labor market and a decline in worker and job reallocations could be a consequence of government regulations and policies.¹¹ They point out that government

⁹ Aparna Mathur, "The Slow Decline in Involuntary Part-Time Work," *Forbes*, May 12, 2015. Accessed at <http://www.forbes.com/sites/aparnamathur/2015/05/12/the-slow-decline-in-involuntary-part-time-work/>

¹⁰ Vernon Brundage, "Trends in unemployment and other labor market difficulties," US Bureau of Labor Statistics, *Beyond the Numbers* 3(25), November 2014. Accessed [online](#).

¹¹ Steven J. Davis and John Haltiwanger, "Labor Market Fluidity and Economic Performance," National Bureau of Economic Research Working Paper No. 20479, September 2014. Accessed at <http://www.nber.org/papers/w20479>

restrictions on who can work in which jobs have expanded over time. Kleiner and Krueger (2013) show that the fraction of workers required to hold a government issued license to do their jobs rose from less than 5 percent in the 1950s to 29 percent in 2008. Adding workers who require government certification or who are in the process of becoming licensed or certified shows that this share of workers is close to 38 percent as of 2008. This in turn has led to higher training costs which in turn has affected the mobility of workers across jobs. Other policy interventions matter as well.

Some papers suggest that the record rise in long-term unemployment and the increase in emergency unemployment benefits may have accounted for the increase in long-term unemployment durations among UI recipients.¹² Estimates show that a one week increase in potential benefit duration is associated with increases in the average duration of unemployment spells. So, for example, a 53 week extension in potential benefit duration could be associated with a 4 to 10 weeks increase in unemployment duration among UI recipients.

Other papers review cross-country analyses that show that countries with heavier regulation of labor are likely to see lower labor force participation rates and higher unemployment, especially of the young.¹³

Faber and Mazumdar (2012) suggest that the problem could be a mismatch of skills, for certain groups of workers.¹⁴ They examine the supply and demand for workers across occupations of varying skill requirements. They find that workers in the middle range of skills are the ones for whom employment remains well below pre-recession levels. Hence skills mismatch may be the

¹² Michael W. Elsby, Bart Hobijn, and Aysegul Sahin, "The Labor Market in the Great Recession," National Bureau of Economic Research Working Paper No. 15979, May 2010. Accessed at <http://www.nber.org/papers/w15979>

¹³ Juan Botero et al., "The Regulation of Labor," National Bureau of Economic Research Working Paper No. 9756, June 2003. Accessed at <http://www.nber.org/papers/w9756>

¹⁴ Narayana Kocherlakota, "Inside the FOMC," Speech in Marquette, Michigan, August 17, 2010. Accessed at <https://www.minneapolisfed.org/news-and-events/presidents-speeches/inside-the-fomc>

most for this group. Overall evidence on this is mixed. While some recent papers show that mismatch rose sharply during the recession but then abated, others show that employers were able to fill jobs relatively easily during the recession, but their recruiting intensity remained low well after the recession suggesting that they are reluctant to hire.¹⁵

Mulligan's (2011) work argues that the expansion of the safety net may have led to an increase in unemployment due to a reduction in labor supply. More recent work by Mulligan (2013 and 2014) finds that the increase in tax rates as a result of the ACA and in combination with other features of the Act has resulted in a decline in the rewards to work.^{16 17} For instance, the subsidies provided to workers in households with incomes near the 100-400 percent of poverty create work disincentives. Workers can be denied access to these subsidies if they have a job that provides health insurance, but can get access if they are unemployed. Second, working fewer hours and weeks in a year, or moving from a full-time to a part-time job, also increases the value of the subsidies for persons in jobs not providing health insurance. Hence, at the margin, some individuals may decide to work less since it does not affect their disposable income.

