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TAX CREDITS TO STIMULATE THE EMPLOYMENT OF DISADVANTAGED WORKERS

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TAX CREDITS TO STIMULATE THE EMPLOYMENT OF DISADVANTAGED WORKERS

A Report on Phase I of The Wisconsin Wage Bill Subsidy Research Project

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ABSTRACT

Due to persistent high unemployment, inflationary pressures, the costs associated with public sector jobs, and a desire to limit the size of government, contemporary labor market strategy has focused on stimulating employment opportunities for the economically disadvantaged by reducing the costs of labor through wage bill subsidies to private employees. The WIN and Targeted Jobs Tax Credit programs exemplify this approach.

Our study indicates that these targeted wage bill subsidy programs have been underutilized. Since this approach is based upon the incentive of minimizing the employer's operating costs, it was curious that these programs have not worked as anticipated. To resolve this issue we examine four potential problem areas: lack of knowledge about the programs; poor attitudes toward them; improper program design; and inefficient program administration.

Our findings suggest (1) that both employers and government agency staff members feel that their knowledge of such programs is inadequate; (2) that while employers generally possess positive attitudes toward these programs, they retain deep suspicions regarding government assistance for disadvantaged persons; (3) that agency staff are positive about this approach yet remain somewhat ambivalent, given that they consider it as competing for resources with the equally attractive objective of improving human capital; (4) that design issues do not appear to influence program underutilization; and (5) that there is wide variation in the efforts of local agencies to sell these programs and to administer them efficiently. Our evidence indicates that with the proper packaging and selling of such subsidies, they could become an effective tool in assisting the economically disadvantaged. The outlines of future research efforts to test that hypothesis are described.

PREFACE

In 1979 the Wisconsin Welfare Reform Advisory Committee submitted a report to the state legislature recommending, among other things, the establishment of a program of state tax credits for private sector employers who hire selected disadvantaged workers. The purpose of the recommendation was to improve the employment opportunities of such persons in the private sector, thereby reducing the existing level of welfare dependency. The Interagency Task Force on Welfare Reform, subsequently appointed by Governor Dreyfus to assess the feasibility of implementing the committee's recommendations, decided that additional research was needed to evaluate the efficacy of existing federal tax credit programs before initiatives were taken at the state level. These programs, termed "wage bill subsidies" because they help defray the cost of labor to the private employer, have emerged as an increasingly popular, though controversial, way of assisting the poor in the labor marketplace. Our research project resulted from the Governor's Task Force decision to delay state action until further research was completed. The first year of research, Phase I, was conducted jointly by the Wisconsin Department of Health and Social Services and the Institute for Research on Poverty at the University of Wisconsin-Madison. This report describes the methods and results of that research.

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There are numerous individuals and organizations whose assistance made this report possible. Clearly, the support of the Governor's Employment and Training Office, headed by Cyrena Pondrom, and of the Department of Health and Social Services (DHSS), headed by Donald Percy, was essential to the conduct of our project. It is also clear that the project would not have been realized without the early confidence and support of David Mills, then director of the DHSS Office of Client Employment Programs. In addition, this cooperative effort benefited from the support of Irwin Garfinkel, then director of the Institute for Research on Poverty, and a number of others involved with the Institute.

The realization of the final product owes much to the following individuals: Cephus Childs, Kathleen Pritchard, Jean Badeau, Charles Brotz and John Easterday, all staff persons of the Wisconsin Department of Health and Social Services, and John Bishop of the Institute for Research on Poverty. Lois Cowles was particularly important to the collection of some of the data and to its subsequent interpretation. The careful editing of Elizabeth Evanson and the patient typing of Institute support staff actually brought this effort to fruition.

We would like to thank the many private and public sector respondents who provided the information that made this report possible. Without their cooperation and perceptiveness, any insights contained in this document would not be available.

Finally, the character of the analysis in this report including any remaining errors remain the responsibility of the authors.

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CHAPTER 1

INTRODUCTION

THE BASIC QUESTION

Increasing the demand for labor by subsidizing the employers' wage bill costs has emerged as one of the more controversial public policy issues of the past decade. Theoretically, any reduction in wage costs to employers should induce them to increase investment in labor, all other things being equal. Consequently, general wage bill subsidies (such as the New Jobs Tax Credit) should positively affect the aggregate number of jobs, while targeted subsidies (such as Targeted Jobs Tax Credit and WIN/Welfare Tax Credit programs) should enhance the labor market prospects of the economically disadvantaged.

In practice, however, employer subsidies have not achieved their theoretical promise. As our report shows, the response by public sector officials and private sector employers has not been enthusiastic. Targeted wage bill subsidies in particular are of questionable effectiveness as a tool for stimulating demand in the private sector for job-seekers whose productivity is suspect. Mathew Coffy, Executive Vice President of the National Alliance of Businessmen, stated before a congressional subcommittee: "We are not really sure that the businessman's decision to hire is going to be changed in favor of the structurally unemployed person by the simple mechanism of the tax credit. We just do not have enough evidence to tell us that this is the case" (U.S. Congress, 1978, p. 51). When Frank Fairbanks, President of Horicon Manufacturing Company, was asked by the same subcommittee what level of subsidy would be required to make a targeted program work, he replied: "Some of them [other employers] said, if you paid their entire wage for one year, we might think about it, or take advantage of it. It is incredible how much incentive is required to habilitate a large majority of the members of this group [disadvantaged job applicants]" (p. 79). Hamermesh (1978) summarized the concerns: "The common thread in limited wage subsidies is the failure of employers to respond to programs whose magnitude and expected effect on labor demand would seem to make them attractive. Experience suggests that there is a serious problem, either of resistance to paperwork or reaction to the implications of a worker's eligiblity [a stigma effect] that must be overcome if such subsidies are to have a strong impact" (p. 97).

Perhaps the most perplexing question regarding the efficacy of wage bill subsidies involves the failure of firms to utilize the subsidy when eligible job applicants are hired. For example, only about one-third of eligible employers took advantage of the wage subsidy contracting provisions provided under the National Alliance of Businessmen's Jobs Programs. The WIN experience is even less encouraging. The percentage of employers accepting WIN placements who utilized the credit peaked at 22% in 1974 and subsequently declined to 13% in 1977 (U.S. Congress, 1978, p. 110). An anomalous situation therefore exists: groups subject to high unemployment rates are successfully placed by programs, yet participating employers do not take advantage of the wage bill subsidies which, according to economic wisdom, should maximize their firm's profit.

The purpose of our study was to bridge the gap between what is theoretically persuasive and what is programmatically workable. In other words, why hasn't a program that is designed to appeal directly to the profit-maximizing instincts of private employers worked? Clearly there are at least two dimensions to this question. First, why don't some employers take advantage of the subsidy when they hire eligible job applicants? Second, are the economic incentives of present programs sufficient to induce employers to hire persons whom they would not hire in the absence of such a subsidy? Any information that illuminates these issues will do much to resolve the basic dilemmas associated with these programs.

THE IMPORTANCE OF THE QUESTION

Resolving the issue of poverty has generally involved trade-offs between ensuring that adequate income support is available to the needy and stimulating optimal labor market participation on the part of the disadvantaged. Given the duration and complexity of this debate, it is clear that a consensus regarding both the optimal approach to reducing poverty and the specific technology to best achieve that end have not been defined. In recent years, the welfare reform dialogue has increasingly centered about employment-related strategies. The historic fear that guaranteed-income transfers will promote the substitution of leisure for work has been stimulated recently by the preliminary findings of the Seattle and Denver Income Maintenance Experiments (Groeneveld, Tuma, and Hannan, 1980). Unlike the New Jersey Income Maintenance Experiment, this study did establish a significant negative relationship between an income guarantee and subsequent work effort. Furthermore, a counterintuitive finding relating income guarantees to marital instability has received wide publicity. As a result, the predisposition of many policymakers to equate welfare with social and economic failure has been enhanced.

In addition, the public sector's acclaimed attack upon poverty, officially initiated in 1964, also suggests ambiguous results. It is clear that the incidence of poverty as measured on an absolute scale has been significantly reduced. Whereas in the early 1960s 36 million people were identified as being poor, that figure dropped to about 12 million (6 to 7% of the total) in 1974. By 1980, the incidence of poverty was estimated to be in the neighborhood of 4%, a decline of about two-thirds since 1965.[1] Though encouraging, the gains have been made through a massive increase in cash transfer payments and in-kind benefits (such as Food Stamps and Medicaid).

The record with respect to pre-transfer income, or income derived from the labor market, has been admittedly discouraging. Estimates of the incidence of poverty by this measure were 21% in 1965 and 20% in 1980. Not only has pre-transfer income inequality appraently increased in recent years, but reliance upon social welfare transfers has risen to the point that by 1978, 45% of all households receive benefits from one or more of these programs (Danziger, Haveman, and Plotnick, 1980). While the dramatic increase in income transfers (including social security) has reduced poverty, as officially measured, most analysts agree that pre-transfer income inequality has remained static and that the labor market is playing a decreasing role in meeting the economic needs of disadvantaged persons. As a result, the search for new ways of moving the hard-to-employ into the private sector has gained momentum.

IMPORTANCE FOR THE STATE

In Wisconsin, debate continues regarding the efficacy of wage bill strategies as an appropriate public policy. The report of the Wisconsin Welfare Reform Study Advisory Committee (1979) strongly recommended that wage bill subsidies in the form of marginal tax credits (i.e., subsidies to firms which increase their labor supply above a predetermined base level of employment) and targeted tax credits (i.e., subsidies to firms which hire certain disadvantaged persons) should constitute an important component in future initiatives to reduce dependency upon income transfer payments. Reaction to this proposal has been mixed. Donald Percy, Secretary of Wisconsin's Department of Health and Social Services, Paul Hasset of the Wisconsin Manufacturers Association, and John Bishop of the Institute for Research on Poverty at the University of Wisconsin, among others, supported subsequent legislation introduced by Thomas Loftus in the Assembly and Carl Thompson in the Senate to enact both nontargeted and targeted tax-credit-based wage bill subsidies in Wisconsin. Others, however, are not convinced that such subsidies represent positive public policy. Their reservations include (1) the value judgment that firms should not be encouraged to base their hiring decisions on any factors other than the qualifications of the applicant; (2) the possibility that costs may exceed available state resources; (3) the possibility that the subsidy represents a windfall to the business community; and (4) the suspicion that this approach simply does not do what it is supposed to do.

