

The Labor Market After the Great Recession: Implications for Income Support Policy

By Gordon Berlin
President of MDRC

Remarks at the 2011 Welfare Research and Evaluation Conference,
Sponsored by the Office of Planning, Research and Evaluation,
Administration for Children and Families, U.S. Department of Health and Human Services

June 2, 2011

As the trends in employment, earnings, labor force participation, and idleness presented by the previous speakers — Tim Smeeding, Becky Blank, and Harry Holzer — demonstrate, the labor market is undergoing transformative change with profound implications for income support policy. I want to focus my remarks on four that are particularly relevant to the people attending this conference:

1. In the 1990s, when work was plentiful, the United States reengineered its safety net from a system that supported people when they did *not* work to one that supports them when they do. But, in the aftermath of the Great Recession, we are entering an extended period in which there is not likely to be enough work, a development that has important implications for the redesign and reauthorization of the 1996 welfare reform law.
2. Eventually, there *is* going to be enough work, but much of it will be low-skill, low-wage work, leaving many families in poverty. This will put new pressure on the Earned Income Tax Credit and other pillars of the work support system.
3. The fate of so-called “middle-skill” jobs is critical to any hope of upward mobility as a route out of poverty: Will there be enough middle-skill jobs? What fraction of the low-income population will be able to qualify for these jobs? How effective are training and post-placement programs in helping people access and succeed in these jobs?
4. The labor market plight of men is crucial to any long-run solution to family poverty. Men’s employment and earnings have been hardest hit both by this recession and by long-run labor market trends. But unlike for women with children, there is no system of support to help men adjust; we will need to build one.

Before I elaborate on each of these points, I want to step back a moment to offer some broader perspective. The human and economic toll of the Great Recession will be devastating, and those affected will pay a price throughout their lives. Yet a longer-term trend that preceded and continued through this recession may be even more troubling: a fundamental breakdown between economic growth derived from increases in labor productivity and growth in the average worker’s earnings. In the 30 years after World War II, the rewards from increases in the Gross National Product (GNP) and labor productivity accrued to the average worker in the form of increasing earnings. GNP and labor productivity each grew by 2 to 3 percent per year, and

average wages and earnings followed suit. It was as if the entire nation was on an up-escalator.¹ That escalator stopped in the mid-1970s for workers. Economic growth and labor productivity growth continued upward — but not workers' earnings.

A Safety Net Built Around Work — When There Is No Work

The 1996 welfare reform law was predicated on the conviction that work was preferable to welfare, that work was plentiful, and that welfare should be temporary. Work requirements, time limits, and restrictions on time spent in education and training were all designed to reinforce that message and to drive state policy and practice. In addition, the Earned Income Tax Credit (EITC) expanded to become the nation's largest income transfer program. But you can only get it when you work. You get nothing when you don't.

Building a safety net around work made sense in the midst of the Roaring 1990s economy and its 5 percent unemployment rate. The combination of welfare's push and the pull of a strong labor market (plus EITC's make-work-pay provisions) was effective: the employment rates of women with children, especially single-parents, skyrocketed.² Caseloads fell to unimaginably low levels.

In fairness to those who supported the 1996 reforms: just as someone in the midst of the Great Depression could not have foreseen the golden era of the 1950s and 1960s, someone standing at the peak of the Roaring 90s economy could be forgiven for not having foreseen the depths of the Great Recession. Yes, there were warnings about the inflexibility of block grants and time limits during periods of economic downturn, but the law weathered the 2001 recession without major incident. The Great Recession was a seismic event by comparison.

But, here we are: An unemployment rate of 9 percent — 16 percent if one counts the involuntarily underemployed and those too discouraged to work. It could take until the end of this decade to replace both the jobs we have lost and the jobs that will be needed to keep up with new entrants to the labor market.

What to do?

Work hasn't disappeared. Jobs at the low end may have held up better during this recession than those at the higher end of the labor market. Still, we will need a stronger safety net for those who can't find work, given the steep decline in overall employment rates. Some rethinking of the Temporary Assistance for Needy Families (TANF) program will be necessary, including reconsidering its reliance on time-limited welfare receipt.³

¹Levy, Frank. 1999. *The New Dollars and Dreams: American Incomes and Economic Change*. New York: Russell Sage Foundation.

²The employment rate for unmarried women with children under 18 rose from 62 percent in 1994 — two years before passage of federal welfare reform — to 75 percent in 2000. It has now fallen back to 67 percent.