Female labor force participation rates have not increased as the same pace in the U.S. relative to other countries. In 1990, US women had participation rates of 74 percent and in 2010, this increased marginally to 75.2 percent. However, over the same period, other countries have seen an increase in participation rates from 67.1 percent to 79.5 percent, on average. One possible reason is the parental leave system in the U.S. that only guarantees unpaid family leave for 12

¹⁵ Aysegül Şahin, Joseph Song, Giorgio Topa, and Giovanni L. Violante, "Measuring Mismatch in the U.S. Labor Market," Federal Reserve Bank of New York Working Paper, July 2011. Accessed at http://nyfedeconomists.org/topa/USmismatch_v14.pdf

¹⁶ Casey B. Mulligan, "Average Marginal Labor Income Tax Rates under the Affordable Care Act," National Bureau of Economic Research Working Paper No. 19365, August 2013. Accessed at <http://www.nber.org/papers/w19365>

¹⁷ Casey B. Mulligan, "The Economics of Work Schedules under the New Hours and Employment Taxes," National Bureau of Economic Research Working Paper No. 19936, February 2014. Accessed at <http://www.nber.org/papers/w19936>

weeks under the Family and Medical Leave Act of 1993.¹⁸ This has to be done carefully since mandating leave may discourage employers from hiring women and may make them more likely to pay women lower wages. However, the benefits would be that women will be more likely to return to their jobs rather than exit the labor force entirely. Eissa(1995) finds that changes in tax rates matter for female labor force participation. Following the Tax Reform Act of 1986 which reduced marginal tax rates at the top more than at the bottom, the labor supply of high income married women increased.¹⁹

Since education is clearly a big predictor of labor market outcomes, it is worthwhile to step back and see the choices individuals make prior to being in the labor market. A problem with our economy today is that nearly half of college students drop out before completion. This affects our ability as a society to have a large pool of educated workers who are better able to respond to a change in technologies and skills requirements.²⁰ Dynarski finds that scholarships or tuition subsidies are significant in helping college goers complete their degree. However, the lesson is not simply to provide direct cash assistance since that by itself may not stop individuals from dropping out, but to ensure that college going individuals are better prepared at the elementary and secondary school levels, and are provided better institutional support while in college.

A related issue is that when these students graduate in a recession, this affects their earnings and their careers.²¹ In the first year itself, the fact that these young workers are unable to find full-

¹⁸ Francine D. Blau and Lawrence M. Kahn, "Female Labor Supply: Why is the US Falling Behind?," National Bureau of Economic Research Working Paper No. 18702, January 2013. Accessed at <http://www.nber.org/papers/w18702>

¹⁹ Nada Eissa, "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment," National Bureau of Economic Research Working Paper No. 5023, February 1995. Accessed at <http://www.nber.org/papers/w5023>

²⁰ Susan M. Dynarski, "Building the Stock of College-Educated Labor," National Bureau of Economic Research Working Paper No. 11604, September 2005. Accessed at <http://www.nber.org/papers/w11604>

²¹ Joseph G. Altonji, Lisa B. Kahn, and Jamin D. Speer, "Cashier or Consultant? Entry Labor Market Conditions, Field of Study, and Career Success," National Bureau of Economic Research Working Paper No. 20531, September 2014. Accessed at <http://www.nber.org/papers/w20531>

time jobs or employment, means that their earnings are lower by 10 percent in the first year. This is a consequence of their inability find full-time work as well as a reduction in the average hourly wage. This results in an earnings and wage gap that is long-term and that has been particularly large during the Great Recession.

IV. Policy Considerations

When discussing policy options to improve labor market outcomes, it is important to remember that outcomes are highly influenced by early investments in human capital and skill development.

For instance, in evaluating lifetime earnings and economic mobility of individuals, an important finding is that many of the outcomes, such as the ability to get good schooling and a job that earns well, may be influenced by factors that affect children in childhood. Whether children grow up in good neighborhoods with access to good schools and social networks, whether they are coming from two-parent families with two educated parents or a single parent with lower levels of education, and which neighborhoods they grow up in, matters. As per a recent study, moving to better neighborhoods at young ages could improve lifetime earnings significantly.²² Therefore, experimenting with solutions that allow low-income families to move from high-poverty to low-poverty areas could help improve long-term economic mobility.

Changes in family structure also influence early investments in human capital. As documented in recent studies, there has been a near doubling of homes headed by single mothers. Single mothers are five times more likely to live in poverty as compared to families headed by a married parent. Children growing up with single mothers have a poverty rate of 55 percent compared to 10

²² Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," National Bureau of Economic Research Working Paper No. 21156, May 2015. Accessed at <http://www.nber.org/papers/w21156>

percent for children living in married parent households. As a result, these children have access to far fewer opportunities, and children are disadvantaged when it comes to school readiness. To improve outcomes for these families, we should consider expanding the EITC. This helps to encourage labor force participation for single mothers and boosts family incomes, which is helpful for children as well.²³ Dahl and Lochner find that a \$1000 increase in income as a result of the EITC raises children's combined math and reading test scores in the short-run.²⁴ Further, expanding school choice to allow low-income children to access good schools such as through a lottery could be extremely helpful in segregated communities where children are often stuck to poor quality schools.