As a consequence, there has been little movement toward enacting wage bill subsidies as a strategy for generally improving the economic climate of the state and for specifically assisting the disadvantaged in the labor market. In fact, a staff subcommittee of the Interagency Task Force on Welfare Reform, the latter designated by Governor Dreyfus to examine the feasibility of enacting a number of recommendations made by the Welfare Reform Advisory Committee, could not reach consensus on this issue. It determined that any future action should depend upon additional research into both the performance of existing subsidy programs and upon an informal estimate of their future prospects. Our report is a first step toward responding to the questions regarding wage bill subsidies. It is intended not to end that discussion, but rather to articulate and focus subsequent debate.

The various parts of this report address different substantive issues. Chapter 2 provides general background information, including a brief history of the issue, selected theoretical comments, and selected notes on administrative and operational problems. Chapter 3 describes our methodology. Chapter 4 presents the main findings of our study. Chapter 5 summarizes our research and suggests areas for future study and analysis.

CHAPTER 2

THE EVOLUTION OF EMPLOYMENT-BASED POVERTY REDUCTION STRATEGIES

The catastrophic effects of the Great Depression evoked the first substantive intervention by the public sector to combat unemployment (Kesselman, 1978). The issue was defined as a deficit in labor demand, and a major response was public sector "pump-priming," operated through a variety of governmental programs. This partly successful approach was offset by the government's unwillingness to utilize an expansionary (deficit spending) fiscal policy on a large scale. Only the excess demand generated by the Second World War caused the economic system to function at optimal capacity.

Efforts to achieve full employment in the postwar period have been more complex and, recently, rather ineffective. Generally based upon Keynesian precepts, federal policy made liberal use of expansionary monetary (increases of the money supply) and fiscal (deficit spending) policies (Abramowitz, 1976). Starting in 1962 with the Manpower Development and Training Act (MDTA), general monetary and fiscal policies were supplemented by labor supply strategies which were largely directed toward improving the human capital that selected groups brought into the marketplace. Such programs proliferated through the 1960s and the 1970s. The strategy of those years had two parts: aggregate unemployment was to be minimized by demand-management maneuvers, while structural unemployment was to be directly attacked by improving the skills and attitudes that the disadvantaged brought into the marketplace. In large part, the War on Poverty was based upon the latter premise.

Coincident with the energy crisis of 1973, conventional economic theory and practice came under increased pressure. Inflation accompanied by economic stagnation challenged the utility of conventional demand-based monetary and fiscal policy as a means of increasing employment opportunities. Not only did macro-economic policy appear impotent, but micro policies, i.e., individually oriented vocational preparation activities, seemed futile in the face of substantial deficits in the aggregate demand for labor. Coherent policy formulation was constrained by apparently intractable tradeoffs: (1) aggregate demand could not be stimulated without increasing inflation; (2) traditional human capital investment programs cost money and exerted rather uncertain effects upon public dependency (Ashenfelter, 1978) and subsequent earnings (Schiller, 1978; Ketron, 1978); (3) improving the demand for labor through the expansion of public sector employment (PSE) was challenged by an increasing desire to limit the growth of government. To further complicate the issue, federally financed public service jobs were not only expensive (thereby contributing to inflationary deficit spending) but were subject to a substantial substitution effect (a reduction in locally funded positions), raising the possibility that this form of job-creation strategy was little more than disguised revenue-sharing (Johnson and Tomola, 1977).

Contemporary strategy has increasingly focused upon a new tactic while retaining elements of previous strategies. Emphasis has been put upon stimulating labor demand by reducing the cost of labor (both absolutely and relative to other production factors) through subsidies to private sector firms. Wage bill subsidies such as the New Jobs Tax Credit (NJTC) and the Targeted Jobs Tax Credit (TJTC) are based upon the simple premise that the demand for labor will be increased if the cost of labor to the employer is reduced (Hamermesh, 1978). While public service employment is considered a 100% subsidy, private sector stimulation is ordinarily preferred on efficiency grounds. With wage bill subsidies, firms are induced to invest in labor as opposed to capital, at least relative to previous subsidy strategies (e.g., Capital Investment Tax Credits, which induced the opposite effect). In addition, such subsidies, if constructed correctly, could "cheat" the Phillips curve (the positive relationship of unemployment and price increases) by increasing the hiring of low-wage workers, thereby reducing inflationary pressures (Baily and Tobin, 1977). Although it was not a new strategy--such subsidies were first considered in Germany in the early 1930s--its simplicity and utility brought it to the center of policy debate by the mid-1970s.

As with any strategy that provides for intrusion into the private sector by the public sector, the issue is not without theoretical, normative, and programmatic controversy. Some analysts prefer, for example, to assume a labor supply paradigm, which suggests that human capital investment programs (vocational training, job referral, supported work programs) and economically based employee motivation approaches (earned income tax credits, wage or hours worked wage subsidies, reduced welfare tax rates on earnings) are more appropriate strategies (Ulman, 1976; Bishop, 1977). Other theoreticians, while subscribing to a labor demand paradigm, are wary of programs that tamper with specific aspects of the economic system, largely on the grounds that even well-intentioned and well-designed programs will generate undesirable distortions in the normal functioning of the marketplace, such as the substitution of subsidized workers for other disadvantaged but unsubsidized workers. Moreover, economic theory by itself can tell us little about the magnitude of the employment effect that might be expected. Empirical studies are needed to estimate what increases in employment occur for a given target group and at what costs, both budgetary and in terms of employment opportunities for other disadvantaged groups. Undoubtedly coherent public policy must incorporate both perspectives, remaining cognizant of the fact that the dynamics of the problem will change over time.

THEORETICAL CONCERNS

The conceptual basis of wage bill subsidies can most clearly be understood within a classical economic framework. There are several factors of production, the most important of which are capital and labor. The costs of these factors to the employer, along with the mix utilized by the employer, largely determine the pre-market price of the goods and services produced. To maximize their profits (or utility), firms who utilize the subsidy for their wage bill should be motivated to increase their investment in labor and perhaps substitute labor for capital. If the subsidy program were of sufficient scope, participating firms might also reduce the price of their products.

The amount of labor utilized by a profit-maximizing firm depends on the cost of adding each additional person hired. Micro-economic theory suggests that both marginal changes in costs and revenue will eventually decrease (all things being equal as additional units of labor are added to the firm). When the equilibrium point is reached, and marginal costs equal marginal revenues, the rational firm will no longer invest in additional labor. Nontargeted wage bill subsidies serve to shift and alter the marginal cost curve in such a fashion that more labor can be hired before that equilibrium point is reached. This assumes that the skills and work habits of new employees generally approximate the existing work force. If those considered for employment are deficient in their levels of productivity, the marginal revenue expected from each additional unit of labor will be reduced and the equilibrium point will be reached that much sooner. A targeted wage bill subsidy would reduce the cost of hiring "low productivity" workers and thereby increase the employment of such workers, both absolutely and also relative to the employment of other workers.

Presumably the anticipated effects of a wage-bill subsidy on structural unemployment and the distributional effects on income are contingent upon the design of the subsidy, the nature of the unemployment problem, and the conceptualization of labor market functioning. While the effect of a general marginal subsidy can be substantial (Bishop, 1980, estimates that the New Jobs Tax Credit may have created up to 600,000 new jobs), there may be limits to its success as the pool of the employable (i.e., those with minimal levels of acceptable skills) is exhausted. At that point, the utility of the subsidy to the firm as measured by anticipated profit might diminish rapidly, since the firm might have to invest heavily in the training of unskilled workers.

As unemployment reaches the so-called "natural rate," or the nonaccelerating inflation rate of unemployment, theory suggests that a different tactic should be employed. The job competition theory of unemployment notes that employers order potential applicants in terms of their desirability, i.e., expected productivity. The basis for ordering can be carried out on grounds that are productivity related (work history, training, etc.) or on other (race, appearance) grounds.

Dual labor market theory goes further by positing two markets, one for skilled persons and the other for nonskilled. These two react quite differently to changes in labor demand. For example, depending upon aggregate unemployment and the structural nature of labor demand, skilled workers might flow into the unskilled labor market, while the obverse is far less likely, at least not without substantial human capital improvement. Furthermore, while the downward rigidity of wages (i.e., minimum wage floors constrain wage levels) negatively affects the ability of both markets to clear during slack periods, this adverse effect in the unskilled market is very severe for certain groups, such as youth, unskilled blacks, etc.

Given these considerations, an antipoverty-focused (i.e., targeted) wage bill subsidy would be more appropriate than a general (i.e., nontargeted) subsidy during periods of low unemployment. Such a subsidy should target benefits upon selected persons further down the hiring queue and/or in the secondary labor market: that is, persons whose productivity is so suspect that they remain undesirable to employers even though labor demand may be high. To reach these persons with a general macro-economic stimulus and/or general wage bill subsidies would either exacerbate inflationary pressure beyond an acceptable level and/or require subsidy levels that are politically unfeasible. Targeted subsidies avoid these basic problems by focusing benefits on those who persistently fare poorly in the labor market.

When labor demand is high and unemployment is low, training programs may also be more effective, since there will be more jobs available to participants who complete training programs. Even with high labor demand, however, there remains the possibility that the training provided by the public sector will not focus on the skills most needed by employers. On the job training (OJT) provided by private sector firms substantially reduces the likelihood of this problem. If the cost of this training is offset by public sector resources, OJT can be viewed as a special case of a wage subsidy.

DESCRIPTION OF EXISTING PROGRAMS

The WIN Tax Credit

The WIN Tax Credit allows private sector employers to claim a tax credit on wages paid to eligible employees. An eligible employee is a person who is an applicant for or a recipient of Aid to Families with Dependent Children and who is certified as employable by the WIN (Work Incentive) office. The tax credit was first authorized by the Revenue Act of 1971 and has gone through several revisions, the latest in 1978.

