Symposium Proceedings

Employment Policies to Reduce Poverty
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Foreword

In many ways the U.S. economy has performed impressively since the recession of 1980-81. GDP has grown by more than $2.5 trillion since 1980. Per capita income has risen by 29 percent (more if 1997 statistics are included). Inflation remains nonexistent. Manufacturing productivity is increasing. The ratio of the federal budget deficit to GDP is among the lowest for advanced countries, with a budget surplus expected at the end of the current fiscal year. American enterprise continues to thrive in the global economy and has reestablished its competitiveness with the Japanese in high-technology industries (even though the United States seems to have a larger trade deficit).

Employment growth and unemployment declines have been particularly impressive. The employment rate is much higher than in many European nations. For the first time, unemployment is even lower than in Sweden, which was once heralded as an alternative model of advanced capitalism. The percentage of long-term unemployed workers is lower than in the United Kingdom, France, Germany, and Italy.

But the American economy has an indisputable Achilles heel: the distribution of wealth and income. The U.S. record in distributing the gains of economic growth to average workers and their families through wage or benefit increases has been abysmal. Most of the GDP gains of the 1980s and 1990s have gone to the upper 5 percent of families. As Richard Freeman calculates, "from 1979 to 1994 (periods of roughly similar rates of unemployment), the share of gains going to the upper 5 percent was a staggering 99 percent." There is some statistical evidence that wages and benefits have risen. These gains, however, have been minuscule, and low-wage workers have suffered absolute losses. Although the expansion of the earned income tax credit, the increase in the minimum wage, and some gains in cash assistance from government have alleviated poverty and improved the distribution of income somewhat, existing poverty rates and distribution are still unacceptable.

Is an economy based on a significant inequitable distribution of wealth and income healthy? I think not. Is it, dare I say it as an economist, morally justifiable? I hope not. The aim of this symposium is to explore the facts, causes, and consequences of inequality and poverty to enable us to propose policies that might rectify these problems.

Dimitri B. Papadimitriou
President

Speaker

Ethics and Markets
S Jay Levy
Chairman, Levy Institute

Perhaps you agree that some persons are overzealous in their admiration of markets. They are likely to claim that the prices markets set are equitable. I find that equity is usually difficult to define or determine in the economic life of a modern society. Also, I will try to convince you that one market is making a substantial contribution to the failure of what are widely called "market economies." Indeed, as I shall explain, real estate markets are tending to destroy capitalism because the prices they set often violate the one clear ethical imperative of our capitalist system.

We have been living in a period in which a phenomenon that is hardly new has become starkly troublesome. The rich get richer and the poor get poorer. That we live in a plutocracy is not a new observation, but this situation seems to me to be more disturbing than it was during most of the past 65 years.

I blame television for many of our ills, one of which is the late twentieth-century corruption of politics. TV is the indispensable means for candidates for public office to communicate with the voters. TV is expensive. It is responsible for candidates for the U.S. Senate spending upwards of $10 million on a campaign, sometimes over $20 million. Candidates for the House of Representatives typically spend $500,000 in their efforts to win elections. Those who contribute this money hardly include workers earning $5.15 an hour or children who have no health insurance. In our materialistic society, those who finance campaigns seldom regard their contributions as philanthropy. Elected officials brace themselves for demands for quid pro quo.

Blocs of voters are as important as money, maybe more so. That part of the electorate that is 55 years old and over votes. Younger persons, particularly those earning $20,000 a year or less, do not vote often. We have a democracy--the country is run for the benefit of those who vote and those whose money convinces voters.

Time and again, we read about major for-profit groups trying to gain the acceptance or defeat of some piece of legislation pending before Congress. The news reports are not about individuals trying to cope with their everyday problems but about insurance companies, automobile manufacturers, big banks, small banks, trial lawyers, HMOs. Wealthy constituencies struggle to protect and extend their turfs. And they are heard. The news is always about conflicts of interest, rarely about the ethical issues that are likely to be involved.

You and I may argue that what I am describing was always true. It was less true during the 1930s and 1940s and at certain times thereafter. One reason for this change is the loss of political muscle by unions. Their memberships shrank and their members voted less and less as a bloc. Changing technologies, changing attitudes of many employers, and what may be called the global economy have permanently altered the political scales.

Economic and financial legislation nowadays salutes the "market economy." That is the name of our economic system of the 1990s, a name seemingly liked by policymakers, many economists, and observers generally.

The popular name for our economic system--the system from which private investors hope to profit by selling their goods and services and their investments at prices higher than they pay--has changed over the past 65 years. The system at the beginning of this period was called "capitalism." A rogue by the name of Karl Marx wrote a book called *Capital,* a work so successful that it gave our system a bad reputation. The reputation of the system was not helped by the worldwide depression of the 1930s. Indeed, that debacle increased sales of Marx's book.

To escape the stigma that the term capitalism acquired, the system's proponents devised new names. One of the more popular was "free enterprise." It was a happy choice because it suggested a system replete with freedom. But despite its merits, that name could not be maintained forever. A change was needed, perhaps for the sake of change! So now we hear about the "market economy."

Maybe this term has some merit; virtually all of our goods and services are bought and sold in some sort of a market. Since markets are ubiquitous, one might conclude that the market economy is working wonderfully well. It has been working wonderfully well for some people. For others it has brought hardship and poverty. For society generally it has brought serious problems.

We must strive for an equitable society. What that is is not easy to define. Yet most of us have concepts of equity. We may use such terms as a fair wage, fair profit, assured health care, equal educational opportunities, the right to a job that pays a decent wage, even the right to a comfortable retirement. Many of our citizens want the freedom not to pay taxes, or at least not to pay taxes that are deemed to be intolerably high.

I am going to mention some of the problems of our society that I believe should be approached with a concept of ethics however elusive that concept may be. I believe that the market ought to price whatever is sold equitably, and I believe that it often fails to meet this goal. But the market is sometimes involved with pricing things that it has no business pricing.