To improve high school completion, TANF programs in all states should impose an eligibility requirement that school age dependents be enrolled in school. This would likely be a significant incentive for parents on welfare to ensure their children go to school since there are thousands of dollars on the line. For example, one interesting study evaluated the impact of Wisconsin's Learnfare program, a welfare waiver program that sanctioned the welfare benefits of families whose teenage children did not meet school attendance requirements. Dee (2011) found that Learnfare was extremely successful at targeting at-risk students and promoting school attendance among this group.²⁵ Currently, 15 states do not require dependents to be enrolled in school when their families are receiving TANF payments. We should make this a priority.

Beyond high school, many low-income individuals are unlikely to pursue a college degree because they do not have enough information about the federal Pell Grant program, how much the

²³ Nada Eissa and Jeffrey B. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *The Quarterly Journal of Economics* 111(2), May 1996. Accessed [online](#).

²⁴ Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research Working Paper No. 14599, December 2008. Accessed at <http://www.nber.org/papers/w14599>

²⁵ Thomas S. Dee, "Conditional Cash Penalties in Education: Evidence from the Learnfare Experiment," *Economics of Education Review* 30(5), October 2011. Accessed [online](#).

grant is likely to be and whether they will be able to pay for it (Avery and Kane, 2004).²⁶ These compliance costs fall most heavily on low-income individuals which may deter them from applying since the benefits are uncertain. Simplifying the application process could reduce costs and improve the efficiency of the program.

College aid should also be reformed. In 2012, the federal government spent \$33.4 billion on Pell Grants, which are needs-based grants for low-income students. However, roughly 7 percent of Pell Grant recipients are above 250 percent of the poverty line, according to the Congressional Budget Office.²⁷ Resources should be transferred from these students at the upper end of Pell Grant eligibility to students below the poverty line. Aid should also be given with an incentive for students to graduate. Students from the lowest-income quartile historically are six-times more likely not to complete college than students from the highest-income quartile.²⁸ A recent CBO report proposes restructuring the Pell grant program as a loan program.²⁹ A student would receive a direct loan at the beginning of a term that would be forgiven at the end of the term if the student completes the class, giving students an incentive to stay enrolled for a longer period. Encouraging the completion of college would greatly improve the mobility of low-income students and help them find jobs upon graduation.

The unemployment rate for young adults (millennials) is nearly double the official unemployment rate. In 2013, about 13 percent of those aged 22-29 had moved back in with their parents due to the recession. They lag in asset accumulation and savings. The average student debt

²⁶ Susan M. Dynarski and Judith E. Scott-Clayton, "The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics," National Bureau of Economic Research Working Paper No. 12227, May 2006. Accessed at <http://www.nber.org/papers/w12227>

²⁷ Congressional Budget Office, "The Federal Pell Grant Program: Recent Growth and Policy Options", September 2013. Accessed [online](#).

²⁸ The data here come from the 1980s. See Martha Bailey and Susan Dynarski, "Gains and Gaps: Changing Inequality in US College Entry and Completion," National Bureau of Economic Research Working Paper No. 17633, December 2011. Accessed at <http://www.nber.org/papers/w17633>

²⁹ Ibid at 26.

for millennials is \$25,000. These negative effects are likely to linger as graduating in a slumping economy typically affects lifetime incomes. For youth graduating into a bad labor market with little prospect of finding a job and burdened with high levels of student debt, I propose expanding the system of paid apprenticeship programs so that they can build up a set of skills that they would need on the job. This would make firms more likely to hire them and increase their chances of finding a job right out of school. This is evident from another Pew Survey where college graduates were asked if in retrospect, they could have better prepared for the type of job they wanted.³⁰ About half of all college graduates said getting more work experience while still in school would have put them in a better position to get the kind of job they wanted. Another three-in-ten said they should have started looking for a job sooner or picked a different major. Firms could be provided incentives such as tax credits to make them participate in these programs which are clearly beneficial to both sides of the market. Economists David Neumark and Donna Rothstein find that internship/apprenticeship programs could help improve labor market outcomes particularly for disadvantaged youth and those in the “forgotten half” or those less likely to go to college.³¹

