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Three Targeted Approaches to Expand Employment Opportunities

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Introduction

The Great Recession and the recovery that followed have demonstrated a clear need for policies to encourage job growth. The United States has experienced a fairly steady recovery—fifty-three consecutive months of positive job creation as of this writing—but there is room for continued improvement. As of March 2015 there are roughly 8.7 million unemployed Americans, 2.7 million of whom are classified as long-term unemployed (i.e., workers who have been unemployed longer than six months) (Bureau of Labor Statistics 2015b).

America currently faces a jobs gap of 4.0 million jobs, suggesting there is still slack in the labor market. (We define the jobs gap to be the number of jobs needed to return to pre-recession employment levels, accounting for changes in the population structure.) Figure 1 shows the evolution of this jobs gap since the start of the Great Recession in December 2007 and the length of time it will take to close the gap under different assumptions of growth. If the economy adds jobs at a rate of about 275,000 jobs per month, which is the average monthly rate of job creation over the past twelve months, then the economy will not reach pre-recession employment levels until September 2016.

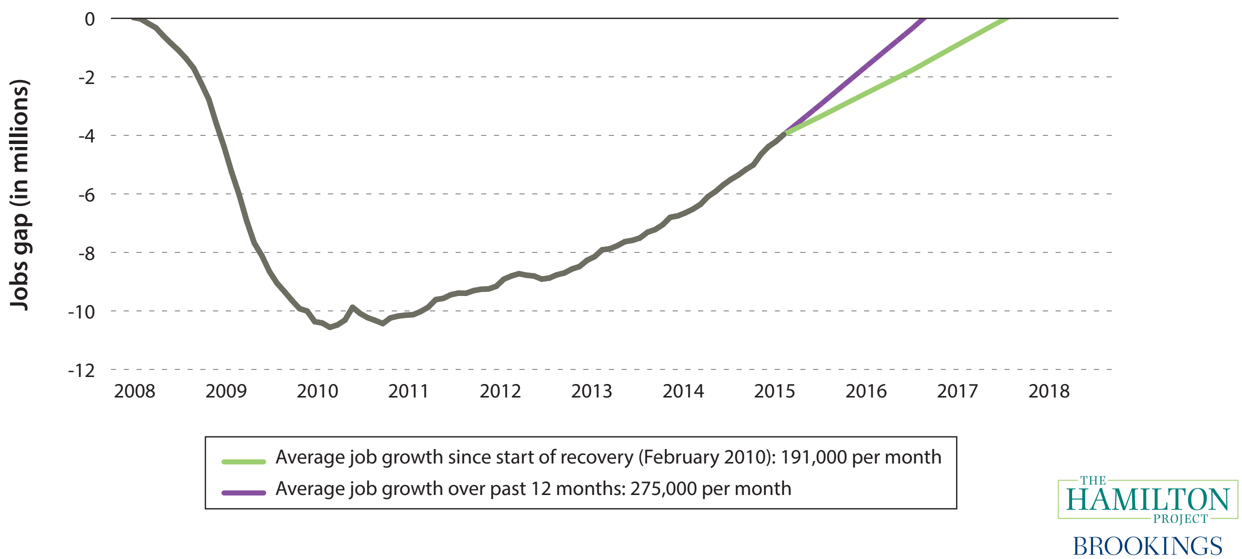
In addition to this recent cyclical challenge, the past fifteen years have witnessed what appear to be longer-term changes in labor force participation rates. Since the year 2000 labor markets have been relatively sluggish, even during periods of job growth. As documented in The Hamilton Project's economic analysis earlier this month, the jobs gaps from successive recessions are taking longer to close, as compared to earlier recessions and recoveries (Hershbein and Kearney 2015). For both men and women, the employment-to-population ratio among individuals aged eighteen to sixty-four has been on a downward trend since 2000. For men this continues a multi-decade decline in employment levels: the employment-to-population ratio for men fell from 86.5 percent in 1970 to 81.9 percent in 2000, and continued to fall to 74.6 percent by 2014. The recent downward trend reflects a reversal for women, however: between 1970 and 2000 the female employment-to-population ratio rose from 47.6 percent to 69.8 percent, but has since declined to 64.9 percent (authors' calculations using the Current Population Survey, March Supplement).