³Berlin, Gordon. 2010. *Rethinking Welfare in the Great Recession: Issues in the Reauthorization of the Temporary Assistance for Needy Families Program*. Testimony Before the Senate Finance Committee, September 21, 2010. New York: MDRC.

If we are no longer awash in jobs, how do we enforce the quid pro quo that was at the heart of welfare reform's historic compromise? Does it make sense any more to place a six-week restriction on job search? Should we continue placing limits on participation in education and training or in other investments in developing human capital? (In the past, we have thought of economic downturns as the right time to make such investments.)

Thinking more broadly, do we want to continue to condition benefit receipt on work alone, or should we consider other ways to establish a new quid pro quo, possibly by tying benefit receipt to other activities — for example, improvements in parents' human capital; milestone gains in children's school attendance, achievement, and attainment; or improvements in the health and well-being of family members as signaled by keeping one's insurance current and getting annual check-ups? The conditional cash transfer models adopted in Brazil, Mexico, and elsewhere and being tested in New York City and now Memphis are of interest here. Early New York City findings suggest you can reduce poverty and hardship by conditioning substantial transfer payments on these types of activities — without causing earnings to decline.

I am not recommending the creation of new hurdles that would make TANF even harder to get. Instead, one might use progress on these alternative milestones to “stop the clock” and extend time limits, or one could use satisfying these other conditions to allow benefits to continue after a recipient hits a welfare time limit, as my colleague Jim Riccio has suggested.

If we prefer work over welfare, job creation via community service employment will also be necessary. The states' recent experience with the TANF Emergency Fund demonstrates that large-scale community work experience programs are feasible to implement. And there is a forgotten but noble tradition of public job creation to build upon: the New Deal's Works Progress Administration, the Comprehensive Employment and Training Act's public service employment experience, and Community Work Experience Programs under the original Work Incentive Program. For long-term welfare recipients, in particular, results from the Supported Work experiment offer some hope that up to 18 months spent in a public job can eventually lead to a successful transition to unsubsidized work.⁴

The bottom line: We will need to create a safety net program that is flexible in its expectations and requirements.

Continuing to Make Low-Wage Work *Pay*

Eventually, there will be enough work — but much of it will pay low wages. Making work pay will be essential. The target population to receive services and benefits under TANF and food stamps and the EITC is generally low-skilled. Projections from the Bureau of Labor Statistics expect substantial growth through 2018 in low-skill, low-wage jobs that require human interaction — such positions as cashiers, retail sales, waitresses, food prep, office clerks, home health aides, janitors, laborers, stock clerks, and child care workers. These types of jobs will

⁴The key risk is substitution — that is, how to manage these programs without inducing large numbers of people who could have found unsubsidized work to take public jobs.

account for 11 of the top 15 openings from both new job creation and replacement jobs as people retire.⁵

There are at least four ways to make work pay at the low end: (1) indexing the minimum wage to inflation and raising the base level, (2) continuing and expanding federal and state EITCs, (3) maintaining welfare-based earned income disregards to supplement low-wage work, and (4) initiating tax reforms along the lines of the payroll tax holiday that was part of the stimulus package.

The minimum wage sets a floor that has a ripple effect on wages above the minimum. Even after the three-step increase of the last few years, today's minimum wage of \$7.25 is worth roughly the same amount as 30 years ago. Over time, the minimum wage could also become important for another reason: increases in the EITC are inflation-adjusted while the minimum wage is not. Thus, as the EITC rises with inflation, we may find public dollars substituting for private-sector wage increases. If I am a low-wage employer, why raise my wages if my employees are getting an increase via the EITC?

In short, it is getting harder for people to earn their way out of poverty even if they can find steady work. We shouldn't abandon the work-based safety net; instead, we will need to expand it as one way for the winners in the new labor market to compensate the losers.

The Role of Middle-Skill Jobs

Future prospects for upward mobility in the labor market (career ladders, yearly wage increases) are central to our hopes for solving the problem of poverty. The fate of middle-skill jobs looms large. If Harry Holzer and Bob Lerman are right that middle-skill jobs are growing, then we need to prepare the unemployed and the low-wage worker for these better jobs. But if David Autor, Frank Levy, Larry Katz, and Alan Blinder are right that the combination of information technology/automation and off-shoring is teaming up to undermine the future of middle-skill jobs, creating a polarized labor market characterized by growth at the low end and growth at the high end, then facilitating upward mobility will be a much harder undertaking.