It started out in 1971 as a credit on 20% of all wages paid to eligible workers during their first 12 months of employment; the maximum total credit for all eligible employees that any one firm could claim was $50,000 plus one-half of the firm's total federal income tax liability. The minimum length of employment was 90 days, and an additional 90 days was required unless the employee quit, was laid off because of a drop in the firm's business, was disabled, or was fired for misconduct. Subsequent changes altered the percentage of the credit, the amount of wages it can be applied to, the ceiling on the total credit any one firm can receive, and the length of required employment. The Revenue Act of 1978 made the following changes in the program:

- The credit was increased to 50% of wages paid for the first year of employment and 25% for the second year.
- Under the new law only the first $6,000 of wages paid to an eligible employee qualifies for the credit. Thus the credit is most important for low-wage and/or part-time employees. For example, the credit an employer could claim on wages paid to two workers earning $6,000 each would be twice what he could claim on one worker paid $12,000. Since the employer's business expense deduction for wages is reduced by the amount of the credit, a credit of $3,000 actually results in a $900 savings for the 70% bracket while for those in the 14% bracket the savings is $2,580.
- While limits were placed on the amount of wages eligible for the credit for each employee, the ceiling on the total credit claimed by any one firm was removed. The only limit on the total credit claimed was the firm's federal income tax liability.
- The 1978 law included one other revision along the lines of the ones noted above: it reduced the length of time a worker must be employed. Rather than a minimum of 90 days employment plus 90 days retention, the length of employment was set at 30 consecutive days.

Thus the program now provides tax credits of up to $3,000 the first year and $1,500 the second year for each eligible employee. The firm's tax liability is the only limit on the total credit claimed and the firm must employ an eligible worker only 30 days in order to qualify for the credit.

The mechanics of the program are fairly straightforward. The WIN office certifies both the employee's and the firm's eligibility for the credit. The first step is for the employer to hire someone who is eligible. This can be accomplished in one of three ways: the employer can contact the WIN office for a referral; a WIN staff member can contact a firm in an attempt to match eligible workers with job openings; or eligible workers can apply for a job on their own initiative. In the first two instances, the eligibility of the new employee is clearly stated to the employer; in the third case, eligibility is not necessarily apparent. All eligible jobhunters are encouraged by the WIN staff to carry a pamphlet explaining their eligibility, to be used in their job interviews. In fact, this rarely occurs, as we will explain in Chapter 4. We will also report on the extent that employers contact WIN for referrals and on the degree of job development by WIN that takes place.

The Targeted Jobs Tax Credit

The Targeted Jobs Tax Credit is similar to the WIN Tax Credit: both allow employers to claim a tax credit on wages paid to certain employees. The difference between the programs lies primarily in the population considered eligible.

The Targeted Jobs program was seen as a replacement for (or modification of) the New Jobs Tax Credit, which was in effect for 1977 and 1978. The New Jobs program was a general jobs tax credit designed to increase overall employment. To claim a credit, an employer had to increase total employment beyond 2% for the period on which the credit applied. In other words, the program was aimed at increasing employment without specifying who had to be hired. The latter aspect was changed by the new program.

The Federal Revenue Act of 1978, which modified the WIN Tax Credit, also established the Targeted Jobs Tax Credit (TJTC). An eligible employee under TJTC is anyone who is a member of one of the following several groups.

1. Recipients of Supplemental Security Income (SSI).
2. Handicapped persons being served by the Department of Vocational Rehabilitation (DVR).
3. Economically disadvantaged youth.
4. Economically disadvantaged Vietnam-era veterans.
5. Economically disadvantaged ex-offenders.
6. General Assistance recipients.
7. Youth participating in a qualified cooperative education program.

"Economically disadvantaged" refers to a family whose income during the preceding six months was less than 70% of the "lower living standard" defined by the Bureau of Labor Statistics.

With the exception of some limits on the total credit, the TJTC is basically the same as the WIN Tax Credit: 50% of $6,000 of eligible wages for the first year, 25% for the second year for each eligible employee. The actual savings to the firm depends on its tax bracket, since the business deduction for wages is reduced by the amount of the credit. The total yearly wages to which the credit is applied cannot exceed 30% of the firm's contribution to federal unemployment compensation wages. In addition, the total credit claimed is limited to 90% of the employer's federal income tax liability. While these two limitations make the TJTC slightly more restrictive than the WIN program, it is more liberal in the length of required employment, for there is no retention requirement: an employer can qualify for the credit regardless of the length of the worker's employment.

Since there are seven eligible groups under this program, the mechanics of certifying client eligibility are more involved, but they are not unduly complicated. They consist of two stages. First, the job seeker is determined eligible by the agency serving the specific target population; second, when hired, the state Employment Security Office verifies the employment and certifies the employer as being eligible to claim the credit.

When an eligibility determination is made by one of the agencies serving a targeted group, the person seeking employment is issued a voucher to notify employers of the tax credit they can receive if they hire the applicant. Since a person's eligibility may vary over time depending on specific target group membership, the voucher expires within a set period of time, and new eligibility determination must then be made.

Once a firm hires a "vouchered" employee, the voucher is signed by the employer and returned to the Employment Security Office, which is authorized to certify eligibility. After the employment is verified, Employment Security issues a TJTC certificate to the employer, which provides proof to the IRS of eligibility to claim the credit. The employer then files IRS form 5884 with the tax return and claims the credit. The only exception to this procedure is that the Cooperative Education Program certifies both employers and eligible program participants.

ISSUES UNDERLYING THE PROGRAMS

It is clear that, from a theoretical perspective, subsidizing wages of those experiencing problems in the labor market should enhance the probability of a successful labor market search. According to the assumptions behind such subsidies, reductions in the marginal costs of hiring persons with lower productivity will enable (i.e., induce) employers to hire such persons. While many contingencies may modify this assertion (e.g., tightness of labor market, skill requirements of labor demand) the essential premise that employers carefully match estimated worker productivity with net wage costs remains intact.

Our study had certain questions regarding the applicability of economic theory to real world operations. The quotations by Coffy and Fairbanks (U.S. Congress, 1978) cited in the Introduction reflect a pervasive problem associated with the application of economic theory to public policy. That theory presumes a simplistic paradigm regarding the behavior both of individuals and the institutional framework within which they operate. It assumes, among other things, that markets operate in an environment of perfect knowledge, perfect mobility, and in accordance with utility-maximizing principles. In other words, in the labor market both employers (representing the demand side) and job applicants (representing the supply side) are assumed to interact in a free and rational manner, negotiating over the salary until a suitable market clearing price is reached (an equilibrium point).

The premise underlying this study was that the labor market did not operate in such a rational manner. It assumed that a variety of human and organizational limitations could undermine both the general functioning of that market and, more specifically, the use of targeted wage bill subsidies as a mechanism for influencing that employer-applicant negotiating process. There are four primary reasons why such subsidies might not be as operationally successful as suggested by economic theory.

First, we hypothesized that problems might be attributed to the design of existing programs. A number of design dimensions could cause difficulties:

1. The amount of the subsidy may be insufficient.
2. The subsidy may be too inflexible to respond to variations in requirements of firms or employee productivity.
3. The subsidy duration may be insufficient.
4. The amount of subsidy may be too difficult to calculate (e.g., it depends upon corporate tax rate and other varying factors).
5. The subsidy may not be sufficiently visible and/or immediate (e.g., there was no cash-on-hand available with the hiring of a subsidized person).

Second, we hypothesized that the administration of the subsidy might be the prevalent problem. Deficiencies in a number of areas, from the amount of paperwork involved to inadequate interorganizational linkages, might impair the functioning of subsidy programs.

Third, we hypothesized that problems might be attributed to the marketing of the subsidies. According to this postulate, the subsidies do not work in an optimal fashion because the principals in the labor market transactions were insufficiently prepared to use them properly. In this instance the problem might be general (e.g., overall ignorance of the programs) or specific (e.g., insufficient information regarding the utility of subsidies for individual firms and/or clients).

Fourth, we hypothesized that problems might lie in attitudes. That is, employers might harbor negative perceptions about government in general, the targeted subsidy progam in particular, and/or the client populations served by these efforts. Clients might feel awkward about admitting their subsidized status, thus reducing its influence as a job search tool. Consequently, eligibility for the subsidy might brand a job seeker as being nonproductive and thus reduce job opportunities.

While these explanatory themes (design, administration, knowledge, and attitude) are not mutually exclusive, evidence suggesting the relative importance of these factors might have significant implications for public policy. Design and to some extent administrative problems can be addressed by modifying aspects of the programs' structural and processual attributes. Knowledge deficiencies suggest that active marketing strategies might be required. Such informational campaigns, designed around questions of program intent and structure, can be directed toward employers and, when appropriate, toward agency staff responsible for promoting subsidy programs. Finally, attitudinal problems would also necessitate a marketing strategy, but one of a more sophisticated character. Attitudinal problems represent a particularly problematic issue, since overcoming stereotypes is a decidedly difficult task.

Finally, even if wage bill subsidies are utilized extensively, they may still not be a very effective policy. First, we need to know what effect their utilization has on the employment policies of firms and thus on the employment of the eligible target groups of disadvantaged workers. Second, we need to know whether increases in the employment of these workers have negative effects on the employment of other disadvantaged workers. Although these issues were not the primary focus of our study, we looked for any clues that could bear on these questions.

CHAPTER 3

METHODOLOGY OF THE RESEARCH PROJECT

The method of the study team was largely exploratory in character. It was felt that an eclectic approach was needed to investigate and describe the reasons why wage bill subsidies were not functioning in accord with economic theory and the expectations of public policymakers. A developmental process, in which each subsequent activity would be influenced by the information secured in the preceding activity, was judged to be most appropriate for gathering the essentially qualitative type of data that was required. Various methods were used to obtain the data, including personal and telephone interviews, case record reviews, and a group discussion. Instruments for collecting the data included both semi-structured interview guides and structured questionnaires.

The following sections describe the five chronological stages of our research.

STAGE 1: BACKGROUND INTERVIEWS

The first phase of the project involved reviewing the project design, key issues, and methodology with persons who had important roles in and/or perspectives about wage bill subsidies. These persons included academics researching this issue, political representatives involved in pertinent legislation, representatives of employer groups, and government officials with broad administrative responsibility over employment programs. Semistructured interviews were used to facilitate an uninhibited discussion while ensuring that certain basic topics were addressed.

This information was analyzed to focus subsequent research with employers and government staff.

STAGE 2: STAFF INTERVIEWS AND A CASE RECORD REVIEW

The second phase consisted of structured interviews during site visits to selected WIN offices. The study initially focused on the WIN Tax Credit program because it was already active, whereas TJTC was just starting to become operational. The on-site visits had four purposes: (1) to determine the predisposition of staff toward subsidy programs; (2) to assess how the subsidies are incorporated into agency operations; (3) to assess the staff's perception of the function of the subsidy as a job development tool; (4) and to solicit suggestions regarding possible changes that might improve the effectiveness and efficiency of the program.