As the labor market continues to evolve, our nation will face pressing questions about how to address both cyclical and longer-term labor market challenges and, ultimately, about how best to help workers secure steady jobs. The appropriate response to these challenges will involve a range of policies, targeting both short-term and long-term issues.

FIGURE 1.

Evolution of the Jobs Gap, December 2007–December 2018

After adjusting for demographic changes, the economy needs to add an estimated 4.0 million jobs to return to pre-recession employment levels.



Source: Authors' calculations using data from the Bureau of Labor Statistics, as documented in Harris, Hershbein, and Kearney (2014).

Note: The jobs gap is the number of jobs needed to return to pre-recession employment levels, accounting for changes in the age and sex mix of the population.

This framing memo from The Hamilton Project discusses three proposals from prominent scholars, each of which addresses a specific challenge in a potentially cost-effective way. To date, these particular ideas have received little policy attention. While none of these proposals alone would close the jobs gap or dramatically increase aggregate employment rates, each is meant to complement, rather than substitute for, more-traditional approaches to stimulate job growth. As such, these proposals offer significant potential to broaden job opportunities for Americans.

A Framework for Job-Growth Policies

To provide context for the three proposals, we offer a framework of three categories of policy options aimed at promoting job growth. Economists are divided about which of these policy directions would be the most effective at addressing the jobs shortfall, and it is likely that all three are important. Our purpose is not to evaluate the relative importance or potential effectiveness of any particular set over the others, but rather to offer an economic lens through which to consider the three Hamilton Project discussion papers being released.

One set of policy options aims to increase aggregate demand in the economy. This is a natural extension of the view that the recovery following the Great Recession has been hampered by inadequate aggregate demand in the economy (e.g., Reich 2010; Romer 2010; Rothstein 2014). According to this view, the currently low rates of employment are largely due to cyclical factors such as reduced levels of consumer spending and uncertainty in business investment. The implication is that policies are needed to stimulate aggregate demand, through either conventional or unconventional forms of monetary policy or fiscal stimulus. Historical examples include the Work Progress Administration, which hired millions of Americans to carry out public works projects during and after the Great Depression. More recently, similarly motivated options have included keeping interest rates low and temporarily cutting the employer's side of the payroll tax. These policy prescriptions, among others, aim to address cyclical challenges and encourage job growth in the short run, but are less likely to address longer-term reductions in employment rates.

A second set of policy options focuses on labor supply. Policies in this category often follow from the view—not necessarily inconsistent with the one previously described—that supply-side impediments are dampening employment rates. It is useful to distinguish between short-term and long-term supply side issues, with the former potentially affecting the rate of the current recovery, and the latter relevant to long-term labor market trends. For example, one possibility is that problems in the labor market are partly explained by discouragement and reduced job search effort on the part of the unemployed (Krueger and Mueller 2011). Another possibility is that spatial mismatch—a lack of jobs where potential workers live—significantly increases the duration of joblessness among lower-paid displaced workers (Andersson et al. 2014). Some observers have suggested that the availability of extended unemployment benefits in recent years has led jobless workers to search less intensively, but the best academic evidence suggests that any such effect is small (Farber and Valletta 2013). There is also a widespread perception that a skills mismatch is an important factor impeding the current labor market recovery, but academic research tends not to support this view (Abraham 2015). While the availability of disability insurance benefits does not appear to have significantly affected employment decisions in the most recent recession and recovery (Mueller, Rothstein, and von Wachter 2014), their growing generosity relative to wages over the past few decades has been linked to longer-term reductions in employment rates among less-educated individuals (Autor and Duggan 2003).

To be clear, these supply-side explanations are not incompatible with weak aggregate demand; in fact, both channels may have been operating in recent years. For example, during economic downturns, job scarcity makes it harder for the unemployed to find work, which in turn can lead to skill depreciation. As a consequence, these workers may become discouraged, stop searching for work, and in some cases drop out of the labor force, preventing them from filling newly available positions as the economy recovers (Krueger and Mueller 2011).

Within this labor supply perspective are several large-scale policy options focused on human capital development. Proposals in this category include targeted partnerships between employers and colleges in course offerings (Holzer 2011), increased funding for vocational training (McConnell, Perez-Johnson, and Berk

BOX 1.