Let me offer a recent personal experience as an example: I was having trouble getting a new printer to operate with an old computer operating system. Frustrated, I called HP's helpline at 10:30 pm, heard a few clicks, and then a professional, reassuring woman from Kolkata, India, came on the line. She walked me through the necessary steps, took over my computer so she could download some software, and graciously trouble-shot an unrelated glitch she noticed in my system. Presto — my printer worked and I had a first-hand lesson in the globalization of work. I

⁵See BLS 2018 job projections: <http://www.bls.gov/news.release/ecopro.t10.htm>. See Autor, David. 2010. *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings*. Washington, DC: The Center for American Progress and The Hamilton Project. Autor describes rapid job growth in both very high-skill jobs and very low-skill jobs, and much slower growth in middle-tier jobs. Also, see Holzer, Harry, and Robert Lerman. 2009. *The Future of Middle Skill Jobs*. Center on Children and Families, The Brookings Institution.

could not have gotten better service in America, and her wages are likely less than a tenth⁶ of those of her American counterparts.⁷

This one-two punch of automation and off-shoring is less likely to affect jobs that require face-to-face interaction — think home health care, personal care, child care, protective services — but these are mostly low-skill, low-wage jobs.

For our purposes, let's assume that the right answer is somewhere between these two points of view: middle-skill jobs are growing in number but probably not as fast as low-end and high-end jobs. In this case, the tool box of the typical Workforce Investment Act (WIA) or TANF welfare-to-work program should include strategies to prepare people for middle-skill jobs. What do we know about promoting employment retention and advancement in better-skilled jobs?

Studies in the United States and United Kingdom show how challenging it is to deliver advancement help that's effective, but there *are* some successes to build on. Several models tested in the Administration for Children and Families' Employment Retention and Advancement Project produced modest but noteworthy gains in employment and earnings, as did a similar program in the UK, although those gains decayed over time for women but not for very disadvantaged men. And the Dayton site in MDRC's Work Advancement and Support Center Demonstration has produced gains in the use of work supports, which boost income, and increases in training completion, leading in turn to higher employment rates and earnings. Moreover, we have seen some positive effects on academic achievement in community colleges from learning communities, performance-based scholarships, and enhanced student support services, although again these gains do not persist. Also promising are sector-based strategies, like those tested by Public/Private Ventures. New strategies that combine sector-focused training with strategic post-placement support might be even more effective. We're testing whether that's true in our new WorkAdvance demonstration, part of a Social Innovation Fund project with the Mayor's Fund of New York City.

These programs have tried a range of strategies to promote retention and advancement — incentives to stay on the job; incentives to enroll in and complete training; assessment and referral to a range of training options; mixing income supports and training; post-placement advising, including intervening with employers to keep people on the job; and strategies to increase access and persistence in community colleges.

An interesting contrast to note: The occasional modest positive effects from “systems” that offered generic training — welfare-to-work, Job Training Partnership Act/WIA, the UK welfare

⁶See de Regil, Alvaro J., August 2010. *India's Living Wage Gap: Another Modern Slave Work Ethos*. Brief. Moorpark, CA: The Living Wages North and South Alliance. <http://www.jussemp.org>.

⁷In *The New Division of Labor: How Computers Are Creating the Next Job Market*, Frank Levy and Dick Murnane explain that the astonishing drop in the cost of computing (down by one-third to one-half every year for the last 60 years) has made it possible to automate virtually any job that involves carrying out routine tasks, so-called “rule-based standard operating procedures” that can be described in an algorithm, a description that fits many middle-skill production and clerical jobs. Alan Blinder notes that these advances in information technology have made offshoring possible, placing American workers in direct competition with foreign workers (see Blinder, Alan. 2007. “How Many U.S. Jobs Might be Offshorable?” Working Paper No. 142. Princeton, NJ: Princeton University Center for Economic Policy Studies.

system — stand in stark contrast to the strongly positive results from PPV’s recent study of sector-specific training programs. The sectoral programs studied to date screen enrollees carefully and intensively, however, not just for education but also for interest and experience in the occupation, past work history, and a range of personal traits that program staff believe will make the person successful. The programs also have very strong employer ties. This raises an important question: Given these entry requirements, how large a fraction of the welfare population can these programs really serve? Can the programs themselves expand? High-quality training programs with extensive employer ties are rare, not unlike the “prince” of job training programs: on-the-job training.⁸

With regard to the less-encouraging results of more generic training: It could be that the “stretch job” that the typical training program prepares someone for is at the low end of the middle-skill continuum, the somewhat more routinized jobs that are in the crosshairs of the profound transformation now underway in the global labor market.