Four Job Service WIN district offices were selected on the basis of the following criteria: (a) offices which varied in their utilization rate for the WIN tax credit; (b) offices with a minimum of seven staff; and (c) offices that were partly urban in character with respect to the labor market served. The sites chosen were Madison, Green Bay, Kenosha, and LaCrosse. All counselors in each office were interviewed. The office manager was interviewed to obtain an overview of agency operations. In some instances, paraprofessional staff members, identified as being important to understanding the WIN tax credit program, were also interviewed. A semistructured interview procedure was utilized, though interviewers were encouraged to digress when new information was uncovered. Twenty-nine interviews were held with WIN staff.

A case record review was also conducted at one WIN site. Its purpose was to assess the accuracy of the published tax credit utilization rate and to determine whether the credits were being claimed proactively or retroactively. Samples of cases were drawn from three subpopulations: cases in which the credit was not authorized; cases in which the credit was authorized at the point of hire; and cases in which the credit was authorized after the point of hire.

Our study was soon affected by the discovery of widespread lack of knowledge about the programs by public and private sector representatives. We therefore deemed it premature to pursue the original plan of working with representatives of the public and private sectors to develop a redesign of the tax credit programs. Instead, more effort was clearly required to estimate the magnitude of the problems of lack of program knowledge and program acceptance before focusing on redesign issues. Subsequent activity was directed toward soliciting information from broader samples of public and private sector representatives.

STAGE 3: QUESTIONNAIRES TO FIELD PLACEMENT STAFF

The third phase involved soliciting information from staff in the Department of Health and Social Services (DHSS) who had some responsibility for administering the Targeted Jobs Tax Credit program. This department was selected because of its interest in the tax credits and willingness to provide support in administering a questionnaire to 239 members of the field placement staff in the Division of Vocational Rehabilitation (DVR) and the Division of Corrections (DOC). The research instrument was designed to explore staff utilization of TJTC with clients, its effectiveness, and problems existing in the program.

The questionnaire was mailed to the total population of field staff and therefore involved no sampling issues. A problem with missing data did occur. The nonresponse rate for particular questions was quite high. The reason(s) for nonresponse are not known, but we believe the main cause was lack of knowledge about the tax credit program, rather than resistance to responding.

STAGE 4: INTERVIEWS WITH THE BUSINESS COMMUNITY

The fourth and major research activity was a relatively large-scale attempt to assess the business community's knowledge of the wage bill subsidies and the extent of their utilization. The specific objectives were to assess (a) how much members of the business community knew about the subsidy program; (b) the extent to which they have utilized the programs; (c) the attitudes they hold toward the subsidy concept; (d) their attitudes toward the future of such programs; and (e) their recommendations for needed changes in order to increase employer use of the programs. Interviews were conducted by phone.

We used two somewhat different interview schedules for two different samples of private employers. A systematic random sample of employers was drawn from the population of private profit-making employers having 6 or more employees and operating in the geographical areas covered by the WIN offices where on-site visits had been held. This included 12 counties encompassed within the Madison, Green Bay, Kenosha, and LaCrosse WIN office areas. The same population base was used in drawing the second sample, except that firm size was shifted to those with more than 20 employees in order to exclude those firms which were unlikely to participate in the subsidy programs simply because of low staff turnover and resultant low hiring rate. The two lists of employers were developed from a list of those contributing to the Unemployment Compensation program.

In a sense, the first round of interviews, which included firms with a smaller number of employees, can be regarded as an extensive pre-test. It was used to identify the critical issue areas to be addressed in follow-up interviews. The second interviews were more concise and more focused than the first; the number of questions was reduced from 42 to 15 by eliminating the more nonproductive items and reducing the scope of the inquiry from both past and current wage bill subsidy programs to only current ones. In addition, it was felt that in the second round we should focus on larger firms that were more likely to experience staff turnover. Face-to-face interviews with employers were not conducted because the estimate of their cost was excessive. A total of 278 telephone interviews here held with private employers, 108 during the first round and 170 during the second round. The original sample sizes drawn were 129 and 184 respectively. In the first sample, 21 interviews were not completed: 10 employers could not be located, 6 were out of business, 3 declined to participate, and 2 indicated they had no employees. In the second sample, 14 interviews were not completed: 12 employers could not be located, and 2 were out of business. The response rate for the two samples was 84% and 93% respectively. This high response rate may reflect the fact that a letter was sent to the sample of employers notifying them of the impending telephone contact and advising them of the nature and importance of the interview. Respondents may also have been inclined to cooperate out of a sense of potential "threat" in being contacted by DHSS. Some employers indicated they associated DHSS with compliance to affirmative action rules, health regulations, etc.

The employer findings reported in the next chapter are based on the second round of interviews. This decision was based on the improved interview schedule, the improved consistency with which the interviews were conducted, and the increased clarity of the findings. Still, the findings cannot be generated beyond firms with characteristics similar to the sample--larger firms. There is a possibility that the responses may have been biased due to certain aspects of the methodological approach. Potential sources of bias include prior notification of the interview, the meaning which respondents may have assigned to being contacted by the DHSS, and "leading questions" in the schedule. However, even though firms were notified of the impending contact and some commented that the letter stimulated them to inquire about the subsidies before the phone contact, a high percentage of employers were still unfamiliar with the tax credit programs or had little understanding of the specifics.

STAGE 5: SMALL-GROUP DISCUSSION WITH EMPLOYERS

The discussion with employers was conducted to explore in more depth the previous research findings about utilization and marketing techniques. The discussion group consisted of private employers, Project staff, and University of Wisconsin staff members with a special interest in wage bill subsidies. Employers were selected by interest expressed in the phone interviews. The discussion agenda had several purposes:
(a) to ascertain whether or not the assumption that lack of knowledge about the credit and adverse attitudes toward the credit are important

factors in explaining the poor utilization of the programs; (b) to explore other possible reasons why wage bill subsidies are underutilized; (c) to explore in general whether or not such programs have merit as an employment strategy; (d) to explore how the performance of the programs might be improved; and (f) to explore how the marketing of such programs could be enhanced.

CHAPTER 4

THE FINDINGS

Our findings cover four areas: the first concerns the hypothesized underutilization of existing wage bill subsidy programs; the second addresses evidence suggesting why existing subsidy programs are not working; the third centers on the issue of how wage bill subsidies influence the hiring process (proactive vs. retroactive utilizations); and the fourth covers some of the evidence we have on the future role of wage bill subsidies.

UNDERUTILIZATION OF EXISTING WAGE BILL SUBSIDY PROGRAMS

Existing wage bill subsidies--Targeted Jobs Tax Credits and WIN Tax Credits--are not being heavily utilized as a placement tool for eligible clients. Table 1 shows the utilization of the WIN Tax Credit in Wisconsin in 1979 and 1980. The average monthly number of WIN Tax Credits authorized was 256, representing slightly more than 30% of "entered employments" (the term for job placements facilitated by the WIN program). We should point out that although the evidence of tax credit utilization is usually based on the total number of entered employments, this approach may not be valid because some employers are public or nonprofit and are therefore not eligible for the tax credit. Looking at Table 2, we can see that for the TJTC, excluding the start-up period of April-September 1979, the number of credits authorized averaged 126 per month. On an aggregate basis, 6,442 persons were vouchered from April

Table 1

WIN Tax Credit Claims Initiated in Wisconsin, 1979-1980

	Authorized Per Month	Cumulative	Percentage of Job Placements through WIN[a]
February 1979		1144	23.9
March	350	1494	25.1
April	336	1830	25.9
May	400	2230	26.6
June	313	2543	26.9
July	260	2803	26.9
August	373	3176	27.5
September	277	3453	27.3
October	303	303	30.4
November	290	593	30.9
December	183	776	31.1
January 1980	217	993	30.4
February	277	1270	30.4
March	314	1584	31.0
April	290	1874	31.1
May	248	2122	30.6
June	203	2325	30.2
July	233	2558	29.6

Source: Unpublished report, Bureau of Research and Statistics, Wisconsin Department of Industry, Labor, and Human Relations.

[a]Note that some job placements were with public or nonprofit employers and therefore were not eligible for tax credits.

Table 2

Targeted Jobs Tax Credit Claims Initiated in Wisconsin, 1979-1980

	Eligibility Determinations	Total Monthly Authorizations	Retroactive Authorization	Proactive Authorization
April 1979	1	0		
May	145	28		
June	342	81		
July	582	134		
August	692	236		
September	370	167		
October	188	58		
November	176	112		
December	166	104		
January 1980	238	77	58 (68%)	19 (32%)
February	409	148	117 (83%)	31 (17%)
March	465	128	89 (70%)	39 (30%)
April	570	115	75 (65%)	40 (35%)
May	640	172	152 (88%)	20 (12%)
June	575	228	194 (85%)	34 (15%)
July	883	118	78 (66%)	40 (34%)

Source: Unpublished report, Bureau of Research and Statistics, Wisconsin Department of Industry, Labor, and Human Relations.

1979 through July 1980. In 1,906 instances (29.6% of all vouchers) the certification process was completed.

Nationally, the aggregate figures for the WIN program show that an average of 3,125 tax credits have been authorized per month since 1976. Over the same period the tax credits have represented anywhere from 12.4% (FY 1978) to 18.5% (first half of FY 1980) of total entered employments. Recent data suggest that while the aggregate utilization of credits as a percentage of entered employments has been relatively constant over time, the variation across states is dramatic. In Florida, Vermont, Nebraska, and Nevada the percentage of entered employments in which the credit was used runs less than 10%, whereas for Louisiana, West Virginia, and New Hampshire it runs over 50%. It is particularly striking that across contiguous and reasonably similar states the differences in utilization can be dramatic. On a proportionate basis, firms in Wisconsin are four times more likely to use the credit than Minnesota, while New Hampshire firms are eight times more likely to authorize a credit than firms in Vermont.

Through June 1980, 482,386 TJCT vouchers had been issued and 252,934 certifications had been processed. When cooperative education students, a group not necessarily considered disadvantaged by traditional definitions, are eliminated, the figures for vouchers and certifications are reduced to 354,994 and 125,542 respectively. It should also be noted that since establishment of TJTC, there has been little evidence that the incidence of vouchering eligible persons is significantly increasing, and the incidence of certifications actually appears to be declining, perhaps because of the sluggish economy. Furthermore, figures from June 1980 show that interregional differences in both resource allocation and performance are marked. For example, Region IV (Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin) apparently has expended a good deal of resources on the program and has attained a rough efficiency rating (percent of certifications ÷ percent of resources allocated) of 1.5, while Region V (including Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee) allocated almost as many resources with considerably less success (efficiency rating of 0.9). The figures also indicate that Region I (the New England states) has not vigorously pursued the program despite the economic problems plaguing that area.

