

# Labor demand stimulation: Summary and framework

## . Volume 1, Chapter 1

Authors: Martin Lowenthal, Adriana Stadecker, Hugh Wilkins, David Regan

Persistent link: <http://hdl.handle.net/2345/2959>

This work is posted on [eScholarship@BC](#),  
Boston College University Libraries.

---

Chestnut Hill, Mass.: Social Welfare Regional Research Institute, Boston College, March 1977

This material is in the public domain. No copyright permissions are needed. Proper attribution of the material is requested.

SOCIAL WELFARE REGIONAL RESEARCH INSTITUTE

BOSTON COLLEGE

LABOR DEMAND STIMULATION:

SUMMARY AND FRAMEWORK

VOLUME I

This report is submitted to:

Mr. David Arnaudo  
Project Officer  
Office of Program Analysis and  
Evaluation  
Social and Rehabilitation Service  
Department of Health, Education  
and Welfare

by

Martin Lowenthal  
Adriana Stadecker  
Hugh Wilkins  
David Regan

Grant No. 18-P-90332/1-01

March, 1977

## CHAPTER I

## INTRODUCTION AND SUMMARY OF FINDINGS

The basic problem which is addressed by this project is the ways in which the income from wages can be increased for populations which are on welfare or are welfare prone. By increasing income from employment it is anticipated that government expenditures for public assistance will be checked or decreased. The particular approach which the Institute has explored for the Social and Rehabilitation Service of the Department of Health, Education and Welfare concerns the stimulation of the demand for the labor of workers who are or tend to be on public assistance. This approach represents an extension of the employment oriented welfare policies which began in the 1960s which sought to maintain and encourage the labor market participation of welfare clients.

In our exploration of this issue, we developed four background papers, short studies of three alternative policy strategies, and a preliminary analysis of six additional job creation approaches. The four background papers include the following:

1. Literature Review - This provides a review of the current state of the art of expanding the employment opportunities and job retention patterns of employable welfare populations.

This includes a discussion of the welfare/manpower programs which have developed since 1960, an overview of general economic theory as it relates to employment and of labor market theories in particular, and a collection of the labor demand intervention strategies which have been discussed or utilized in this

country and in other economies, particularly those of western Europe. This work was presented in the volume entitled: Labor Demand Stimulation; A Literature Review.

2. AFDC Employment Characteristics - This paper is Chapter II of Volume I and covers the patterns of employment experience of workers on welfare. The industry and occupation distribution of this population is presented and discussed.
3. Analytical Framework - This paper, which is Chapter III of Volume I, attempts to develop and expand labor market segmentation theory in ways which are applicable to the subject of expanded demand for the labor of employable welfare recipients. This paper suggests a way of thinking about the issues involved and is the foundation for the development of alternative strategies and the assessment of these alternatives.
4. Assessment Criteria - This paper sets forth the points of view from which the alternative strategies can and should be evaluated and understood.

Volume II contains the reports on the short studies of three labor demand stimulation strategies and the additional job creation approaches. The strategies for increasing the demand for the labor of workers on welfare which were examined in some depth in this project were:

1. The utilization of the leverage of federal spending and procurement powers to favor the employment of welfare recipients through the following:
  - a. increasing aggregate spending in ways which most affect welfare and welfare prone populations,
  - b. affirmative action policies which seek to increase the employment of women and minorities and thereby affect the adult welfare population which is composed primarily of women and a large proportion of minority workers,

- c. establishing contract bid adjustments and wage supports for firms which employ welfare recipients,
  - d. establishing a regional contract bid adjustment to provide a discount on the bid of firms which would locate the performance on a contract in regions and localities which have relatively high income maintenance costs.
2. The extension of the Unemployment Insurance Benefit system to a greater proportion of the welfare population with work experience in order to:
- a. discourage the high rates of turnover in many of the industries in which recipients tend to be employed,
  - b. shift a portion of the burden for financing the income maintenance of the formerly employed who are on welfare to private firms from the general public,
  - c. provide the unemployment benefits to those workers who currently do not qualify for the benefits which most American unemployed workers get.
3. The limitation of overtime work to use the hours that are released to create new positions for workers who are unemployed and on welfare through the following mechanisms:
- a. incentives for hiring new workers on welfare through benefit subsidies in those cases where overtime is reduced, and

- b. increasing the premium on overtime through an employer tax on overtime which pays into a fund to create new jobs.

The six additional strategies reflect a variety of approaches.

1. Investment Reserve - a policy which is sensitive to economic cycles and conditions and has expansionary impacts during recessions,
2. Capital - Labor Ratio Tax Program - a policy designed to affect the relationship of capital and labor to favor the creation of more jobs,
3. Supported Work - this includes three policies ranging from full support of the employee, including wages, benefits and work environment, to subsidies for wages and benefits, and
4. Restrictions on Illegal Alien Labor - an approach which attempts to remove illegal workers from the labor market.

