COUNCIL on FOREIGN RELATIONS

Renewing America

POLICY INNOVATION MEMORANDUM NO. 52

Date:	January 13, 2015
From:	Matthew J. Slaughter and Robert B. Zoellick
Re:	A Bipartisan Work Plan: Helping America to Work

American workers continue to struggle with lost livelihoods and wasted opportunities amid the most sluggish recovery since the Great Depression. The United States needs new policies designed to help people develop the skills they need to manage economic change with greater personal security. A jobs policy overhaul should be guided by three core principles: concentrate on jobs for the long-term unemployed; supplement wages, when necessary, to encourage employers to increase hiring; and relax congressional budget rules for programs that help people become earners and increase future tax revenues. These efforts should also be measured and evaluated far more effectively to bolster programs that work and eliminate those that fail.

THE CONTEXT: MATCHING WORKERS WITH NEW JOBS

In today's troubled labor market, many people with rusty skills and fading hopes have quit looking for work altogether—as evidenced by today's labor force participation rate that remains markedly below its precrisis level. Less-skilled workers, minorities, and teenagers have been especially hard hit. In October 2014, nearly three million Americans had been unemployed for half a year or longer, and millions more have dropped out of the labor force. Yet at the same time, there were nearly five million job openings across the country. This mismatch is a human disaster that should be solved with aggressive policy innovation and the same resolve and whatever-it-takes attitude that the United States applies to natural disasters.

Both the House and Senate, with broad bipartisan support, agreed in 2014 on a Workforce Innovation and Opportunity Act to reform job training. This legislation is a constructive start toward a larger effort to create a twenty-first-century system that links people directly to jobs. The new act streamlines the old job training system by eliminating fifteen redundant programs, applying a single set of metrics for outcomes, creating more flexibility for state and local efforts, and targeting special needs such as people with disabilities and young workers. But Congress needs to keep up the momentum for continuing innovation by reaching beyond traditional committee jurisdictions and approaches to job training.

In his 2014 State of the Union address, President Barack Obama identified the overlooked opportunity to retool worker-adjustment programs and directed Vice President Joseph Biden to lead a review. If the administration is able to close some major trade agreements, then Congress will also debate whether a revision of Trade Adjustment Assistance (TAA) should be part of the package. Traditional TAA spending, which is designed to offset the costs associated with import competition and outsourcing, has often missed the mark. Moreover, at roughly $1 billion a year, TAA amounts to only about 5 percent of total federal worker-adjustment assistance.

At the state level, there are some encouraging new developments. Governors of both parties are customizing worker training to fit private-sector skill shortages through partnerships with companies, apprentice programs, and links to technical colleges and local universities. Last January, Governor Scott Walker (R-WI) announced specific actions in his State of the State address, including "A Better Bottom Line," an employment program for people with disabilities, inspired by an initiative of Governor Jack Markell (D-DE). A focus on helping veterans move into civilian jobs would further broaden the appeal of such bipartisan plans.

PRINCIPLES TO GUIDE A "HELPING AMERICA TO WORK" APPROACH

A jobs-policy overhaul should be guided by three core principles. First, all government efforts should concentrate on getting people—especially the long-term unemployed—jobs, instead of setting wages or just paying for training. The private sector should be drawn into the process, because private employers better grasp the needs, skills, and types of training required. On-the-job training, or training directly linked to job placement, offers both fundamental skills and employment. Government should help by removing barriers to work, such as overbearing, costly licensing requirements and constraints on job sharing.

Second, if wages for entry-level jobs are too low for a living, supplement them with direct add-ons, such as wage subsidies or an expanded earned income tax credit. It is better to get the unemployed working again than to pay people to wait or artificially boost wages beyond workers' initial productivity or contribution to a business.

Third, Congress should relax its rigid budget rules for programs that put people back to work. Innovations that return people to the workforce—such as relocation assistance for the long-term unemployed, transitional wage subsidies, and lump-sum unemployment payments—will increase overall economic output and generate new tax revenues that offset some of the costs. Congress should recognize this dynamic process in its budget-scoring rules.

Taxpayers may be more willing to support public innovation if the government rigorously evaluates the results of new jobs programs and ends those that do not work. Accountability requires outcome measures, which are scarce in government. The Department of Labor currently spends only 0.1 percent of its employment-and-training budget on evaluation. The unemployed deserve access to what works rather than the perpetuation of programs that may not be effective. Instead of just adding layer upon layer of training programs, the government should cultivate a policy culture that experiments and tests—and then fixes, ends, or expands. An accountable government is more likely to be permitted and encouraged to adapt to changing needs.

PROPOSALS FOR HELPING AMERICA TO WORK

How might these principles work in practice? Consider one proposal to get the long-term unemployed into jobs: a temporary wage subsidy for employers who hire the long-term unemployed.

Granted to the employer, a wage subsidy would reduce the effective wage a company would need to pay its new employee, inducing companies to hire more people than they otherwise would. This subsidy would benefit society by helping people regain employment, thereby avoiding future costs of continued long-term unemployment. This approach would harness the incentives and knowledge of the private sector. Private companies, not the government, would decide who to hire.

The subsidy need not be large to create the right incentives. In 2013, earnings of full-time, year-round workers averaged about $50,900 for men and $40,600 for women. Many long-term unemployed probably earned less than these averages before they lost work. Perhaps $10,000 per worker over the first twelve months of employment would be enough and then $5,000 more over the next twelve months. To induce a company to retain a new hire for a meaningful time, wage subsidies could be paid after periods of work—for example, every three or six months.

The main objection to such a scheme is the cost, but, in fact, wage subsidies would be a good deal for taxpayers. The fiscal cost of this wage subsidy depends on the number of new hires the program seeks to assist. An ambitious target of half a million new jobs per year equals about 25 percent of the new payroll jobs created, on average, in each of the past four years. For that hiring goal, the direct program cost would be about $5 billion in its first year and $7.5 billion thereafter. These costs would be offset by gains from larger payroll-tax revenues and, over time, a larger labor force. By enabling people to work, the program would boost output and taxes, while reducing federal transfer payments. If Congress recognizes these dynamic benefits, the net annual cost of this wage subsidy would be a fraction of its direct cost—and produce substantial human gains that are well worth the investment.

A plan for “Helping America to Work” should encompass a number of other specific policies to help link workers to jobs, including the following:

- *Harness current information technology to distribute information about job openings around the country and customize individual job searches.* State governments could partner, for example, with private sector online job-matching providers to offer broad access to such sites for the unemployed.
- *Help the long-term unemployed relocate to where the jobs are.* The federal government, for example, could allow people to tap their tax-preferred savings accounts and build new worker-adjustment accounts that could be used to cover relocation expenses.
- *Eliminate regulatory barriers to work.* Today, U.S. cosmetologists average 372 days of training to earn a license. In Louisiana, florists require a license to practice. In Minnesota, manicurists require twice as much training time as paramedics. Easing both federal and state regulations would allow businesses to increase job sharing and thus to trim hours rather than jobs during down times. Other changes can support the employability of those in “nontraditional” work circumstances, such as single parents, parents raising children, and older workers.

CONCLUSION

Leaders of both parties have an opportunity to press a modern agenda for work, assistance, and trade. A vibrant economic recovery would tap the work and capabilities of every American. New policies, combined with rigorous evaluation of results, can do a far better job of putting Americans back to work.

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