Clearly, wage bill subsidies in the form of tax credits targeted on the structurally unemployed are neither living up to expectations nor are they affecting target populations in any dramatic fashion. In a labor force approaching 100 million persons, tens of thousands of hires are being made each day. In only a fraction does the incentive of a wage bill subsidy ever become a factor. And as will be discussed later, the proportion of hires in which the subsidy actually influences the hiring decision is discouragingly low. The fact that the WIN credit is authorized (not necessarily used) in less than one out of five hires (one out of three in Wisconsin); that only 3,505 vouchers have been authorized for disadvantaged youths despite an unacceptably high unemployment rate for this group; and that only a small proportion of the general assistance population is being reached by this program suggests that existing tax credit programs are not operating in an optimal fashion. Certainly, when viewed in isolation, they can be interpreted as only a marginal tool in the effort to foster full employment.

This failure is reflected in the results of the questionnaire administered to selected employment counselors within the Division of

Vocational Rehabilitation (DVR) and the Division of Corrections (DOC):

Question: In your opinion, how effective is the TJCT in helping your clients find employment?

	Number	Percentage
Very effective	4	2.2
Somewhat effective	88	48.4
Somewhat ineffective	39	21.4
Very ineffective	51	28.0

(N = 182; 57 respondents had no opinion)

Note that only 2% of our DVR and DOC respondents found TJTC very effective, and 28% found it ineffective. A similar disenchantment was expressed by WIN employment counselors:

Question: In terms of helping your clients find employment, what were your expectations of the tax credit when you first became aware of it?

	Number	Percentage
Very positive	13	50.0
Somewhat positive	10	38.5
Somewhat negative	2	7.7
Very negative	1	3.8

(N = 26; 3 respondents had no opinion)

Question: Has your experience with the credit changed your opinion about the usefulness of the program?

	Number	Percentage
Yes	12	42.8
No	12	42.8
Not sure	4	14.4

(N = 28; 1 respondent had no opinion)

While half of the WIN personnel interviewed stated that initially they were very positive toward the program, 43% felt that their experiences with the tax credit had altered their opinion. At the time of our interview, only one staff member in four felt very positive about the tax credit and its effectiveness as a tool in assisting eligible clients to secure employment. Actual experience with the program appeared to diminish initial enthusiasm.

In summary, both the actual numbers on credits authorized and the impressions of staff closest to program operations support the speculation that the existing subsidy programs are at best being underutilized and at worst are not very effective.

EVIDENCE CONCERNING WHY THE SUBSIDIES ARE NOT WORKING

Knowledge

Perhaps the clearest outcome of the first year of our investigation is that the awareness of existing progams is deficient. Available evidence suggests that knowledge on the part of public sector officials responsible for administering the program is often confused and inaccurate and that only a small proportion of private sector employers have anything more than a name recognition of the tax credit programs. This lack of specific knowledge seriously reduces the potential impact of these programs.

Evidence that the programs have not been sufficiently publicized emerged from our contacts with both government agency workers and with business representatives, and that evidence is being generally supported by other research. Two-thirds of the DVR and DOC employment counselors indicated that their lack of knowledge about the TJTC was a factor in its underutilization. Written comments repeatedly noted that staff training in program operation was insufficient. As a consequence, many staff noted that they are not comfortable utilizing the tax credit in an aggressive fashion. In fact, 20% of DVR and DOC staff respondents said that they never discussed the credit with their clients; another 45% claimed that they raised the topic with only a relatively small proportion of their clients (25% or less).

<u>Question</u>: With what percentage of your clients do you or your staff discuss the Targeted Jobs Tax Credit?

	Number	Percentage
Never discuss	42	20.1
Discuss with 1-25% of clients	95	45.4
Discuss with 26-50% of clients	20	9.6
Discuss with 51-75% of clients	26	12.4
Discuss with 76-99% of clients	10	4.8
Discuss with all clients	15	7.2

(N = 208)

In some cases, such as DVR homecraft clients, discussion of the tax credit with clients would be inappropriate. However, it was clear from the written comments offered by respondents that many felt ill-prepared to describe the program to their clients, and some staff claimed that they were not aware that they were supposed to perform this function.

While the WIN Tax Credit program has been around longer and experience with it is wider, the evidence suggests that lack of familiarity with the technical aspects of the program is undermining program efficacy. During personal interviews, a number of counselors stated that they lacked confidence in responding to the more or less technical questions raised by firms. The counselors noted that their inability to provide quick and confident responses to queries by firms generated doubts and concerns in the business community.

The most compelling evidence regarding lack of familiarity with the program comes from the business community itself. On the surface, a fairly high level of employer familiarity with the program was apparent:

Question: Are you familiar with either of these programs? If yes, which one?

	Number	Percentage
WIN only	43	25.4
TJTC only	11	6.5
Both	48	28.4
Familiar but can't identify programs	1	.6
Not familiar	66	39.1

(N = 169; 1 did not respond)

These responses reveal that approximately 3 out of 5 employers interviewed claimed that they were familiar with one or both of the major tax credit programs. Slightly more than half (53.8%) claimed familiarity with the WIN Tax Credit (WIN and "Both") while somewhat more than a third (34.9%) stated that they were familiar with the TJTC program. Those employers familiar with only one program were approximately four times more likely to have heard of the WIN credit as opposed to the TJTC.

Additional data suggest that familiarity was, in the majority of cases, "threshold recognition," defined here as having heard about the program[2] but not possessing the type of detailed programmatic knowledge that would influence the firm's hiring process. To get at this possibility, two questions were asked: (1) how much is the subsidy worth? and (2) what kinds of job applicants are eligible for a subsidy? It was assumed that if employers were not familiar with the basic elements of the programs, the subsidies were not playing any significant role in the firm's personnel system.

Fewer than 1 out of 5 (18.8%) employers claiming that they were familiar with one or both of these programs had any reasonable idea of how much subsidy was provided (11.2% of all employers interviewed). Only 7% of those employers familiar only with the WIN program knew the amount of the credit, while 20% of those familiar with the TJTC responded correctly, and 30% familiar with both programs were correct. Knowledge about who was eligible for a tax credit was not widespread:

Question: Who would you have to hire in order to claim a tax credit under one of these WIN or TJTC programs?

Number of Target Groups	Number of Respondents	Percentage of Respondents
None	126	74.1
1	26	15.3
2	9	5.3
3	6	3.5
4	2	1.2
5	1	.6

(N = 170)

Three out of 4 respondents had no idea who was eligible for assistance under existing programs. Only 1 in 20 was able to identify more than two eligible groups. Furthermore, 17.6% of the respondents (30) offered incorrect guesses. The most common inappropriate response was that the programs were designed to assist members of minority groups.

It was clear that even if the estimates of familiarity are reasonably accurate (they may be inflated due to a tendency to give a socially desirable response), the lack of detailed knowledge indicates that the credits are not playing a significant role in hiring decisions. Perhaps the most meaningful statistic is the following: When asked why the tax credits were not used more frequently in the private sector, 58% said that the lack of knowledge about the programs was a problem. Representative of the comments made by employers are the following: "I never heard of them." "Who do you call to get someone?" "How do you tell if an applicant is eligible?" These attitudes were accentuated in the group discussion with employers, who stressed the fact that their colleagues did not know about the tax credit program and how it could benefit their firms. They also stated that they were often frustrated in attempts to learn more about the program.

Corroborative evidence about the private sector's lack of knowledge comes from our contacts with government workers and other reports (Bishop, 1981; Ripley, 1981). In our own data, 63% of DVR personnel and 68% of DOC personnel said that lack of tax credit program awareness among businesses was a significant problem in optimally using the credits. Despite the fact that the WIN tax credit has existed throughout the decade, when WIN staff in various offices were asked what percentage of firms which they contacted in job development efforts knew about the tax credit, the average responses ranged from 8% to 46%.[3] Despite the program's relatively long history, the message has not gotten across. A 1979 study conducted by the federal Employment and Training Administration on wage bill subsidies concluded that failure to publicize the program adequately was a significant problem affecting usage. In its executive summary, the report noted: "Based upon the observations and concerns expressed in all study sites, and upon the study staff's own perceptions, the overall publicizing of TJTC and promotion of employer interest has so far been greatly inadequate" (Employment and Training Administration, 1979, p. v).

Attitudes

While insufficient knowledge is a particular problem inhibiting optimal use of these programs, inaccurate or biased understanding is another. We regard the second as an attitudinal problem. It is both multidimensional in nature and difficult to remedy. The issue of attitudes involves government representatives, employers, and clients; it also involves inappropriate perceptions concerning what the tax credit program is intended to do, how the program operates, and the principles involved.

Problems with government workers' attitudes. It is clear that the wage subsidies have not been fully used as an employment tool by government representatives. One reason for this problem lies in staff perceptions of the agency's appropriate role, as shown by responses from WIN personnel:

Question: Assuming the government continues its efforts to help the disadvantaged in the labor market, which of the following approaches, if any, would you prefer to see emphasized?

	Number	Percentage
Vocational training	12	41.4
Public service employment	6	20.7
Subsidizing private employers of disadvantaged workers	11	37.9

(N = 29)

Subsidies to the private sector to generate jobs for the disadvantaged are perceived as a strategy warranting additional support by a fair proportion of WIN personnel, but there is no clear consensus that this policy should have top priority. In attempting to respond to the question regarding additional resources, a number of respondents noted that there is no single solution to the labor market needs of the disadvantanged.

A number of WIN staff volunteered the opinion that their job was to develop the skills and attitudes of the client. Wage bill subsidies were viewed by some as artificial incentives that did not deal with the intrinsic problems preventing individuals from successfully competing in the labor market. While this does not exclude using subsidies as a placement tool, it does suggest where agency staff's priorities lie. The difference may be subtle, yet the underlying assumption by some counselors we talked with was that subsidies were incidental to the more important task of developing individuals' skills and attitudes. Counselors were reluctant to rely on the subsidy to place clients not perceived as "job ready," since inappropriate placements would jeopardize future relations with those firms. Consequently, proactive use of the subsidy for the hard-to-place client was not a common practice. In short, although the availability of the subsidy was occasionally invoked to interest firms in a general class of agency clients, it was not used as an explicit placement tool for those clients who would be expected to have problems securing employment.