To improve labor force participation for women in general, we need to consider ways to provide paid maternity leave so that women retain their attachment to the workforce even after giving birth to a child. I have proposed using the existing system of child related tax credits to fund maternity leave.³² Broadly, the proposal is as follows. Currently, families with children and child-related expenses are eligible for at least three different types of tax credits. These are the Earned Income Tax Credit, the Child Tax Credit and the Child and Dependent Care Credit. The Child Tax

³⁰ Pew Research Center, “The Rising Cost of Not Going to College,” *Social & Demographic Trends*, February 2014. Accessed at <http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/>

³¹ David Neumark and Donna Rothstein, “Do School-To-Work Programs Help the ‘Forgotten Half’?,” National Bureau of Economic Research Working Paper No. 11636, September 2005. Accessed at <http://www.nber.org/papers/w11636>

³² Aparna Mathur, “A Simple Proposal to Fund Maternity Leave,” *Forbes*, March 26, 2015. Accessed at <http://www.forbes.com/sites/aparnamathur/2015/03/26/a-simple-proposal-to-fund-maternity-leave/>

Credit allows households with children to reduce their federal income tax liability by up to \$1000 per qualifying child. The credit phases out at higher income brackets. This tax credit is refundable, which means that if the household's tax liability is lower than the size of the credit, they may be able to claim all or the remaining portion of the tax credit as a cash payment.

The Child and Dependent Care Credit is available to working parents who paid expenses for the care of a child. The credit amount is a percentage of total expenses paid, where the percentage depends upon the household's adjusted gross income. The maximum expenses claimed can be \$3000 for one child and \$6000 for two children. The percentage is 35 percent for those with AGI less than \$15,000, and declines successively to 20% for those earning above \$43,000. Since this credit is non-refundable, it does not help households who have no tax liability. Finally, the Earned Income Tax Credit is a credit available to low-to-moderate income individuals who work. The size of the credit is larger for households with children. Also, it is a refundable tax credit that is available to all households who do not owe taxes. In 2014, the maximum credit amount ranges from \$6,143 for households with three or more qualifying children to \$3,305 for households with just one qualifying child.

My proposal has two components. First, make the money available to families at the time they need it i.e. at the time of birth of a child through allowing advance payments on these tax credits to families before the end of the tax year. Second, expand the child and dependent care credit and make it refundable so that low-income families are better able to meet the expenses of childcare that have increased tremendously over time. Under my proposal, low-income families earning approximately \$20,000 could be eligible for more than \$6,000 in advanced payments through these credits, which could help pay for leave, particularly at the time of birth of a child. Recent research studying the California program finds that women continued to provide work

hours and earn incomes one to three years after the birth of the child, suggesting continued labor force participation and preservation of job-specific human capital.³³

Occupational licensing is another source of constraints on workers being able to work in the occupations they want. Differences in state licensing requirements can make it difficult for entrepreneurs and workers to find opportunities and jobs, creating stale labor markets and underemployment. Mutual recognition of other state licenses would improve worker mobility and, thereby, boost economic dynamism. Stephen Slivinski, a senior economist at the Goldwater Institute, finds that states with strict occupational licensing standards have lower levels of low-income entrepreneurship.³⁴

For our large pool of workers who are long-term unemployed, we need to experiment with new ways of matching them to jobs. I believe that the unemployment benefit programs have to be supplemented by skills training and greater help with matching workers to jobs. It is simply not enough to keep extending benefits if at the end of the benefit period, the worker is still unemployed. The goal of any such program should be to train the worker to transition to a new job, rather than to simply provide cash benefits to allow them to meet their basic needs. For a worker who stays unemployed for more than 6 months, the likelihood of finding a job is extremely low and is unlikely to improve without active help. Towards this end, workers who have been long-term unemployed should be provided training and then placed in jobs through wage-subsidy programs that allow some share of the wages to be paid by the employer and the rest to be paid by the unemployment insurance program. This would allow employers to test and see if the match with