One situation that rankles many of us is the distribution of income. We are bothered by the large and generally widening gap between the most wealthy and those who live near poverty, between the incomes of the most generously compensated and of those who earn less than the minimum or near-minimum wage.

The minimum wage in the United States is $5.15 an hour, $206 for a 40-hour week. It represents what our society deems to be the minimum amount that a person needs in order to exist with some dignity. We may be exceedingly stingy in this respect. The present government in the United Kingdom has committed itself to a minimum wage of about $6.10 an hour, but the Trade Union Congress is advocating $8.50. The TUC is troubled also by the maldistribution of opportunity in the UK, where the unemployment rate averages about 6 percent. A fifth of the population lives in places where the average rate is 3.3 percent, but what disturbs the TUC is another fifth, those who dwell where the unemployment rate averages 9.4 percent.

Are the richest among us overly compensated? Does the market make a judgment on this question? Star professional athletes earn millions of dollars for playing games and additional millions for advertising sneakers and breakfast food. CEOs do not usually endorse shaving cream, but they are sometimes paid a few million dollars and are given stock options that they expect to be worth many more millions. The market says that these individuals are paid what they are worth. I wonder, "How did the market ever come to that conclusion?"

A star biochemist spending 60 hours a week in a laboratory developing a cure for brain tumors is likely to be paid $135,000 a year. Is this scientist worth as much to society and to future generations as an all-pro wide receiver? The market answers; it says no.

Colleagues here at the Levy Institute have looked into the plight of the working poor, those who work a full week for, say, $206. Surveys find that such people often have to spend half or more of their income on rent. What is left of their $206 does not adequately feed, clothe, and buy health insurance for one individual, let alone for a family of four.

Is our society distributing its product equitably? The multimillion dollar income of the football player, whose skill at catching passes has earned him the nickname Sticky Fingers, is the result of television. The monetary value of his prowess on the gridiron is multiplied by TV. Had he been playing with the same skills and dedication 50 years ago, when no one was watching the tube, when his endorsement of sneakers would have had only a fraction of the advertising value it has today, his income might have been in five figures. Why should he be paid so much more today than he would have been paid a half century ago for the same work? Because the market says so.

The market does strange things. Or does it? We might decide that no person is worth more than $2 million a year and impose a tax of 95 percent or more on all incomes above that amount. But if Sticky Fingers is selling billions of dollars of cereal and athletic shoes, the market may be right and equitable. Translating ethics into reality is an elusive goal. Many times we do not have a neat definition of right and wrong; we do not have the luxury of an explicit commandment delivered on Sinai.

Much has been and is still being written and said about the stagnant real incomes of working people during the past two decades. I question the data that underlie the conclusions that incomes have been stagnant. During the past 18 years 17 million new single-family houses have been built in the United States. The size of these dwellings has steadily increased. From 1980 to 1996 the number of newly constructed single-family houses with more than 2,000 square feet of space increased by almost two-thirds. Meanwhile, the number with less than 1,600 square feet declined by almost half. Along with the rise in square footage has been an enrichment of amenities in these houses--more central air conditioning, more bathrooms, and so forth.

During the same period the number of automobiles (including trucks) in use in the United States increased from 140 million to 196 million. We have more than one vehicle for every licensed driver and almost everyone in America is a licensed driver. Meanwhile, a large proportion if not a majority of households have PCs, VCRs, and camcorders, expensive devices that barely existed in 1980. I cannot accept the notion that we are a nation with a declining standard of living or that the average person who works for a salary or wage has suffered a loss of purchasing power.

But I have no doubt that some households have lost purchasing power. I put blame on the relatively greater bargaining power for compensation that more-educated and skilled workers have compared to those who are less educated and less skilled. But I also blame our growing class of parasites, retirees who take relatively and absolutely bigger and bigger bites out of the economic pie, leaving less for those who are actually producing goods and services.

If the bite taken out of the 1994 pie by households aged 65 years and over had been no larger than the one in 1980, the real income of households 64 years and under would have been about $2,000 more than it actually was. From another view, the constant dollar cost to working households of supporting the nonworking, retiree cohort rose 36 percent from 1980 to 1994.

I find it interesting that this phenomenon gets little attention. The constituency represented by AARP is certainly not eager to embrace this information. Unions prefer to believe that greedy employers rather than retirees are the rascals who are pinching the standards of living of working men and women. Indeed, who wants to take anything away from lovable, gentle, gray-haired grandma and grandpa? Especially since almost everyone is looking forward to stepping into their shoes.

When industrial unions had more power than now, their less-skilled members fared relatively well compared to the skilled workers. Unions are political organizations and they catered to the constituency with the most votes, the unskilled. As we approach the next century, the demand for skilled personnel has intensified and the need for unskilled eroded. Partly for this reason, unions are no longer as strong a force for narrowing income gaps as they once were.

Today, unions seem to be notably strong among civil service employees, who even before they joined unions often were well paid and received pension and other benefits. The workers who need unions most--people such as those who cut up and package chickens, prepare hamburgers for fast-food chains, or harvest fruits and vegetables--are seldom members.

Workers who earn $100,000 a year and much more are at times notable beneficiaries of unions. The pilots of Northwest Airlines have six-figure salaries and work less than 100 hours a month. No one, except perhaps airline executives, complains that pilots are overpaid. As far as almost everyone is concerned, the market is OK when it grants employees, unionized or not, large salaries. Nonetheless, many of us look with dismay at the gap between the incomes of highly paid employees and those who are in the minimum wage bracket. Our sense of equity is offended by the decisions of the market.

The United States has an unemployment rate of 4.5 percent, a rate that was characteristic of a recession 30 years ago. Yet we are the envy of the industrialized world. The European Union has an unemployment rate of 10 percent. If we made an adjustment for the foreign workers who were formerly encouraged to come to these countries to meet the demand for labor, but who lost their jobs and returned to their homelands, the rate would be higher. If the market has a role in providing high employment, it is not playing it well.