Attitudinal problems on the part of clients. We have no direct evidence regarding how clients feel about using the subsidies on their own behalf. Indirect evidence, however, suggests that clients do not use information about the subsidy to sell themselves to employers. More than 1 out of 3 DVR and DOC employment counselors felt that clients were (or believed they would be) stigmatized by declaring themselves connected with a subsidy. The same opinion was shared by a number of WIN counselors with whom we talked. A few noted that some clients did not want to be labeled as needing that type of assistance, that a number of clients did not believe they could adequately explain the subsidy to potential employers, and that some clients felt that employers might react negatively if informed that they were eligible for a subsidy. This is an important point, because many clients make their own contacts with employers (WIN counselors estimate that about 2 out of 3 clients contact employers on their own).[4] In sum, the person best able to ensure that the subsidy will be used proactively is often the least capable, in terms of knowledge and willingness, to inform prospective employers of their eligibility. Even though the information process appears to be simple, since clients presumably have some form of written evidence (a voucher or card) of eligibility, the fear of a negative or stigmatizing effect seems to minimize their willingness to provide such evidence.

Attitudinal problems on the part of employers. The most potentially serious attitudinal problem involves employers. Ultimately, their perceptions will dictate whether or not wage bill subsidies can exert any positive influence on the employment prospects of disadvantaged persons. Our evidence suggests that predispositions of employers are in fact a problem. In general, significant portions of the business community have negative views toward government, toward the clients eligible for wage bill subsidies, and toward specific aspects of the subsidy program.

Many employment counselors hold the opinion that private sector employers are generally resistant to these tax programs. In fact, almost half of DVR and DOC counselors responding to our question felt that resistance by the private sector was a significant problem in underutilization. Their perception was in part corroborated by employers during the telephone interviews. Their comments included the following: "We're choked to death by government regulations." "Government interferes too much." "Government subsidizes too much as it is." A number of specific employer feelings deserve mention. Employers indicated in several ways that they harbor reservations about persons eligible for a subsidy. They repeatedly stressed that the quality of the job applicant was the most important consideration in the hiring decision, and among the qualities considered most desirable were dependability, willingness to work, ability to do the job, good grooming, and an outgoing personality.

Question: When you consider hiring a new employee, what characteristics do you look for most? (Number of respondents mentioning the following characteristic)

	Number	Percentage
Personal appearance	46	27.1
Dependability	77	45.3
Ability to do the job	99	58.2
Willingness to work	42	24.7
General personality	40	23.5

(N = 170)

Employers were subsequently asked whether those persons eligible for a wage subsidy would possess those characteristics.

	Number	Percentage
Yes	44	25.9
Probably some would	87	51.2
No	25	14.7
Don't know/other	14	8.2

(N = 170)

To some extent, a respondent bias toward giving a socially desirable response may be operating here. It should be noted that 38% of those saying that job applicants eligible for a subsidy would possess the desired attributes later stated that program underutilization was due to the poor qualities of those eligible for wage subsidies. This attitude is best captured by the following comments: "I just don't believe they really want to work." "Let the public sector hire them." "A business is not a social service agency." "They're not dependable, and if they don't show, I have to work another shift." "It's not worth hiring a loser."

Perhaps the most telling comment was made in testimony (recorded informally) by a representative of the Small Businessman's Association before a legislative subcommittee: "No businessman is willing to make a $300,000 mistake for a $3,000 subsidy." While this statement may be exaggerated and more relevant to high-technology firms, it summarizes the basic assumption of many employers that the characteristics of job applicants are more important than subsidized wages. For many employers, this is a simple matter: an applicant either qualifies for a job or not. Making sensitive estimations of marginal productivity relative to a subsidized wage cost, a concept that is relatively simple in terms of theoretical economics, is not practical in many real-life business decisions.

Employers also expressed reservations concerning specific aspects of the subsidy program:

<u>Question</u>: Would you think that the amount of paperwork you would have to complete to claim one of those credits would be:

	Number	Percentage
Excessive	30	29.4
Moderate	33	32.4
Minimal	23	22.5
Have no idea	16	15.7

(N = 102; those not familiar with these programs were not asked this question)

Question: In your opinion, why hasn't the business community made greater use of these tax credits? (Specify)

	Number	Percentage
Poor quality of clients	31	29.5
Excessive paperwork	23	21.5
Suspicion of government programs	13	12.4
Poor program administration	5	4.8
Other	27	25.7

(N = 99)

A major reservation concerns paperwork: about 30% of those responding thought it would be excessive, and 23% offered it as the primary reason for lack of use. Another concerns the government: a number of employers (about 12% of those responding) thought that acceptance of a subsidy would entail unacceptable consequences--that is, agreement to participate would result in subsequent harassment by government officials, particularly in terms of auditing their business operations and imposing restrictions on subsequent hiring and firing decisions. Thus, it is assumed by some segments of the private sector that there are implicit costs to participating in the tax credit program which more than offset any short-term financial gain.

A third, and perhaps most striking, negative attitude involves confusion on the part of a few employers regarding how they should respond to the hiring incentive implications of the tax credits (not shown in the tabulations above). A few felt that favoring certain job applicants was actually inconsistent with other government efforts to introduce equity into hiring decisions. Several employers mentioned that the tax credit program was inconsistent with the principles of affirmative action. Aside from a general resentment regarding government regulations, there is considerable ambiguity about how to meet what are considered proliferating and occasionally inconsistent rules and guidelines emanating from government. Undoubtedly, a generally negative perception of and confusion about government-sponsored programs is present, as illustrated by some of the individual comments on why the business community has not used the tax credit programs more: "They're afraid of the government snooping into their tax records." "They're afraid of the paperwork. If government's involved, there's got to be a lot of paperwork." "They expect too much red tape. Government regulations have left the small businessman in a blur." "Its my business. I built it. Why should I have to explain myself to the government?" "If I hire them and then it doesn't work out and I fire them am I going to have to fill out another 32 more forms on 'why'?"

Lack of detailed understanding of the tax credit program by agency personnel, employers, and eligible clients appear to be major factors explaining lack of success. For some government personnel this involves a lack of adequate training in the complexities of the program as well as a failure in some offices to establish the program as a clear agency priority. Equally important is evidence that some agency workers are attached to a human capital approach (i.e., developing skill and motivation) and feel that subsidies are merely gifts to the business sector which at best assist clients into dead-end, low-paying positions. Staff attitudes may help explain some of the administrative problems discussed later. In the business community, the lack of marketing effort by government agencies permits employers' attitudes to govern their perceptions of the program, an outcome which has inhibited the presumed incentive features of the program.

Design Factors

As we have noted, we initially thought that design factors would constitute an important reason in explaining program underutilization. Design factors include size, form, duration, and targeting features of the current programs. In general, the evidence did not support this contention. The fact that few respondents either identified design issues as problems or responded negatively when queried (at least relative to their other explanations) may be attributed to two causes. First, most respondents lacked sufficient program knowledge or experience to assess design deficiencies. Second, many seemed to think in terms of the "givens" of the programs and were not prepared to consider alternatives on short notice.

Design factors were discussed in some detail with WIN officials and employment counselors largely because the WIN Tax Credit has been modified over the past decade. When queried about whether the size, form, duration, etc., of existing tax credit programs were causing problems in their use, no compelling and consistent response was given. Factors that were occasionally mentioned included the following: the subsidy was not actually available to the employer at the point of hire; the actual amount of the subsidy was not known at the point of hire; and the person doing the hiring might not organizationally benefit from the subsidy. These issues all relate to the form of the subsidy--that it is a tax credit rather than a direct cash payment. As a consequence, the incentive may not be realized for more than a year after the hiring decision is made. The amount of the tax credit is unclear at the time of hiring, since in part it depends upon the tax liability and tax bracket of the firm. Finally, the benefit of the credit is largely confined to the accountant's domain; it is simply one more maneuver that accountants utilize to reduce the firm's tax liability. In many firms, personnel responsible for claiming the credit have little contact with those who do the actual hiring.

Employers were also given an opportunity to comment on design problems. The question was open-ended and proved nonproductive; the comments generally reinforced what we have stated above. In the discussion group with private sector employers, where there was greater opportunity to pursue these issues, there was general agreement that the form of the subsidy did offset its incentive value and that its size was not especially attractive to firms with high pay scales.

Employers also made it clear that they prefer nontargeted subsidy programs. Several questions were asked about their reaction to the New Jobs Tax Credit (a nontargeted, marginal subsidy). Their awareness of, participation in, and acceptance of that program was higher in comparison to targeted subsidy programs. In fact, a number of employers expressed some guilt over the windfall character of that earlier program. The New Jobs Tax Credit was introduced at the beginning of an economic upturn and amounted to a substantial tax break for many firms. Furthermore, it did not interfere with existing personnel practices. For many firms it functioned as a pleasant tax-reduction program with few, if any, conditions attached.

Although much of the thinking on design problems continues to emanate from theoreticians and public policy analysts rather than program administrators and users, these problems are nevertheless important to consider in terms of future action. Design aspects that are most often considered include (1) biases introduced by the size and calculation of the subsidy; (2) competitive distortions introduced by the size and calculation of the subsidy; (3) distortions introduced by the duration of the subsidy; (4) distortions introduced by the targeting of the subsidy.

Size and calculation. Current wage bill subsidies clearly favor low-wage and/or part-time employees. Since the wages against which the subsidy is calculated have a relatively low ceiling ($6,000) the absolute amount of the subsidy represents a declining proportion of the wage cost as the wage level increases. This decline substantially reduces the incentive features of the subsidy for firms with employment opportunities in the primary sector (i.e., high-skilled positions).

Duration. Theorists continue to assert that the limited duration of the subsidy can result in a "churning" effect, meaning that persons are hired into low-wage jobs and then replaced by other subsidized individuals once the original subsidy ends. However, there has been no empirical documentation of this effect, nor did our respondents agree with this contention. It remains a theoretically plausible hypothesis rather than an established fact.

Targeting. The distortion introduced by targeting the subsidy on certain groups is generally called "displacement." Simply stated, among the pool of job applicants, those persons eligible for the subsidy will be preferred over other applicants who differ only on arbitrary eligibility criteria rather than on the basis of relevant job skills and experience. Furthermore, there will be no appreciable increase in the aggregate number of job slots. The worst situation involves the possibility that existing personnel will be replaced by subsidized persons. Consequently, the subsidy may do little more than alter the composition of the unemployment queue rather than decrease unemployment. Since we were skeptical that employers would be able and/or willing to discuss displacement cogently, we did not introduce this topic into our questionnaires and discussion groups.