³³ Maya Rossin-Slater, Christopher J. Ruhm, and Jane Waldfogel, "The Effects of California's Paid Family Leave Program on Mothers' Leave-Taking and Subsequent Labor Market Outcomes" National Bureau of Economic Research Working Paper No. 17715, December 2011. Accessed at <http://www.nber.org/papers/w17715>

³⁴ Danny Vinik, "It's Easier to Become a Barber In Alabama Than Nevada, Thanks to Crony Capitalism," *The New Republic*, January 18, 2015. Accessed at <http://www.newrepublic.com/article/120791/study-occupational-licensing-hurts-low-income-entrepreneurs>

the prospective employee is a good one, while at the same time it would allow workers to receive on the job training and gain experience with the likelihood that they will be able to keep the job. A current experiment along these lines is the Wisconsin Fast Forward Initiative. The program allows employers to apply for grants for worker training, provided the employers hire the workers after they are trained. This enables employers to hire workers and provide them with the skills they need to be productive on the job.

Another idea is to use the UI funds to help start-ups by the unemployed. Research suggests that programs such as these in France and Germany have been successful at helping the unemployed move to become entrepreneurs. For instance, in France, the reform allowed unemployed individuals who started their own businesses to keep their access to unemployment insurance for three years in case their business venture failed.³⁵ Before the new rule, an entrepreneur would lose his unemployment insurance once he became self-employed. The main objective of the program was to provide insurance against failure and shortfalls in cash flow during the first three years. The study suggests that the program was successful. The monthly entry of new businesses increased 12 percent post-reform. More importantly, the quality of new firms did not deteriorate; there were no significant differences in the failure rate, hiring rate or growth rate of young firms in the industries where the reform had the most impact. In addition, the unemployed entrepreneurs who started these businesses were ambitious about their growth prospects and were interested in hiring new workers. The overall positive benefits included shorter unemployment spells and the reallocation of labor to more productive and higher-paying jobs. This would involve reforming our current Self-Employment Assistance programs that are only available in a few states

³⁵ Johan Hombert, Antoinette Schoar, David Sraer and David Thesmar, "Can Unemployment Insurance Spur Entrepreneurial Activity? Evidence From France," Accessed at [http://www.mit.edu/~aschoar/entrepreneur_revised_final\[3\].pdf](http://www.mit.edu/~aschoar/entrepreneur_revised_final[3].pdf)

and are available only to a limited pool of UI recipients. One reason for the low participation is that the program only offers support to workers who are permanently separated and will likely exhaust their unemployment benefits. This likely affects the quality of workers who are eligible for these programs. A redesigned program could make support available to all unemployment insurance recipients across the country and could provide some level of downside insurance for a limited period of time for a new business.

There are some policies that should be beneficial to workers in principle, but which research shows often have unintended, negative effects on workers. Recent increases in minimum wages and the proposal to change overtime rules fall into this category. New research finds that the effect of increases in the minimum wage between 2007 and 2009 was to significantly reduce employment of low-skilled workers.³⁶ Further, minimum wage hikes increased the likelihood that low-skilled individuals would work without pay, and this was true even for workers with some college education. Finally, this new research tracked workers over time and found that increases in minimum wages had negative medium-run effects on the ability of low-skilled workers to rise up the income ladder. The paper finds that during the late 2000s, effective minimum wages rose by nearly 30 percent and estimates these increases reduced the employment-to-population ratio of working age adults by 0.7 percentage points.

While there is little consensus in the literature on the effect of minimum wage hikes on employment, what is apparent is that following a hike, there is some probability that workers will lose jobs and face losses in income. The workers who retain jobs will be unambiguously better off than before but those who lose their jobs will be much worse off. This is a risky strategy. To my

³⁶ Jeffrey Clemens and Michael Wither, "The Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers," National Bureau of Economic Research Working Paper No. 20724, December 2014. Accessed at <http://www.nber.org/papers/w20724>

mind, a risk-free strategy to boost incomes for minimum wage workers is to expand the Earned Income Tax Credit program. The EITC has clear, positive impacts on employment, and has been shown to be beneficial to children in families using the EITC.