To deny a person who is willing and able to work a job is a gross inequity. It is tantamount to saying, "Society has no use for you. You have no reason to exist." We have divine authority for the moral imperative of full employment. I look at one of the Ten Commandments somewhat differently than the clergy. They emphasize ". . . the seventh day is the Sabbath of the Lord thy God, in it thou shalt not do any work." I emphasize the commandment's preceding clause: "Six days shalt thou labor and do all thy work." Any society that thwarts obedience to this commandment is *ipso facto* a Sodom or Gomorrah.

The problem of unemployment in a capitalist system is a problem of inadequate profits or a maldistribution of profits. Businesses will hire everyone in sight if they can make a profit by so doing. Profits are important.

In the United States in the early 1930s, as aggregate profits were plummeting to less than zero, unemployment was rising to over 20 percent. Aggregate profits in any period are determined by the amounts of certain flows of funds. They have nothing directly to do with greed, ability, or hard work. These flows of funds are set forth in the profits identity, which is the saving = investment identity transposed.

I judge that the major industrial economies have during the past decade created profits sufficient to induce businesses to employ all the available persons who are willing and able. The problem is not insufficient profits, but what Jerome Levy called "wasted profits."

When the topic is profits, the system has a strict, definite ethic, one that gets little recognition in practice. The ethic is: Profits shall go to those who contribute to the production of goods and services. Or, if you like, an enterprise's profits should reflect its contribution to the gross domestic product.

The system does not do what it is supposed to do if its ethic is violated. Actually, the system is usually strong enough to tolerate some violation of its ethic. But chronic high unemployment and wide-scale poverty result from blatantly transgressing this ethic.

One of the most widely recognizable wastes of profits occurs in Italy. The northern part of the country has been highly prosperous, but dismal, unrelenting poverty has characterized the south. That is where profits are siphoned off by the Mafia. An insufficient inducement remains for enterprise. There is not enough incentive to undertake the production and therefore the employment that would both reduce joblessness and raise the standard of living.

South and Central American countries--for example, Brazil--have large, politically powerful land-owning classes that profit to a great extent from land ownership as distinct from land use. Their economic and political power enables them to garner such large profits from the ownership of land that they leave far too little for enterprises that would make substantial increases in GDP and, in the process, in employment. But owning land is desirable in our world and certainly legal. We do not readily recognize profits from landownership per se as being "wasted."

I can perhaps emphasize the point I am making by citing an example not far from here. In the community where I live and others nearby, land prices in real terms have increased fivefold in the past 40 years. As a result, house prices have increased much faster than the CPI. A family buying a house for $300,000 is paying almost $150,000 for the appreciated value of the land. The mortgagee is collecting interest on the appreciated value of land, not on the wages paid to masons to build foundations, to carpenters for framing the building, to plumbers for installing pipes, and so forth. The profit of the mortgagee on the appreciated value of the land is wasted profits.

You may think that the point I have been making is unimportant. But if we travel to Europe, where the European Union unemployment rate is 10 percent, we find at least a suspicion that wasted profits have been playing a significant role in the rise of chronic unemployment during the past decade and a half.

Since 1990, largely because of rising land prices, the cost of shelter has increased twice as fast as the consumer price index in every major economy except the UK, which has a relatively low unemployment rate. People who spend more for their housing have less to spend in stores. Those stores need fewer employees as do their suppliers. But more important, owners of rental buildings and mortgagees are siphoning off profits that would otherwise serve as inducement to produce goods and services and to employ people in the process.

The market that is pricing land has been doing a great job in reflecting changes in demand and supply. Only one thing is wrong. The market economy as a result might disintegrate and disappear. I suggest that we discard the term "market economy" and substitute one that keeps our attention where it ought to be. We live in a "profit-motivated economy" or, in other words, a "profit system."

Session 1. The Effects of Structural and Institutional Factors on Poverty

Mathew Forstater (moderator)
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Vernon M. Briggs Jr.
Professor of Labor Economics, New York State School of Labor and Industrial Relations, Cornell University
Edward N. Wolff
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Vernon M. Briggs Jr.
Immigration policy is too often discussed as a purely political issue as if it had no employment consequences. It should be viewed solely as an economic policy to supplement the employment needs of the country. Immigration reform is essential to any effort to reduce poverty in this country. One reason movement toward reform has not caught on politically is that the adverse impact of immigration is felt most heavily by the poor in a few urban areas. Immigration is highly concentrated in New York City, Los Angeles, San Francisco, Chicago, Houston, Miami, and a few other areas, but most states are not particularly affected. Immigrants are disproportionately concentrated in the lower-skilled occupations, which have higher levels of unemployment.

The United States is experiencing the largest immigration in absolute numbers in its history (although not the largest relative to the size of the population). In the 1990s it will exceed the official estimate of 10 million. In the 1980s, 37 percent of the population growth of the United States came from immigration. Its effect on labor force growth is even higher because immigrants as a group tend to be younger and more likely to be in the labor force than the native-born population. Immigration declined dramatically in the 1920s and remained low until 1965, when the Immigration Reform Act was passed. In 1965 only 4.4 percent of the U.S. population was foreign born, but since then immigration has increased dramatically; by 1997, 9.7 percent was foreign born. This figure is still below the level it was before 1920, but it may return to that level early in the next century.

Immigration has a powerful effect on poverty in the United States. In 1997, 20 percent of the foreign-born population lived in poverty, a considerably higher percentage than the national average of 13.6 percent. This large percentage is one reason the U.S. poverty rate has increased despite increasing prosperity. Poverty has increased most for the Hispanic population, and over half of the Hispanic labor force is foreign born. Not all of the effects of immigration are reflected in poverty statistics, however. For example, the poverty rate among foreign-born children is actually lower than among native-born children. But, this is partly because the native-born children of foreign-born parents are counted as native born. The census does not produce figures on the number of native-born children of foreign-born parents and therefore it systematically understates the impact of immigration on child poverty.