Related Policy Proposals from The Hamilton Project

The Hamilton Project has previously released several discussion papers and policy memos focused on expanding employment opportunities. Some of these papers offer ideas that are meant to stimulate job growth in the short term, and some offer ideas that would boost employment rates over the longer term.

POLICIES THAT FOCUS ON JOB CREATION AND RETENTION

- "Bringing Jobs to People: How Federal Policy Can Target Job Creation for Economically Distressed Areas" (2010): Timothy J. Bartik suggests several programs to assist economically distressed areas, including reformed and revitalized Empowerment Zones. The targeted employer tax breaks and expanded public services in these communities would promote hiring of—and better access to jobs for—area residents.
- "Encouraging Work Sharing to Reduce Unemployment" (2014): Katharine G. Abraham and Susan N. Houseman propose that the federal government subsidize and promote state work-sharing arrangements, in which employers are paid to reduce employee hours rather than lay off workers. Reducing layoffs allows workers to keep their benefits and attachment to their employers, and can provide greater income to workers than what unemployment insurance delivers.
- "Fix It First, Expand It Second, Reward It Third: A New Strategy for America's Highways" (2011): Matthew E. Kahn and David M. Levinson propose a reorganization of our national highway infrastructure priorities to preserve, maintain, and enhance existing infrastructure and the creation of the Federal Highway Bank to meet these goals. Not only would this promote employment in the short term, but it also would encourage better transportation infrastructure to reduce commute times and make it easier to get to jobs.

POLICIES THAT FOCUS ON LABOR SUPPLY AND SKILLS

- "Expanding Apprenticeship Opportunities in the United States" (2014): Robert I. Lerman proposes federal and state-level initiatives to expand access to registered apprenticeship programs. Targeting at-risk youth and middle-skill adults in low-wage jobs, this proposal aims to improve the skills and earnings of workers.
- "Improving Employment Outcomes for Disadvantaged Students" (2014): Harry J. Holzer proposes the creation of financial incentives for public colleges and university systems to offer classes in high-return fields and for employers to offer more training to their employees. This proposal, targeting disadvantaged youth who have some academic preparation for higher education, aims to generate better labor market outcomes and wage gains.
- "Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System" (2010): David H. Autor and Mark Duggan propose refocusing the Social Security Disability Insurance (SSDI) program toward assisting individuals with disabilities to remain employed, and away from supporting unnecessary long-term dependency. This reform would improve the economic security and well-being of individuals with disabilities, as well as their families and employers, in addition to slowing the growth of the SSDI program and, therefore, improving the long-term solvency of the Social Security system.

2014), and expanded access to higher education (Baum and Scott-Clayton 2013). (See box 1 for other related policy proposals from The Hamilton Project.) Efforts to increase the supply of skilled workers may indeed improve long-run employment trends, but will likely do little to address the cyclical challenges of employment shortfalls when labor demand remains weak.

A third category of policy options includes efforts to reduce the prevalence and impact of labor market frictions. This set of policies has received less attention and offers innovative and alternative directions to strengthen the labor market. Such frictions are indirectly related to issues of both aggregate demand and labor supply, but they are distinct in several ways. For instance, certain occupational regulations, if not implemented thoughtfully, can restrict job opportunities while achieving little in their ostensible purpose of ensuring service quality, consumer health, and public safety. Smarter regulations that are less restrictive of job opportunities—but do not jeopardize the interests of consumers—represent one avenue toward a stronger labor market. As another example, the unemployment insurance system can present job seekers with the tough and unintended choice between giving up benefits to take a part-time job and keeping the benefits through a prolonged search that risks leaving the worker more detached from the workforce. Greater flexibility in benefit options could help the unemployed avoid this dilemma and take a job more quickly. Separately, start-ups and small businesses can face difficulty in raising capital, sometimes because of discrimination or geographic location, which results in reduced hiring. Providing these entrepreneurs with greater access to capital for investment could increase employment. These issues, and others like them, have both cyclical and longer-term elements, and can affect the likelihood of employment (or reemployment) during downturns and expansions.

Each of the three new Hamilton Project discussion papers shows how removing a particular set of labor market frictions can be a cost-effective way to improve employment opportunities for millions of Americans, both in the aftermath of a recession and over the longer term. These three proposals represent innovative, evidence-based, and politically feasible approaches that could help more Americans return to work. They represent viable policy options that can complement larger-scale approaches to fuel aggregate demand and boost labor supply. We turn to describing these papers now.