Similarly, overtime rules often force employers to cut down on worker hours or base wages in an effort to limit costs, thus resulting in no obvious benefits to workers while imposing substantial costs on employers. A recent study found that many firms, in response to 2004 regulation changes in overtime pay, lowered the base wage in jobs that often required overtime work in order to offset the new higher costs of overtime pay.³⁷ In particular, workers in minimum wage or near-minimum wage jobs were given fewer overtime hours by their employers. This is likely because at that wage level, employers can no longer adjust wages downward so they are more likely to cut overtime use. An earlier paper studied the impact of overtime regulations by comparing wholesale workers and retail workers between 1938 and 1950.³⁸ The Fair Labor Standards Act of 1938 mandated time and a half overtime pay for wholesale workers, but not for retail workers. Using this difference in regulation, the author found that overtime mandates reduced the number of hours worked. Among workers in wholesale trade there was a 5 percent reduction in the length of the standard work week and 18 percent fewer men and women reported working more than 40 hours per week. The study also found that changes in hours depended upon whether the employers had flexibility to adjust regular wages. In the South, firms could not adjust wages as much due to minimum wage regulations, so Southern firms cut more hours compared to other regions. Finally, although the FLSA led to reductions in number of hours worked, it had little impact on levels of employment.

³⁷ Anthony Barkume, "The Structure of Labor Costs with Overtime Work in U.S. Jobs," *Industrial and Labor Relations Review* 64(1), October 2010. Accessed at <http://www.jstor.org/stable/20789058>

³⁸ Dora L. Costa, "Hours of Work and the Fair Labor Standards Act: A Study of Retail and Wholesale Trade, 1938-1950," National Bureau of Economic Research Working Paper No. 6855, December 1998. Accessed at <http://www.nber.org/papers/w6855>

Therefore, the proposed overtime legislation might lead to further increases in the pool of workers unable to find full time jobs, not an outcome we would like to move to.

V. Conclusion

To conclude, six years after the end of the Great Recession, we are still struggling to help people find meaningful, full-time, decent paying jobs. Many workers have given up looking for work and many others have settled for part-time jobs. Average wage growth has been weak because there is still so much slack in the labor market, and this does not bode well for future lifetime earnings for these individuals. According to a recent Pew report, since the start of the recession in 2007, Americans have cut spending by almost 9 percent. Further, the rebound in spending that would normally follow the end of the recession has not occurred, perhaps because they are still pessimistic about future earnings and anticipate reductions in disposable income and wealth. In addition, many families are feeling financial strain. Almost 55 percent of households cannot replace even one month of income through liquid savings, slightly less than half spend an amount that is equal to or more than their income, and another 8 percent report that their debt obligations are 41 percent or more of their gross monthly income. In order to improve opportunity and mobility, we need to address the labor market challenges facing the U.S. economy today through a combination of policies that would encourage early investments in schooling and education, vocational training through apprenticeship programs for youth and wage subsidy programs that match the unemployed to jobs and involve skills training for older workers. Reforming the UI system to encourage entrepreneurship should also be experimented with. Finally, we need to figure out ways to fund maternity leave, perhaps along the lines of the proposal I have discussed in my testimony.