Most immigrants today do not have the skills employers are looking for. In 1990, 25 percent of the foreign-born population over the age of 25 did not have a 9th-grade education (compared to 10 percent of the native-born population) and 41 percent had less than a 12th-grade education. The educational status of immigrants in the period from 1890 to 1920 was equal to that of the native born, and that status was consistent with the labor market needs at the time. Today immigrants have the same characteristics they had then--they are disproportionately poor and poorly educated and most do not speak English well--but they are entering a labor market in which these characteristics are no longer consistent with the needs of the market. Also competition with foreign-born workers is having a disproportionate impact on the 13 million workers in the U.S. labor force who do not have a high school diploma.

Editor's note: A long question period followed Briggs's presentation. A few of the main points of discussion are presented here.

One participant noted that Briggs's data show that immigrants have a substantial effect on the average income and average unemployment rates, but that Briggs had presented no evidence about the effects of immigration on the native population. By analogy, if the demographic groups of immigrants happen to be more likely to smoke, then immigration causes the average rates of smoking-related diseases to rise in the United States. But, that fact alone does not imply that immigration has any effect on the smoking rates of the native born, and it says nothing about the underlying causes of smoking. In the same way, to say that immigrants are on average poorer than the native born says that they increase the average poverty rate in the United States, but says nothing about their effect on the poverty rate of the native born.

Briggs replied with the assertion that probably 50,000 of the 675,000 immigrants each year enter on the basis of human capital or labor market needs. The overwhelming majority come in under family unification, which pays no attention to education or skills. These immigrants go where their relatives are, rather than where they are needed. They go to the central cities, where the most disadvantaged of the native born are also concentrated. Thus, the most vulnerable low-skill workers are competing head on with immigrants. Estimates by the National Research Council and the Bureau of Labor Statistics indicate that nearly half of the decline in the real wages of high school dropouts from 1980 to 1995 can be attributed to immigration. Because the foreign born are such a large proportion in many local labor markets, they must have some impact on wages.

Participants cited other studies showing the opposite results. Levy Institute Senior Scholar Joel Perlmann noted that in the period before 1920 immigrants were disproportionately poor and poorly educated and had poor English-speaking ability, but today for the first time in U.S. history substantial numbers of immigrants are highly educated. Further, Briggs's study makes no distinction between the short-term and long-term effects of immigration. Many studies that take these factors into account have reached far different conclusions and, in the context of these studies, Perlmann suggested that the evidence did not point unambiguously to Briggs's conclusions. Briggs noted that there are immigrants at the top of the income and educational scales, but the subject of his lecture is the large group of immigrants at the bottom of the income scale. He cited studies showing that the costs of immigration outweigh the benefits and that immigrants do not catch up with the native born. He cautioned that his recommendation was simply that immigration policy be made more consistent with the changing labor market needs of the country.

Edward N. Wolff

An increase in the duration of unemployment--the length of time a worker is between jobs--can be seen in two measures of the U.S. labor force. Since the 1940s the average duration of unemployment has more than doubled and the share of unemployed workers who are long-term unemployed (i.e., out of work 27 weeks or more) has quadrupled. The average duration varies cyclically, but the trend is definitely upward for all demographic groups. Other OECD countries have even higher rates of long-term unemployment.

Different demographic groups have different degrees of attachment to the labor market. Teenagers who become unemployed have the option of going back to school; if they do so, they drop out of the labor force and are no longer counted as unemployed. Workers over 55 who become unemployed often retire and are no longer counted as unemployed.

A recent study (by Wolff and William J. Baumol of New York University) found two technological variables that correlated significantly with rising duration of unemployment. They are investment in office, computer, and accounting equipment (OCA) and the annual rate of total factor productivity growth. The study controlled for institutional effects such as the unemployment rate, the unemployment insurance replacement rate (the benefits unemployed workers receive as a percentage of their last wage), and the unemployed coverage rate (the percentage of unemployed workers who receive benefits). The dependent variables in the study were the average duration of unemployment, the percentage of workers unemployed 15 weeks or more, and the percentage of workers unemployed 27 weeks or more.

To control for cyclical effects on unemployment duration, two years at approximately the same point in the business cycle were compared. OCA investment per worker increased from virtually zero in 1971 to almost $1,000 (1987 dollars) in 1994. This variable explains almost the whole increase of unemployment duration. One reason that computerization causes rising unemployment duration is that technological change causes skills to become obsolete and increases the cost of retraining workers. Because the cost of retraining, relative to wages and salaries, is higher for low-skilled and older workers, these workers are more likely to suffer increased long-term unemployment than more-skilled and younger workers.

Policy has not kept pace with the changes in the labor market. The increase in the duration of unemployment has caused more workers to experience exhaustion of their unemployment benefits, which still expire after 26 weeks, a time limit that has not changed since the late 1940s. As late as 1975 the percentage of unemployed workers receiving benefits was 62.3 percent; in 1995 it was down to 35.7 percent. One response could be to increase coverage to 39 weeks. Admittedly, this will increase unemployment, but the architects of the system specifically noted that one function of unemployment insurance is to give workers time to find a job that matches their skills. The better the match between workers and jobs, the higher productivity will be. In addition, there has to be a new and more focused emphasis on retraining. Many of the government job training efforts have been aimed at old and in many cases obsolete skills; retraining programs should be targeted to emerging technologies and new skills. This could be accomplished through an employer-subsidy program provided by the federal government.

Henry Farber
It is a common view that the new jobs created in the United States recently tend to be low-skilled and low-paying "hamburger-flipping jobs" and that lifetime employment in good jobs is disappearing. Things are not as bad as this view suggests. Although fringe benefits for new hires have declined, starting salaries and the prospects for long-term employment have not.