Men: The Ignored Population

Both the employment rates and the real earnings of men have been in a long-term, 40-year secular decline.⁹ Men with a high school diploma or less have been hit especially hard — employment rates declined 12 percent for high school graduates and 16 percent for high school dropouts between 1979 and 2007 — and that was before the devastating effects of the recession. Yet despite the dire and worsening position of low-income men, we have designed a social welfare system that ignores them unless they owe child support or until they commit a crime.

The work-based safety net could be extended to men as well as women, to individuals as well as families with children. Raising the minimum wage and indexing it for inflation would be important steps in helping men regain their foothold in the labor market. In addition, a redesigned EITC system that paid individuals (in addition to families with children) — and thus did not have marriage penalties — would go a long way to addressing the labor market needs of men.¹⁰ The payroll tax holiday that was part of the American Recovery and Reinvestment Act did something just like this.

If poverty is a function of earnings and family structure, and it takes two earners to get out of poverty, extending work-based benefits to men may be critical to any long-run solution to America’s poverty problem.

⁸These findings, along with the results of the P/PV study on sector-focused training, have influenced our approach to WorkAdvance, a “next generation” advancement strategy being tested in six cities with five occupations. WorkAdvance focuses on sector-based training, sector-based job placement (in some cases without training), and strategic post-employment follow-up with participants as well as their employers. Occupations include manufacturing, health, information technology, transportation, and environmental remediation.

⁹Since 1973, employment rates for white males have fallen by roughly 10 percentage points from about 77 percent to 67 percent. Among black males, employment rates have fallen from 72 percent to 56 percent. The effects of the 1980/1981 recession and the 2007/2008 recession were devastating — male employment rates fell off a cliff. In addition, men’s earnings have also been falling. Falling earnings appears to be one possible cause of men’s declining employment: according to Autor, a 10 percent decline in wages is associated with a 5.8 percentage point decline in employment rates.

¹⁰Berlin, Gordon. 2007. “Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families.” *The Future of Children* 17, 2: 17-42.

It might be helpful to make a distinction here between income maintenance policy and labor market policy. As currently designed, the EITC is a form of income support policy based on family size. By contrast, the minimum wage and payroll tax examples are forms of labor market policy. An EITC aimed at individuals might best be thought of as labor market policy designed to correct the problem of low wages caused by shifts in technology and the globalization of work.

In both the short and long run, public job creation will also be needed if we are going to get men working again.

Of course, as the previous speakers all dutifully noted, these policy responses — a revamped EITC, the payroll tax holiday, and related strategies to make work pay, not to mention public jobs programs — are all unaffordable. Yet during the same 1980-to-2010 period that the minimum wage and wages in general were stagnant and falling for men, non-farm labor productivity — the amount produced by a worker in an hour — increased by roughly 80 percent.¹¹ In the three decades following WWII (until the mid-1970s), nearly all of the nation's gains in productivity went to workers, but now it accrues to the top 1 percent of earners, is retained as profit in corporations, or leaks away to bondholders in the form of debt payments for leveraged buyouts.

As Frank Levy first explained and as Sheldon Danziger has since noted, the uncoupling of the historical link between economic growth driven by labor productivity growth and the average worker's compensation has undermined the mass upward mobility that characterized America for the 30-year period following World War II.

The policies described here would go partway down the road of restoring that now-severed link. The argument that economists, business leaders, and policymakers offer to workers for not standing in the way of economic change — free trade agreements, or offshoring, or automation — is that we will all gain as the economic pie grows, essentially enabling the winners to compensate the losers. The time is nigh for the winners to step up!

¹¹Levy, Frank, and Thomas Kochan. 2011. *Addressing the Problem of Stagnant Wages*. Working Paper. Champaign, IL: Employment Policy Research Network, University of Illinois, Urbana-Champaign; Danziger, Sheldon, and Peter Gottschalk. 2005. "Diverging Fortunes: Trends in Poverty and Inequality." In Reynolds Farley and John Haaga (eds.), *The American People: Census 2000*. New York: Russell Sage Foundation.