Competitive biases. One criticism of government programs is that they may subvert normal competitive forces. By virtue of the character of their labor force, tax situation, and geographical location, some firms will benefit more than others from wage subsidy programs. From this point of view, some firms would gain an inequitable advantage. At current participation levels, this does not appear to be a factor, but as participation levels increase, the issue should be observed carefully.

Administrative Issues

The administration of existing wage bill subsidy programs is a complex and sensitive question--complex in the sense that administrative issues inevitably involve complicated trade-offs among allocations of scarce fiscal and human resources; sensitive in that administrative deficiencies are easily blamed for the failure of programs. The apparent gap between the theoretical and practical organizational arrangements for implementing wage bill subsidy programs is often overlooked by those approaching the issue from either theoretical or ideological perspectives. Still, the contention that the failure to use the programs has resulted from inadequate efforts to administer and publicize them should be examined.

The evidence derived from our first year of research is mixed. For example, DOC and DVR personnel generally did not consider the administration of TJTC a significant problem, at least relative to other problems. Only about 1 in 5 of those responding felt that either the process of vouchering or certifying eligible persons seriously inhibited the efficacy of the program. On the other hand, some employers familiar with the tax credit program and disposed to use it complained about the difficulty they encountered in obtaining detailed information or cooperation from those government agencies presumably responsible for its administration. While we are not in a position to make a definitive statement regarding alleged administrative failures in executing the program, a few general comments are in order.

The WIN program. There has been little controversy regarding administration of the WIN tax credits. Nevertheless, the structure and processing arrangements for this program offer important lessons. First, it is reasonably clear that much of its success depends upon the priority it is given in the structure and operational processes of each office. As evidence of this fact, utilization of tax credits in this program varies significantly across the state of Wisconsin. In one relatively urban labor market, the tax credit is used in less than 10% of the entered employments; in a comparable area it is used for over 60% of entered employments (data in the WIN Performance Report prepared by the Department of Industry, Labor, and Human Relations). Our discussions with WIN staff in several offices indicate that they all make some effort to inform employers that they are eligible for tax credit. In some cases, however, this represents little more than notifying employers in a pro forma fashion.[5] It is not surprising that many employers ignore the notifications. Unless agency workers conscientiously instruct clients regarding their eligibility for the credit and how to use the credit in the job search process, and/or systematically contact firms regarding the benefits of the credit, low utilization is likely to continue. Our review of agency operations suggests that considerable variation exists among WIN offices in terms of how extensively the credit has become a part of agency operations.

The TJTC program. Because the program is relatively new, in comparison with other subsidies, there has not been sufficient time to establish stable organizational patterns. But in view of the fact that the explicit intent of its architects was to articulate a simple program, the result is disappointing. The national study by the Employment and Training Administration (1979) states: "Though it was generally assumed that the TJTC could be set up locally as a simple program, this has not been the experience [of local agencies]. They have found it to be a rather complicated program to implement, which has sharply tempered the attitude with which some of the [local agencies] undertook their administrative responsibilities and the interest of sponsors in the TJTC" (p. iii).

The complexity is a result of several factors: (1) administrative and operational tasks are shared among employment service agencies, CETA prime sponsors, and other local agencies, such as welfare agencies and DVR; (2) the requirement to update client eligibility for the subsidy at frequent intervals, in some cases monthly, increases administrative costs; (3) the failure to provide sufficient federal resources for these administrative costs has placed a burden upon state and local agencies.

Certainly, the Wisconsin experience reflects the confusion surrounding the administrative implementation of this program. It is clear that no concerted effort has been made to ensure that Wisconsin employers will take full advantage of the federal tax break. Conversely, the report of the Wisconsin Welfare Reform Study Advisory Committee (1979) called for vigorous utilization of what is essentially a federally financed program. John Bishop, of the Institute for Research on Poverty, one of the leading researchers on this subject, has been particularly involved in advocating increased state participation in this type of program.

The reasons for the state's failure to exploit the program fully have been publicly debated in the past and will be only briefly noted here. First, there are legitimately held differences of opinion regarding the efficacy of wage bill subsidies as a tool to stimulate employment opportunities for the disadvantaged. Second, administrative responsibility is fragmented among several agencies (Department of Health and Social Services; Department of Industry, Labor, and Human Relations; CETA prime sponsors; the public school system; local relief agencies, etc.). The combination of differing perceptions of the tax credit program coupled with fragmented administrative involvement (one agency vouchers, another certifies, a client) has generated uneven implementation of the program. For example, only 1,244 General Assistance (GA) recipients had been vouchered through July 1980. To ensure that the GA population is included in the program, cooperative agreements have to be completed with more than 600 relief agencies in the state, an almost prohibitive task. In addition, because sufficient resources to administer the program allegedly have not been granted by the federal government, reallocation and training of staff has drained the state's resources at a time when it has few to draw upon.

On the other hand, it is clear that the program does provide some relief for Wisconsin employers from their federal tax liability. This, under certain assumptions, reduces the operating costs of state firms and potentially provides a marginal advantage over related firms located elsewhere. Whether or not this advantage is realized depends upon the ability of Wisconsin, relative to other states, to maximize use of this program.

One theme that was stressed is that effective administration is largely a matter of commitment. In order for workers at the operational level to respond, top management must clearly establish use of these subsidies as an organizational priority, must communicate that priority periodically and unambiguously, and must routinely monitor subsequent performance. Although top state officials have pushed the WIN Tax Credit, there is no evidence of such commitment for TJTC. That commitment is, however, found in certain local agencies and among selected staff within agencies.[6] In the absence of an explicit statement of the role this tool is to play in the placement effort, no improvement in Wisconsin performance can be anticipated.

EFFECTS OF THE CREDIT WHEN IT IS APPLIED

Why the wage bill subsidies have not been more widely accepted is not the only issue of concern. Another is whether the subsidy can offset real or imagined deficiencies in the productivity of eligible persons. Implicit in this objective is the assumption that once a person is in the labor force, employment skills will improve to the point where participants can compete without the assistance of a subsidy (presumably after two years).

For the subsidies to operate in this fashion, there are two requirements: the availability of the credit must affect the hiring decision, and gains in the perceived productivity of the clients must occur within the first two years to offset the decreasing value of the credit. If these requirements are not satisfied, either the program is not affecting the population for which it is targeted and/or the effects will be short-term and consequently disappointing to both employers and clients.

Do Subsidies Influence the Hiring Decision?

The efficacy of wage bill subsidies as a public policy tool ultimately depends upon the answer to this question. As noted earlier, a majority of DVR, DOC, and WIN staff respondents had favorable opinions about the subsidies. Yet as an effective tool in helping their clients obtain jobs, they found that experience proved it deficient. The tabulation below gives the employers' views regarding influence of the subsidies on hiring decisions (respondents are those who used the programs):

Question: Does the tax credit normally have anything to do with your [hiring] decision?

	Number	Percentage
Usually	11	30.5
Seldom	2	5.6
Never	17	47.2
Don't know	6	16.7

(N = 36; nonparticipants not asked this question)

Only 30% of participating employers indicated that the availability of the wage bill subsidy usually influenced their hiring decisions. (It should be noted that most participating respondents had limited contact with the program, and that their conclusions may therefore be based upon abbreviated experience.) Only slightly more than 1 out of 3 employers (36.1%) replied that the subsidy had at least some effect (rows 1 and 2 above) on their hiring decisions.

A theme repeatedly heard from both public and private representatives was that the personal qualities and skills of the job applicant far outweigh reduced wage costs as factors in the hiring decision. Although this perception is widespread, it is often conditioned by the type of employment being discussed. For example, since high-skilled and high-paying positions presumably require qualified personnel, the subsidy would be considered insufficient to influence any hiring decision. The same would be true for positions with high public contact and interdependent technologies (i.e., a production line), where lack of productivity would influence others. The issue is decidedly less clear when the discussion involves low-wage, low-skill positions. Consequently, potential influence depends upon the magnitude of the incentive feature (i.e., lower for high-skilled and/or technologically interdependent jobs). Despite these qualifications, conventional wisdom suggests that in general (1) employers do not, or cannot, make sensitive judgments regarding the marginal productivity of prospective job applicants; therefore (2) modest reductions in wage bill costs will not significantly influence personnel decisions. Some of the comments by respondents illustrate the point: "How do I know now that 50% or whatever will be enough? His productivity may be so negligible or his effect on the public may be so negative that 50% may not offset what it costs to have him around." "How much is it going to cost <u>me</u> to hire him? I don't know that."

Perhaps the most dramatic evidence stems from two hypothetical questions asked of employers. They were asked whether or not they would be more likely to hire a subsidized person who (1) was equally qualified with other job applicants, or (2) was somewhat less qualified than other applicants. The results are shown below.

<u>Question</u>: If at the time of hiring, you were to learn that a job applicant would qualify you for one of these tax credits, would you be more or less likely to hire them or would it have no effect on your decision?

	Applicant as qualified as others	Applicant somewhat less qualified than others
More likely to hire	60.8%	13.5%
No effect on decision	31.8	57.1
Less likely to hire	2.4	4.7
No response	5.0	24.7

Note that in the first instance, 61% said they would be more likely to hire the subsidized worker, and in the second instance only 14% replied positively. In other words, employers say that they are at least four times more likely to be influenced by the subsidy <u>if</u> they perceive no appreciable difference in skills and motivational qualities between subsidized and nonsubsidized applicants for the positions. It should also be noted that a few employers said they would be less likely to hire an applicant if they were eligible for a subsidy. Less than 5% said they would react negatively to an eligible applicant because of the subsidy if the applicant was somewhat less qualified than others and 2.4% said they would react negatively to an equally qualified subsidy eligible job applicant. Since several WIN counselors expressed concern over the stigmatizing effect, that issue was of particular interest to us. It appears that there is little reason to fear a stigma effect when notifying prospective employers of a job applicant's eligibility for a subsidy.

Assuming that these responses reflect the opinions of the private sector, several implications can be drawn. Employers are primarily interested in securing qualified personnel, particularly in skilled positions. However, all other things being equal, reduced wage costs can influence their hiring decisions. On the other hand, few employers indicate that wage bill subsidies are a sufficient incentive to alter their normal hiring patterns to take on less qualified candidates. And finally, there is little evidence that employers will react adversely to the fact that a job applicant is eligible for a subsidy.