There is only weak evidence of any secular decline in job tenure. People often confuse what is in reality only a cyclical movement with a long-term trend in job tenure. In expansions median tenure goes down because firms hire new workers; in recessions median tenure goes up because firms lay off low-tenure workers. Therefore, the fact that average job tenure has decreased in the recent expansion is not necessarily an indication that long-term employment is decreasing.

Surveys conducted by the Bureau of Labor Statistics (BLS) can be used to examine the costs of job loss. The February Displaced Workers Survey (a supplement to the BLS's March Current Population Survey) asks respondents if they have left a job in the past three years. If a respondent says yes, the BLS asks for a reason. It defines "job loss" as leaving a job for one of three reasons: plant closing, slack work, or position abolished. Job losses may be underestimated because the BLS uses only these three categories of job loss. On the survey there is a large "other" category, which may include additional involuntary job losses.

The expansion of the 1990s is at least as robust as the expansion of the 1980s, but job loss is higher in the 1990s. The fraction of workers who report having lost a job fell, surprisingly, between 1991 and 1993, despite the recession; even more surprisingly, job loss rose substantially between 1993 and 1995, despite the economic expansion. The least-educated workers have much higher rates of job loss than the more-educated workers, but the difference between the 1990s and the 1980s is more pronounced for more-educated workers.

Although job loss is up, the consequences of job loss are less serious now than before. More-educated workers are far more likely to be employed by the survey date (after having lost a job sometime in the past three years) than the less-educated workers. The job loss rate among full-time workers is higher than among part-time workers. Part-time employment appears to be a common option for displaced full-time workers. The BLS ran a survey called the Contingent and Alternative Employment Arrangement Supplement showing that workers who reported losing a job are more likely a year later to be in an alternative employment, such as part-time or contingent work, than workers who did not report losing a job. Not surprisingly, job losers on average earn less than they did before they lost their job. This alone is an understatement of the real cost, however, because earnings of people who have not been displaced are growing. More education is an advantage in the sense that the average wage decline of more-educated workers is smaller than that of less educated workers. But, controlling for the larger forgone earnings of the more-educated, the losses are about the same for both.

Much of the concern about the disappearance of long-term employment is overstated. While there may be somewhat more job loss than there was in the past, there is still nearly as much long-term employment and the consequences of job loss, at least in the current state of the labor market, although still substantial, appear to be milder.

Session 2. The Effects of Current Policy and Business Conditions on Poverty

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William A. Niskanen
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William A. Niskanen
For any one individual, the path away from poverty depends upon his or her skills and opportunities, but there are things the government has done and has not done that affect the skills and the opportunities of people at the margins of poverty. For most Americans poverty is a temporary condition. Recent research issued by the Bureau of the Census based upon 1993 and 1994 data notes that although many people think of poverty as a chronic

condition, "far more people experience episodes of poverty than are poor for extended periods." During the two years surveyed nearly half of persons who had any period of poverty were poor for 4 months or less and only 5.3 percent were poor for the entire 24 months.

Poverty is a temporary condition for most people for two reasons. First, in income distribution there is a normal regression toward the mean from the top and the bottom; more people at the bottom and more people at the top are there temporarily. Second, people at the bottom of the income distribution are more likely to be young and at the beginning of their work experience.

The demographic characteristics of the chronically poor are very different from the characteristics of the temporarily poor. In the Census Bureau data, blacks and Hispanics had chronic poverty rates nearly four times as high as whites. Married couples had a chronic poverty rate of only 2 percent, while households headed by females had a chronic poverty rate of nearly 18 percent. Working-age adults and the elderly had relatively low poverty rates compared to the rate of children under 18, many of whom were poor because they lived in households headed by women.

It is on chronic poverty that policy should focus. Two key causes of chronic poverty in the United States are a reduced level of job-related skills and poor work attitudes. About 60 percent of inner-city students drop out of school. Something like 50 percent of long-term welfare recipients have never held a job. Many, if not most, job skills are learned on the job, but the employment rate of young black males has declined from 52.4 percent in 1954 to 23.3 percent in 1997. Data on high school students who aspire to college (those who take the SAT) indicate a decrease in skills. Every two decades since World War II real spending per student in the public school system has doubled, but for the past 30 years school performance of young people who aspire to go to college has been poor. In 1995, 41 percent of first-year students at public two-year colleges and 22 percent at public four-year colleges were required to take one or more remedial courses, usually in material they should have had in junior high school. Apparently, a high school degree is a less adequate preparation for college than it used to be.

The dramatic change in family structure has clearly contributed to the causes of poverty. From 1960 to 1994 the percent of births to single mothers increased from 2.3 percent to 25.4 percent among whites and from 21.6 percent to 70.4 percent among blacks. The incidence of child poverty among one-parent families is much higher than among two-parent families. The changing family structure has eliminated important role models. Research has shown that children who live in a family with a single mother but in a neighborhood in which there are fathers in other families are much better off than children who live in a neighborhood in which most families are headed by single mothers. Apparently neighborhood fathers provide a role model.

These demographic and employment trends are likely to cast a shadow on the potential wages of low-skill workers for many years. The reduction of job-related skills and poor work attitudes explain a large part of the decline in the real wages of these workers as well as a decline in the rate of growth of productivity in the overall economy.

The United States needs to develop policies to address these problems, but it should not adopt the European model. Characteristics of the European labor market are centralized wage setting, governmental restrictions on firing, and relatively generous and long-term unemployment benefits. Centralized wage setting leads to a compression at the bottom of the wage distribution. Such compression increases the earnings of those who are employed at the beginning of their work life, reduces the incentive of workers to improve their skills once employed, and reduces the incentive of employers to hire those who are the least skilled in the society. Restrictions on firing reduce the incentive to hire because they tend to transform labor from a variable input into a capital input. Generous unemployment benefits reduce the incentive of the unemployed to find a job. The combination of these characteristics leads to low employment growth, high unemployment rates, unusually high long-term unemployment rates, and high government expenditures for unemployment and welfare.