New Hamilton Project Discussion Papers

REFORMING OCCUPATIONAL LICENSING

Today, nearly 30 percent of workers must obtain a license from a state or local government to work in their professions, as compared to just 5 percent in the 1950s. Occupational licenses are now required for practicing more than 800 occupations (Kleiner and Krueger 2013). In addition to the historically licensed occupations of physicians, dentists, teachers, and electricians, licensed occupations in some states now include auctioneers, ballroom dance instructors, florists, interior designers, locksmiths, manicurists, and upholsterers. Crucially, in contrast to state-sponsored certificates signaling that a worker has completed some level of training, occupational licensing laws forbid people from practicing in their occupation without meeting state requirements.

The main rationales for occupational licenses are to protect health and safety and ensure high product or service quality. However, occupational licensing comes at a cost. By creating a barrier to occupation entry through stringent or expensive requirements, occupational licensing limits employment opportunities for job seekers. Research suggests that it also slows job growth (Kleiner 2006). And since licensing is granted at the state or local level, with licensing requirements varying across state borders, the current practice can restrict the ability of workers to relocate in order to take advantage of job opportunities in different states.

To improve occupational licensing practices, Morris M. Kleiner of the University of Minnesota proposes four specific reforms. First, state agencies would make use of cost-benefit analysis to determine whether requests for additional occupational licensing requirements are warranted. Second, the federal government would promote the determination and adoption of best-practice models through financial incentives and better information. Third, state licensing standards would allow workers to move across state lines with a minimal cost for retraining or residency requirements. Fourth, where politically feasible, certain occupations that are licensed would be reclassified to a system of certification or no regulation. Kleiner cites evidence that suggests that if federal, state, and local governments were to undertake these reforms, employment in these regulated occupations would grow, consumer access to goods and services would expand, and prices would fall.

REEMPLOYING THE UNEMPLOYED

Reemploying the unemployed has long been recognized as a policy challenge—one that was with us before the recent recession and that will remain after the economy fully recovers. But long-term unemployment presents a particular challenge. Shortly after the Great Recession the share of jobless workers who had been unemployed for more than half a year climbed to 45 percent—nearly twice the level reached after any recession since the Great Depression, and amounting to 6.8 million Americans (Bureau of Labor Statistics 2015a). Even today, five years later, almost one in three jobless workers is long-term unemployed. As shown in figure 2, the rate of long-term unemployment, measured against the size of the labor force, shot up after the Great Recession and remains significantly higher than pre-recession levels.

Such long-term unemployment comes with severe consequences for affected workers. For instance, the risk of experiencing poverty is twice as high for the long-term unemployed as it is for workers unemployed for shorter periods (Nichols, Mitchell, and Lindner 2013). In addition, people who have been out of work for an extended period are at higher risk of depression than the general population (Crabtree 2014). Furthermore, communities with high rates of long-term unemployment can suffer declines in various quality-of-life measures, from school performance to crime (Nichols, Mitchell, and Lindner 2013). To make matters worse, the longer someone is out of work, the less likely it is she will find a job (Kroft, Lange, and Notowidigdo 2013). In effect, the long-term unemployed are on the margins of the labor market, at risk of becoming permanently disconnected from employment (Krueger, Cramer, and Cho 2014).

The unemployment insurance system is structured to provide benefits to unemployed workers while they search for work, but some of its eligibility requirements can discourage the jobless from pursuing advantageous job opportunities. Adriana Kugler of Georgetown University offers three pilot programs to move the unemployment insurance system in the direction of a reemployment system. The first program would allow the unemployed to continue claiming benefits while they receive entrepreneurial training and other assistance for setting up a business. The second program would support the unemployed through temporary positions and internships that might lead to full-time jobs. The third program would provide partial benefits to claimants who accept part-time jobs. The pilots include evaluation components to gauge their cost-effectiveness and to determine whether and how the programs could be brought to scale. If shown to be effective at transitioning the unemployed back to work, these programs could break the cycle of long-term unemployment before it starts.