The conclusions and findings of this study are the following:

A. Employment Characteristics

1. Employable welfare recipients tend to be concentrated in less than 20 percent of the industries and less than 15 percent of the occupations in the United States.
2. Workers on welfare are concentrated in service industries, retail trade, and personal services.
3. The occupational distribution of workers on welfare reflects their concentration in service work, private household work, operatives and clerical work.

B. Types of Job Creation Policies

Labor demand stimulation policies can be divided into three broad categories:

1. expansionary policies which increase production and generate new jobs to meet the new production levels,
2. distributional policies which affect the demand for particular groups of works as opposed to others within a given production arrangement or which affect the relative demand for labor in relation to capital, and
3. expansionary/distributional mix of policies which constitutes some combination of these approaches.

C. Labor Market Segmentation and Job Creation

1. Macro economic policies aimed at stimulating the economy to induce market expansion or industrial expansion through fiscal incentives - tax reductions, investment credits, government contracts, taxes and tariffs on products - tend to affect the operation of the primary sector most directly and only indirectly impact secondary segments of the labor market in which welfare recipients are currently employed.

The effects of these policies are slow to "trickle down" to these segments and institutional barriers often limit many of the expansionary effects to the primary sector.

2. Rigidities of labor market segmentation tend to put severe limitations on government efforts to create jobs for welfare recipients and require direct intervention in those labor markets in which they are currently employed.
3. The policies which were the primary subject of consideration in this study - affirmative action on government procurement, work sharing through reduction of overtime and job attachment through extension of UIB - will create job opportunities for welfare recipients in the sectors in which they tend to be employed.
4. These policies have the characteristic that the jobs created are redistributed from the work hours and wages of other workers in the economy, generally those workers within the sectors which tend to pay lower wages.
5. Additional research and development is necessary on strategies which create new jobs through expansion in the sectors in which welfare workers tend to be employed.
6. Additional research and development is also necessary on policies which affect the mix of capital and labor in the production process in most industries. At present most government incentives favor investment in capital. Policies which create more balance in the relative price of capital and labor by subsidizing labor or taxing capital should be examined in greater detail.
7. It is clear from the assessment of all the strategies that no single type of policy intervention is likely to succeed in achieving the desired effects. This suggests that a more comprehensive approach is required which combines both expansionary and distributional policies.

#### D. Government Spending and Procurement

1. The evaluation of the impact on job opportunities for welfare recipients of various federal spending programs, reveals large differences between them in terms of civilian employment.



- a. Non-defense expenditures create 65 percent more jobs for welfare than defense spending.
  - b. Health and welfare spending programs create 220 percent more jobs for workers on welfare than defense.
  - c. Tax credits or reductions for individuals create 32 percent more jobs for welfare recipients than investment tax credits to corporations. (This is an extremely conservative estimate of the difference.)
2. If a major affirmative action program were able to increase the employment of women on all federal contracts by as much as 20 percent a year, the resulting number of positions for those on welfare would range between 2,400 and 3,700.
  3. The actual potential of affirmative action in terms of the employment of women on welfare is even more limited owing to the fact that many of the industries and occupations in which they are employed tend to discriminate in favor of women and minorities.
  4. Current affirmative action policies, owing to their focus on discrimination within each occupation, do little to break down the barriers between occupations which tend to "crowd" or "over supply" women into particular segments of labor markets.
  5. Adjustments on contract bids based upon the welfare hiring experience of firms appears to encourage greater utilization of WIN by those firms doing business with the federal government. This policy would require more thorough and detailed investigation.
  6. Affirmative action programs are important to ensure more equal opportunity and are probably a necessary component of other job creation and placement efforts.

E. Work Sharing

1. Work sharing in the form of reduced overtime could create a large number of jobs. Elimination of overtime would create over 3 million positions.

2. The elimination of overtime in occupations in which women are clustered could create over 500,000 jobs.
3. The degree to which overtime can actually be reduced is difficult to determine. The number of positions would be significantly less, particularly in terms of the number which would be obtained by welfare recipients.
4. The strategy to create jobs through the reduction of overtime can take two forms - an incentive policy which involves granting fringe benefit subsidies and a premium or penalty policy which taxes overtime to pay for a job creation program.
5. If employers were required to pay a 50 percent of normal wage tax on overtime, a fund could be established which would create more than 10,000 new positions per year.
6. To the extent that people who work overtime are dependent on the income generated by their extra work hours, their income and material well being would be reduced by a successful overtime policy.
7. Higher overtime premiums redistribute the current wage among more workers.

F. Job Attachment

1. Policies which are designed to reduce labor turnover by increasing the cost of turnover to employers (through the extension of the Unemployment Insurance Benefit System) will create more stable jobs for certain workers but would tend to exclude other workers who formerly had cycled through these jobs. Thus, welfare dependency would be decreased for some and increased for others.
2. Extension of UIB makes employers more responsible for employment-unemployment patterns by shifting the costs of unemployment of workers on welfare to employers in the private sector rather than to the general public through welfare payments.
3. By increasing labor costs to employers, these policies could encourage long run changes in production techniques in favor of a more capital intensive mode of production which would employ fewer workers.

4. This policy would extend the equal employment guarantees and benefits to a larger segment of the labor force which needs these protections.