To solve the chronic poverty problem in the United States, we must focus primarily on improving skills. We need dramatic reform of the educational system. The only type of reform that has any substantial prospect of improving the quality of schooling in the United States is school choice through tax-financed vouchers.

The fact that many children finish school but still lack job-related skills and good work habits leads some policymakers to argue that vocational training programs are needed. But American employers clearly prefer employees with general academic skills over those with vocational training, which is often too narrow. According to a recent survey, the proportion of American businesses providing remedial education in basic subjects such as reading and mathematics (not in vocational subjects) increased from 18 percent in 1984 to 43 percent in 1995. Specific vocational training is almost surely best provided on the job, and American businesses would provide much more training if not for the unusually high turnover of young workers. The average American worker has held seven jobs by the age of 29.

Of the many government policies that attempt to affect employment and earnings opportunities of the least skilled, the most important is the earned income tax credit, which is a federal program that augments the earnings of workers in low-income households. The EITC is better than the minimum wage. It increases both earnings and employment, whereas the minimum wage increases earnings for those who keep their job at the expense of a complete loss of legal earnings for those who lose their job. The EITC is also much more carefully targeted at particular income and family groups. Most of the benefits of the minimum wage go to secondary workers in nonpoor families. The problem with the EITC is that as workers earn more income, the credit is phased out, and as the credit is being phased out, workers also are losing food stamp benefits and have to pay federal and state income taxes. The EITC helps people augment their incomes up to $12,000 or so, but it imposes quite a high marginal tax rate on earnings above that. Such a high rate significantly reduces work, especially by secondary workers.

Another measure that would increase opportunities for low-skill workers is the repeal or rejection of government barriers to work. A repeal of the minimum wage should be at the top of this list. Increases in the minimum wage serve only to reduce the employment of the least-skilled workers. Most of the benefits of an increase accrue to secondary workers in nonpoor families. The government should also reject the recurrent proposals that employers provide health insurance, family leave, and other benefits that disproportionately increase the cost of hiring those at the bottom of the skill distribution.

The American labor market works well, with a low unemployment rate, a rapid reallocation of labor in response to changes in demand and supply, and compensation that is closely related to productivity. But over the past several decades the outcomes of the U.S. labor market reflect two major new conditions. One is a decline in the growth of productivity and average real compensation. This is associated with a second condition, a decline in school performance and skills. The primary causes of these two conditions are not fully understood, but both conditions can be reduced or alleviated by identifiable changes in public policies. We need both a broader understanding of the strengths of the U.S. labor market and a broader consensus for the policy changes that would improve the outcomes.

Robert I. Lerman

The new welfare that is developing today is related to one that I proposed back in 1985. I proposed an approach that would distinguish between the goal of providing basic income support to the poorest families and the goal of supplementing the income of other low-income families.

The United States has spent a fair amount of money on programs for low-income people. Expenditures are now up to about 5 percent of GDP. As a result we have reduced inequality relative to what it would have been without such expenditures. Nevertheless, we still have a considerable amount of poverty. My own view is that a great deal of that poverty is a result of the rise in one-parent families and families headed by never-married mothers. The proportion of children living in the homes of never-married mothers has grown from less than 1 percent in 1970 to over 10 percent today. I have tried to simulate what would have happened if in 1989 all never-married mothers had been married to the available men that were still around. Clearly, one cannot assume that had they been married, they would have done as well as existing married couples because the men who are already married tend to be more educated and to have higher earnings power than the ones who are not married. But if women in 1989 had married in the same pattern as they had in 1970, all of the increase in child poverty could have been avoided.

Under the former welfare system recipients who sought work were penalized, especially those who sought part-time, low-wage work. It made no sense for people to work part-time because they would lose income by doing so. The former system could have encouraged work by providing those who did work with enough supplemental income to raise them from poverty, but it did not. To some extent, such a system is developing. Today, if a mother with two children works 35 hours a week at minimum wage, those earnings, subtracting Social Security but adding the earned income tax credit and food stamps, will put her 20 percent above the poverty line. So we now have a system that allows people who can work at least 35 hours a week to get above poverty.

Health care and child care programs are also changing. One no longer has to be on welfare to get Medicaid. Low-income children through the age of 16, and eventually 18, will be covered by Medicaid regardless of whether the family would have qualified for Medicaid under the former welfare system. Child care is helped by the fact that states now have more money. Block grants to states for welfare were based on the level of welfare rolls that existed a few years ago, when the rolls were high. The number of people on welfare has dropped, leaving states with more money than they expected, and several states are using some of that money for child care.

Changes in time limits for benefits are also affecting the use of the welfare system. Recipients know that there is a lifetime limit (federal law prohibits people from receiving federal welfare money for more than five years) and that every month they spend on welfare reduces their options to use the program in the future. Their benefits might not be cut off because the law does allow states to use their own money to extend the time limit, but recipients know that the threat of a cut-off is there.

These work incentives in the new welfare structure might be having an effect. Between 1994 and 1996 the labor force participation rate of never-married mothers went up only about 2 percentage points, from 58.3 percent to 60.1 percent. But between 1996 and 1998 their labor force participation rate climbed about 12 percentage points, to about 72 percent. There were 740,000 more never-married mothers in the labor force in the second quarter of 1998 than in the first quarter of 1996. One could ask if this is simply due to the business cycle. But over the same period, between 1994 and 1998, the labor force participation rate of married mothers with children under 18 was stuck at 69 percent. One can be reasonably hopeful that welfare reform is having a desired effect. However, we still have welfare and many families are unlikely to be affected by the reforms. What must be dealt with now are those who still remain on welfare.

One thing the federal government is pushing is the new welfare-to-work program. There is a considerable amount of money--approximately $2,000 per year per eligible person--for work programs. This is an effort by the federal government to encourage state and local governments to concentrate on long-term recipients. It remains to be seen how well state and local governments use this money.