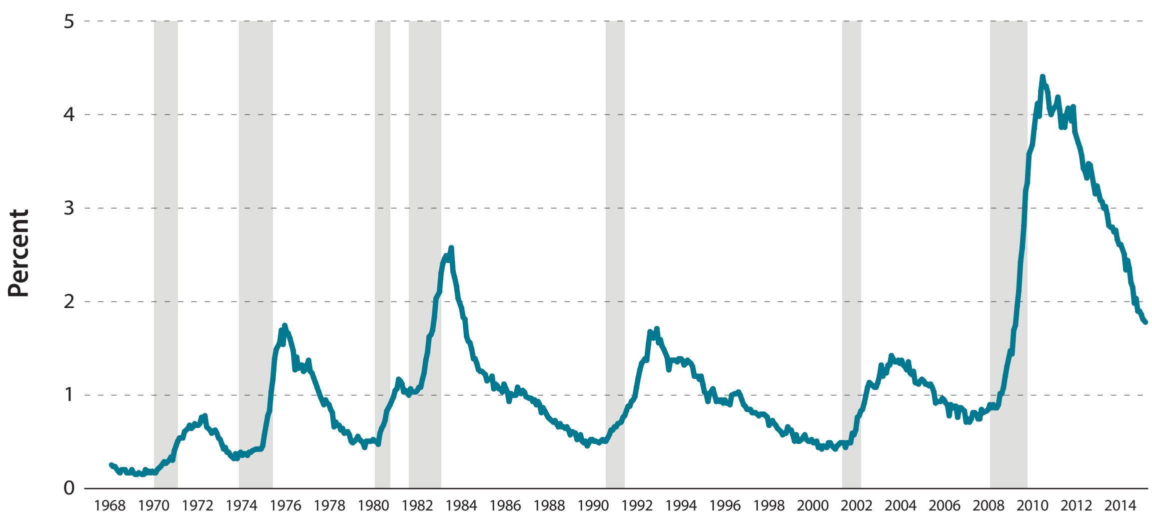
FOSTERING ENTREPRENEURSHIP AMONG MINORITIES AND WOMEN

American entrepreneurs have been, and will continue to be, principal drivers of job growth in this country. Indeed, young businesses have higher rates of gross job creation than their more-mature counterparts (Haltiwanger, Jarmin, and Miranda 2013). While some young businesses capitalize on their innovations to grow quickly and compete nationally, most will never become large companies (Decker et al. 2014). Nonetheless, even those businesses that remain small—defined as having fewer than 500 employees by the Small Business Administration—play an important role at the local level. They represent important employment hubs in their communities and can provide economic security to business owners and their families.

However, Americans do not participate equally in entrepreneurship or self-employment. In 2014 the shares of female and racial or ethnic minority workers who were self-employed were each approximately 7 percent, far lower than the rate of self-employment for nonminority male workers (13 percent) (authors' calculations using Current Population Survey, March Supplement). As figure 3 shows, even as women and minorities have become larger shares of the overall workforce

FIGURE 2.

Long-Term Unemployed as a Share of the Labor Force, 1968–2014



Sources: Bureau of Labor Statistics 2015a; National Bureau of Economic Research 2012; authors' calculations.

Note: Long-term unemployed refers to individuals who have been unemployed for more than six months. Shaded gray bars denote U.S. economic recessions as defined by the National Bureau of Economic Research.