Appendix

Figure 1: Labor Force Participation Rates

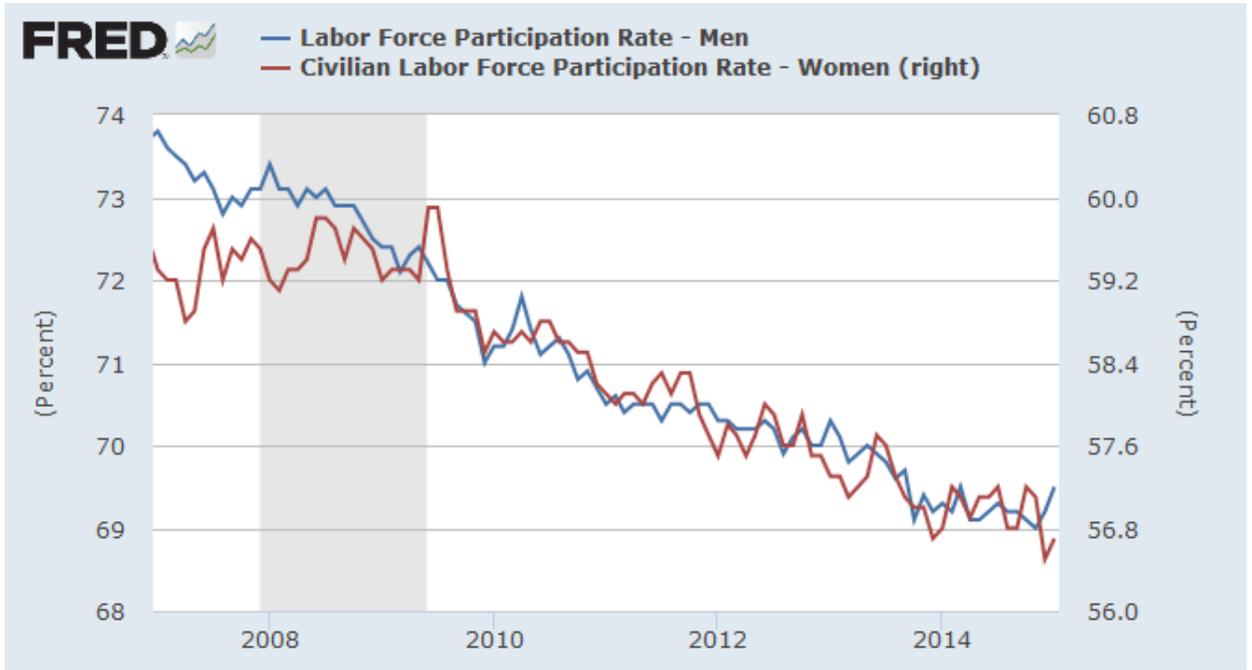
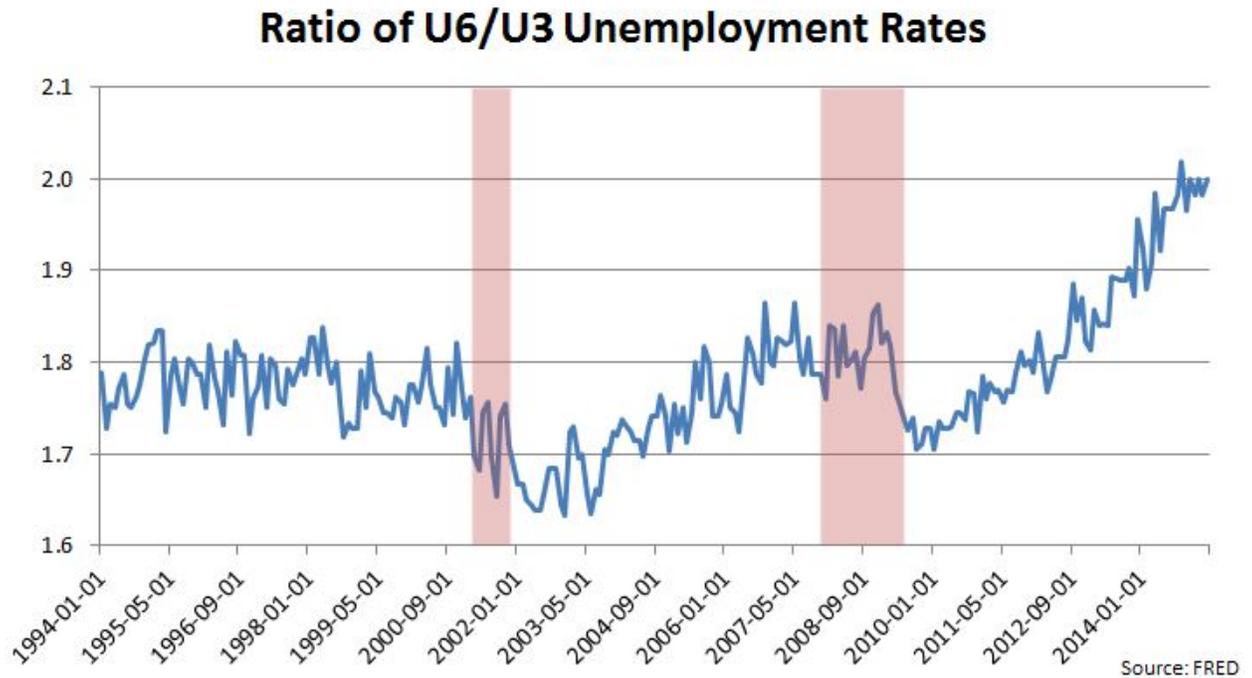


Figure 2: The Slow Decline in Involuntary Part-Time Work



Source: FRED