There are other things the government should be doing. It should change the rules relating to unemployment insurance. Right now, most mothers of young children fall through the cracks of the unemployment insurance system. Incorporating them into the system would add incentives for them to work. They would know that even though they must pay into the Social Security system when they work, they will get something back in the future. They would know that unemployment insurance will be there for them if they become unemployed. They would also know that unemployment benefits do not carry the same stigma as welfare benefits and do not count against the welfare time limit.

Finally, policy should focus on never-married mothers. Early, unmarried pregnancies often result from the fact that many young women do not see any other role for themselves. The School-to-Work Opportunities Act encourages school systems to set up programs that develop links between students and employers. These programs can be a way of improving career opportunities for young people. Such programs have been implemented in many Central European countries and in the state of Wisconsin. Unfortunately, this approach has not been given the play it deserves. If something can be done at an early stage, we could slow the flow into the welfare system and then we would truly have a system that relies less on welfare and more on people's own talents and initiatives.

Oren M. Levin-Waldman

The Levy Institute conducted a survey of small businesses to learn how they are responding to changes brought about by the welfare reform that was instituted in 1996. These reforms ended the entitlement status of welfare and gave states the authority to operate welfare programs. States receive federal financial assistance to create welfare programs. States are required to reduce welfare case loads by about 50 percent by 2002, but they are not required to create elaborate training programs. The assumption is that welfare recipients can easily find jobs because the jobs exist; all the recipients need is to be socialized into patterns of work, such as coming to work on time, having a neat appearance, and having a positive work attitude.

Small businesses employ about 50 percent of workers in the United States, so it is assumed that they will be hiring many of these former welfare recipients. Yet, we know little about the hiring and employment practices of small businesses. To find out more, the Levy Institute surveyed 560 businesses across the United States that have fewer than 500 employees. The survey was done by telephone in January 1998.

Of these businesses, 70.4 percent said that they had hired employees since the new welfare law took effect in 1996, but only a small percent had hired former welfare recipients. State data indicate that welfare caseloads have dropped an average of 30 percent. It is not known where these people are going, but, based on the survey, it does not appear that many are being hired by small businesses.

The survey also sought to learn what employers are looking for in prospective employees. Previous work experience seems to be most important to employers. Those who are most interested in training are looking for people with specific technical training. But in general, employers responded that they value a good general education over vocational or technical training. This is especially true among employers who said they had hired former welfare recipients. This indicates that lack of a good general education might be a key reason why many welfare recipients have trouble finding employment.

Based on these survey responses, it seems that large-scale training programs are probably not as important as improving the school system for grades kindergarten through 12. Employers seem to feel that welfare recipients, first, lack a good general education and, second, lack work experience. Essentially, welfare recipients do not seem to have the general education that will get them that first job, which will get them work experience.

Improving the school system is a long-term policy that cannot address the needs of those who are now on welfare. The question is how do we get these people into the labor market. One solution might be to provide subsidies to encourage employers to hire them. The survey asked small businesses about their willingness to train workers if offered a subsidy to do so and their willingness to provide training if a subsidy was tied to hiring welfare recipients. A majority of employers said they would provide on-the-job training if the subsidy was tied to hiring welfare recipients. A great majority of small businesses felt that on-the-job training benefits employers because it allows them to tailor training to their specific needs and it creates worker loyalty to the business, which then reduces turnover.

Employers do not have much incentive to spend money on training when turnover is high. But turnover is likely to be high in jobs where wages are low. This is where the minimum wage comes in. Better pay might encourage welfare recipients to stay with jobs longer. So the question comes up of how small businesses would be affected if the minimum wage were increased. Of businesses surveyed, 84.8 percent replied that an increase in the minimum wage would not affect their decision to hire welfare recipients. Nearly 90 percent said that the last minimum wage increase did not cause them to change their hiring decisions. Of those who said an increase in the minimum wage to $6 an hour would affect their decisions, many indicated they might not hire new workers, but they would not lay off workers. It does seem that there is room to raise the minimum wage without causing businesses to cut back on employment.

A short-term solution to the problem of getting people into the labor market appears to be subsidies tied to on-the-job training to encourage employers to hire and an increase in the minimum wage to encourage new workers to stay in the labor market. A long-term solution is to improve the educational system.

Session 3. Where Do We Go from Here?

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L. Randall Wray and Marc-André Pigeon
In many respects this has been the best labor market in decades, but, paradoxically, when a job vacancy is announced, long lines of applicants still appear. The Clinton expansion, like the Reagan expansion, has not significantly reduced income inequality. The seemingly good unemployment data hide what is going on. We need to look at all people who are out of work--those categorized as out of the labor force as well as those categorized as unemployed. Studies show that, at least for young males, there is no significant difference in characteristics related to employability between people who are unemployed and people who are out of the labor force. Both are available for work.

Joseph Ritter has argued that the Clinton rising tide has raised all boats, that the expansion has raised employment-to-population ratios and raised them most for those with the least education. Unemployment rates have also fallen most for those with the least skill (as measured by educational attainment). However, unemployment rates are misleading because most high school dropouts and, to a lesser extent, most high school graduates who are not working are not "unemployed" but are out of the labor force. Also, the reason the employment ratio has improved for dropouts in recent years is that the population base on which the ratio is calculated has decreased (people over 65 are now the largest age group in that educational category, so the population decline can be attributed largely to death). Meanwhile, the population of those with at least some college has been growing rapidly.

The Clinton expansion has created a lot of jobs, but at a pace sufficient only to keep up with the people who have attended at least some college and who would have been expected to get jobs anyway. Fewer than 700,000 of the 11.6 million jobs created during the expansion went to those who did not attend college. This means, among other things, that welfare reform programs are requiring people with little education to get jobs that don't exist.