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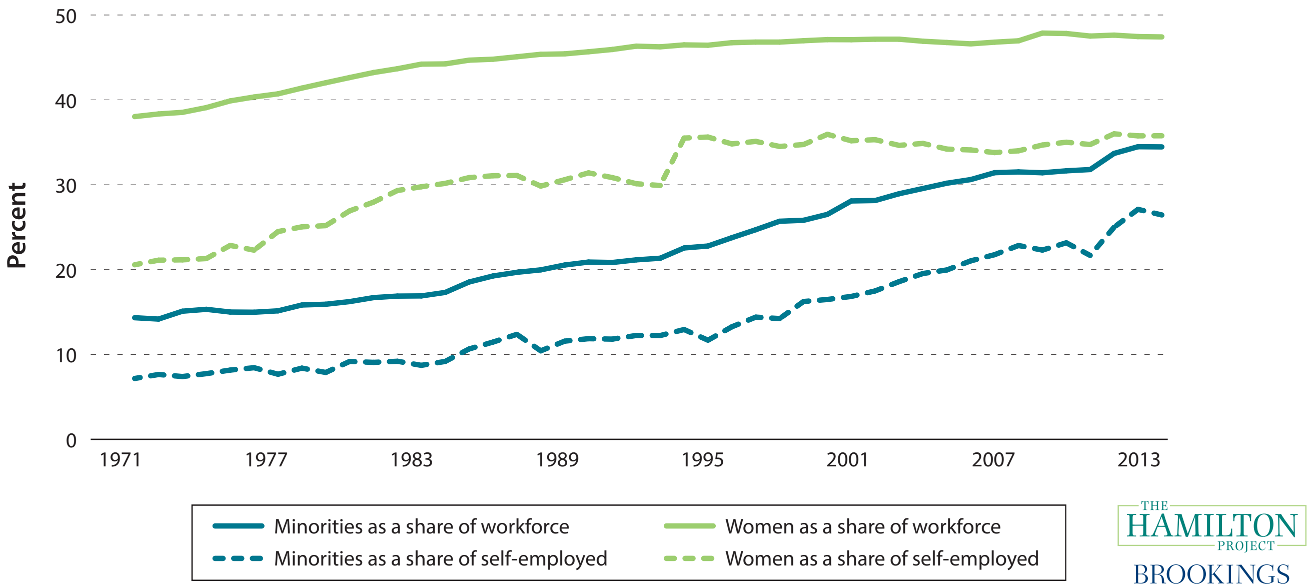
FIGURE 3.

Women and Minorities as Shares of the Workforce and as Shares of Self-Employed Workers, 1971–2014



Source: Authors' calculations based on the Current Population Survey, March Supplement (King et al. 2010).

Note: Starting in 1988, self-employment refers to both incorporated and nonincorporated self-employment. Before that year, some nonincorporated workers reported themselves as wage and salary workers, resulting in underreporting of the number of self-employed workers. The term "minority" refers to people of African American, Asian, Native American, Native Alaskan, Native Hawaiian, and Pacific Islander racial descent, as well as people of Hispanic descent and multiracial Americans. Shares are calculated for workers aged eighteen to sixty-four.

(solid lines), their representation among the ranks of the self-employed (dashed lines) lags behind. Furthermore, even when women and minorities do run their own businesses, their firms on average have lower revenues and fewer employees than firms owned by nonminorities and men (U.S. Census Bureau n.d.). Given the changing demographics of the workforce, addressing this entrepreneurship gap is increasingly important to both business dynamism and job growth.

Starting a business can be a challenging endeavor for anyone, and can be particularly challenging for women and minorities. Access to capital through loans and equity are often critical to entrepreneurs, yet minorities are less likely to apply for loans for fear of rejection, are less likely to be approved (thus validating their fears), and pay higher interest rates on smaller loans when they are approved (Fairlie and Robb 2010). Women report similar fears of loan rejection, and also tend to start their firms with less capital (Robb 2013). Moreover, both groups are likely to be less experienced, on average, in the mechanics of starting and running a business (Fairlie and Robb 2010; Robb 2013). Minorities are also less likely to have access to business networks that can provide advice, contacts, and market opportunities (Jones 2007; Rubin 2010).

Michael S. Barr of the University of Michigan calls for the expansion of federal funding and tax credits to help private money go farther in providing financial support for current and aspiring minority and women entrepreneurs, especially those in low-income communities. In addition, Barr calls for the allocation of federal funds to support the development of locally administered business networks and skills-building programs. These targeted programs could assist women and minorities who want to create small businesses.

Conclusion

Since its launch in 2006, the Hamilton Project has been committed to promoting evidence-based policies that foster economic growth and broad-based prosperity. In that spirit we offer three discussion papers written by well-respected scholars, each focused on expanding employment opportunities by addressing specific impediments to the labor market. None of these three proposals alone promises to close the jobs gap or to significantly change long-term aggregate employment rates. But each offers a cost-effective way to address a particular employment challenge and should be considered among the policy choices to promote job growth. These proposals are complementary to more-traditional approaches for stimulating job growth through active fiscal or monetary stimulus, and offer significant potential to broaden job opportunities for millions of Americans.

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The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers—based on credible evidence and experience, not ideology or doctrine—to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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