More than 56 million people of all ages are still out of the labor force, a number far larger than the 3.9 million adults age 25 and over who are officially unemployed. The labor force participation rate of college graduates is about 80 percent. If one takes this participation rate as a target rate for all educational groups, there are about 26.3 million potentially employable workers age 25 and over; of these, 22.3 million have a high school degree or less. If one removes the age 65 and over population from the 26.3 million, that still leaves about 15 million potentially employable people.

One could argue that many of these 15 million people are not employable because of personal characteristics or disability. But even if we cannot get all or even many of those currently out of the labor force into the labor force, we still need policies to take care of the next crop of young people who do not go to college; half of the U.S. population falls into that educational category now and there is not going to be a change in that proportion any time soon. And that category is where the lack of employment opportunities is concentrated. Something needs to be done for the 42 percent of high school dropouts and 25 percent of high school graduates who, even after a long and robust expansion, remain out of the labor force.

During the 1960s and 1970s there was a debate over the best method for increasing employment opportunities. Keynesians argued that a rising tide alone would be enough, while institutionalists said that active labor market policies would be required. In recent years the Keynesians have won out and we have moved away from active labor market policies. We need to return to these policies in order to increase employment opportunities for those on the lower end of the educational ladder. Such policies would include programs to reduce high school dropout rates and to develop alternative paths to employment, such as apprenticeships. Government-provided health care and child care services would relieve many people of family responsibilities and allow them to enter the labor market. Wage subsidies could be provided to induce workers to enter the labor market and to encourage employers to hire them. But the best policy would be a more comprehensive approach, one based on Hyman Minsky's concept of government as employer of last resort. A government job opportunity program would provide jobs for all those who are ready, willing, and able to work but who cannot find employers willing to hire them. A program such as this would help people develop the work habits and skills that private employers desire and could eliminate other barriers to employment, such as lack of child care, that prevent many people from entering the labor force. As in private employment, workers who do not perform to acceptable standards could be fired; it is a job opportunity, not a job guarantee program. Each person could be dealt with individually; for example, people who are willing or able to work only a few hours a day might need to be paid hour by hour. The government does not even have to be involved in the details of employment; all it need do is supply the funding. Actual employment could be provided by nonprofit organizations or state and local governments.

Essentially, the institutionalist position is right--a rising economic tide will not significantly improve the employment prospects for the bottom half of the population that does not attend college. Government must intervene with more active labor market policies.

Oren M. Levin-Waldman
The minimum wage has failed to keep pace with the rate of inflation and has therefore failed to keep pace with the poverty line. The income of a person who earns the minimum wage and works full-time will be only about 70 percent of the poverty line. Automatic adjustment of the minimum wage would prevent the erosion of its value due to inflation and would eliminate the politics involved in legislating minimum wage increases.

The minimum wage is one of the most contentious political issues, even though only about 6.1 percent of the labor market earns it. Every time the minimum wage is on the political agenda, battle lines are drawn between those who argue that raising it will help those in poverty, particularly the working poor, and those who argue that raising it will lead to layoffs.

Some of the opposition to minimum wage increases is perhaps due to the fact that when Congress does finally get around to raising the wage after years of political wrangling, the increase has to be quite large if it is to compensate for the inflation that has occurred since the last increase. Increases as large as 10, 15, or 20 percent have sometimes been made. Businesses feel such large changes much more than they would the more frequent, but smaller, changes that would occur with a form of automatic adjustment.

Automatic adjustment requires some mechanism of indexation. There have been proposals to index the minimum wage to the consumer price index, but this is not the best approach. Researchers have shown that the CPI overstates the rate of inflation and does not reflect actual market-caused price increases. Linking hikes in the minimum wage to increases in the CPI could exacerbate inflationary pressures if the wage were increased when inflation had not actually risen.

What is needed is an index that is tied to productivity--an index that would raise the minimum wage in response to gains in productivity. Most minimum-wage workers are employed in the lowest-wage sector of the economy, which includes such businesses as retail stores, fast food restaurants, convenience stores, and gas stations. It would therefore make sense to link the minimum wage rate to the median hourly wage rate in this sector. When the median wage in this sector rose, there would be a corresponding increase in the minimum wage; when there was no increase in the median wage, there would be no increase in the minimum wage. Under this system, the private sector, rather than the government, is deciding what the minimum wage should be. The minimum wage would not be treated as an entitlement. Those earning it would see it increase when they have earned that increase through rises in productivity.

Karl Widerquist

If the goal of poverty policy is to reduce poverty, the question is what is the most efficient way to do so. The most efficient way is a guaranteed income. This is a catchall term that includes a variety of programs, but it essentially means that government guarantees that no one's income falls below a certain poverty level. Income is insured just as health care and old-age benefits are insured.

It is difficult to develop policies to reduce poverty because there are so many possible causes of poverty and there is rarely agreement on which causes policy should address. A guaranteed income avoids this problem because it does not matter what the cause of poverty is. Those who are poor because they are unable to work or because they are single parents or because the economy has not created jobs to employ them or because they do not earn a living wage would all be guaranteed an income that could support them.

Poverty policy in this country has long sought to separate the deserving from the undeserving poor. Physical inability to work is usually seen as a legitimate reason for not working and policy usually targets the poor in this category for income aid. But those who are physically able to work are often simply told to get a job and take care of themselves. However, if the demand for their labor is not there, they cannot find work. Moreover, often people are poor even if they do work. The requirement that welfare recipients find jobs will not lift them out of poverty if the only jobs they can find pay too little to support them.

A public employment approach will help relieve poverty arising from inadequate demand for labor, but it will not help people who are physically unable to work or who cannot work because they are single parents. A guaranteed income will cover everyone. And all the money and effort spent trying to determine who is deserving among the poor can be spent on other things. It can be used to support higher or more comprehensive benefits. A guaranteed income also provides low-wage workers with an option that they do not have now--if their working conditions are unacceptable, they can quit. With a guaranteed income, workers are in a better labor market position to demand an above-poverty wage.

Participants

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