To examine in more concrete terms the issue of the effect of targeted subsidies on the hiring decision, we asked WIN job counselors and employers additional questions about job search and hiring procedures. Our discussions with WIN personnel indicate that after they prepare their clients for the job search process, a substantial majority of clients make their own employer contacts. Virtually all clients receive some information about the credit and some type of document to inform prospective employers of the credit. However, it was the consensus of the counselors that most clients, through feelings of stigma and/or uncertainty about how to explain the credit, did not actively use it in the job search process. A number of counselors did stress that the credit was useful in initial contacts with firms for job development purposes and that after a successful placement, firms would be more likely to seek out applicants from the Job Service/WIN labor pool. Overall, however, it was believed that in most cases the firm learned that the new hire was eligible for the WIN Tax Credit after the hire, when materials describing the credit were sent to the firm by the WIN office. There is no evidence that the usage with respect to the TJTC was any different.

It was our feeling that many agency staff retained ambivalent feelings about using the credit proactively during the job interview process. Their normative presumption is that clients should be considered on their own merits. Several times the comment was made that clients do not want to be labeled as needing to be subsidized, both from personal pride and from fear that the employer might react negatively to that information. Some agency staff felt the issue touched on an individual's right to privacy--i.e., the client should never be exposed as an AFDC recipient, General Assistance recipient, ex-felon, etc. As a result, one view is that the credit should be an after-the-fact bonus for a hiring decision already made. The following tabulations suggest that the perceptions of the business community did not substantially corroborate this view.

Question: Has your company ever claimed a tax credit under either the WIN or Targeted Jobs Tax Credit programs? (affirmative response)

	Number	Percentage
WIN	22	21.4
TJTC	9	8.7
Both	2	1.9
Not sure which	3	2.9
Never participated	67	65.0

(N = 103; those not familiar with either program were not asked this question.)

Question: In those cases where you've claimed the credit, do you usually know about it prior to making your hiring decison?

	Number	Percentage
Yes	22	61.1
No	12	33.3
Don't know	2	5.6

(N = 36; respondents who participated in either program.)

These responses show that nearly 35% who are familiar with the programs claimed to have utilized one or both of the existing targeted subsidies. This group represents 21.2% of all employers interviewed. Of those participating, roughly 3 out of 5 report that the applicant's eligibility for the subsidy was known at the point the hiring decision was made. Since, however, these data are based upon the recollection of prior events, it is not clear how accurate this estimate might be. A more rigorous examination of the issue is required. It is known that some firms (e.g., a well-known franchise fast food operation) routinely screen job applicants to determine eligibility for the subsidy while other firms have begun to review their existing work force to identify personnel for whom the credit might be retroactively claimed.

Effect of Subsidies after Hiring

The final issue involves the question of what happens after a person is hired. In a study of this nature, the question cannot be appropriately answered; particularly for the TJTC program, which had only been in effect for two years. Some of our evidence does, however, bear on the issue.

In discussion with WIN personnel, we included the question of whether the subsidy was likely to affect a client's probability of remaining with the firm. While some respondents felt that the subsidy did influence some employers to retain such employees who would otherwise have been let go, there is no real consensus. As the following tabulation shows, employers who had participated in this program generally had positive feelings about the program.

Question: Based on your experience with these programs, how would you say it worked out for your company?

	Number	Percentage
Very well	20	55.6
Somewhat well	4	11.1
Somewhat poorly	4	11.1
Very poorly	8	22.2

(N = 36; asked only of those who have participated in the program.)

Roughly 2 out of 3 employers claimed that hiring subsidized workers had worked out well for the firm. To the extent that the subsidy provided a work opportunity for an individual who, in the absence of the subsidy, might not have been hired, this could be an encouraging sign. However, discussion comments made by private sector representatives indicate that the employees' performance on the job is the key factor in whether or not they are retained. In the absence of contradictory evidence, we may nevertheless assume that any employment opportunities derived from such subsidy programs exert, on balance, a positive effect upon those participating.

THE PAST AND FUTURE ROLE OF JOB SUBSIDIES

General Employer Perceptions of Wage Bill Subsidies

Although the business community expressed reservations about government programs in general and programs that interfere with the functioning of the economic marketplace in particular, we found evidence that under appropriate circumstances the private sector will respond positively to the concept of wage bill subsidies.

Question: Are you in favor of the government continuing these tax credit programs?

	Number	Percentage
Yes	109	64.1
No	33	19.4
Don't know	28	16.5

(N = 170)

It is interesting that 64% of all firms believe that government should continue this type of program--an impressive statistic. Some qualified their reponse by saying they favored continuation if the program worked. It was never clear, however, if there was a consensus on the term "worked." Others suggested that this could be an excellent program if it were publicized and administered properly. A breakdown of the response to the above question by professional position shows that the business community generally feels positive toward the concept of wage bill subsidies: 63.9% of owners of firms, 80.57% of managers or personnel specialists, and 84.6% of the accountants felt that this approach should be continued.

The apparent gap between the appeal of such programs in the abstract and their lack of apparent success in reality was pursued with the sample of employers. As noted previously, lack of knowledge about the programs was repeatedly identified as the key inhibiting factor in achieving optimal utilization. Detailed and personal communications with key decision makers in firms appear to be needed to evoke a positive response to tax credits from the business community. In light of the workload faced by the private sector and the volume and complexity of government-related information sent to firms, it is clear that an occasional explanatory brochure will not be sufficient. Perhaps the most intriguing fact noted by our project staff was that even initially hostile repondents often become enthusiastic about the concept of wage bill subsidies during the course of the interview.

Compounding the problem for some firms who knew of the program and were favorably disposed toward subsidies was the fact that government occasionally appeared to make it difficult for them to use the subsidy. Encouragement was not offered; information, when solicited, was not supplied; and cooperation, when sought, was not forthcoming. To some, the problem was more than an issue involving lack of initiative--it assumed almost conspiratorial proportions. While that picture may seem exaggerated, it represents the feelings of a few firms which, having determined the program had value for them, were frustrated in their efforts to act. A few business representatives who took part in the group discussion attended, in part, because they had been unable to obtain information about the tax credit programs from other sources.

Summary of Perceived Problems with Wage Bill Subsidies

Attitudes and biases represent a major dimension of the problem. Some of the predispositions in the business community are reasonably specific: 30% of those responding felt that the paperwork associated with the program would be excessive, and a little more than 20% of respondents stated this as the reason the business community had not used the credits (despite the fact that those familiar with the program generally expressed surprise with the administrative ease of the program). Three out of 10 employers felt that eligible job applicants would probably be unacceptable workers. Clearly there were misperceptions regarding the character of the subsidized population. When asked, for example, who would be eligible for a subsidy, many responded that the program was for ethnic minorities. We find it reasonably clear that lack of effective communications regarding the intent and character of the program has resulted in misperceptions of the program.

To the business community, wage bill subsidies do not represent the sole means of increasing the employment of the disadvantaged. From responses to our inquiries regarding the appropriate government role in reducing unemployment, we sketched the following picture. Employers clearly want access to a qualified, motivated supply of labor. They want the potential labor pool to be better prepared prior to seeking a job; this means better preparation in basic skills and vocational skills. Some feel that the problem of the 1980s will not be the lack of labor demand but rather a scarcity of persons to fill semiskilled and highly skilled positions. Employers also want a motivated supply of labor--those possessing habits and attitudes conducive to good work performance. A number of employers believe that this implies a partial dismantling of existing social insurance and income support programs, primarily unemployment insurance, "welfare," minimum wage laws, etc. This feeling represents the deep-seated belief that the private sector is in competition with public sector transfer programs for workers, and that consequently the labor pool is not effectively motivated to perform in the private sector because its members have alternative sources of income. While the validity of this proposition is open to question, many employers are deeply concerned. In addition, employers addressed the issue of the overall tax burden, indicating that any efforts toward a general (nonspecific) tax abatement would be welcome.

That we found these attitudes is not surprising. They represent what might be termed the conventional wisdom concerning business attitudes. It is nonetheless true that human capital development is a costly and problematic endeavor. Yet it is also valid to assume that government transfer programs will remain for the most part intact, though perhaps at a reduced funding level. General corporate tax reductions, reflecting a renewed interest in "supply-side" economics, appears to be the only change that can be expected.

We may assume that economic incentives will continue to play a role in efforts to secure a full-employment economy. On the labor supply side, wage rate subsidies remain popular, as evidenced by the expansion of the Earned Income Tax Credit. On the labor demand side, several wage bill subsidies have been enacted by Congress in recent years. Given the favorable attitude we found toward the concept of wage bill subsidies, it is reasonable to assume that they can play an important role in efforts to optimize the work opportunities for those experiencing problems in the labor market.

CHAPTER 5

ISSUES, PRESENT AND FUTURE

This research project was undertaken to analyze and consider the following question: Are targeted wage bill subsidies an effective public policy tool to increase employment opportunities for hard-to-employ persons? Based on classical economic theory, wage bill subsidies have, in recent years, been presented as efficient economic incentives to stimulate labor demand for less productive workers. The appeal of this strategy can be attributed in large part to its reliance on private sector employment and its administrative simplicity.

Through analysis of past performance reports for the WIN and Targeted Jobs Tax Credit programs, we have found that these programs are utilized in only a small proportion of the cases where eligible persons are hired. A low utilization rate means that the programs are not operating as predicted by economists and policy analysts. While the current economic recession is in itself likely to reduce hiring, it is clear that these programs are not meeting initial expectations. That experience raises concerns about the effectiveness of the wage bill subsidy strategy and the justification for maintaining a program that is of questionable ability in increasing employment for targeted persons.

The research staff endeavored to identify and define the problems and issues causing underutilization in these types of programs. Private sector officials and public sector administrators were individually interviewed to develop an initial set of questions. Next, through surveys of private employers and public sector field staff involved with these programs, the research team attempted to define more clearly the barriers to optimal program operation. The result is new evidence upon which future research efforts can be planned in order to address the basic question of the effectiveness of targeted wage bill subsidy programs.

FINDINGS AND FUTURE RESEARCH NEEDS

Since current performance levels clearly demonstrate underutilization of these tax credit programs, we assumed that the simple economic models supportive of wage bill subsidies required reexamination. It was suspected that other noneconomic factors must be influencing economic behavior. Consequently, we adopted an analytical framework which included human and organizational dimensions as well as economic factors. Our analysis identified the following four barriers to program operation: lack of knowledge of the programs by employers and field placement staff; attitudes of employers and staff; design of the program; and administrative system of the program.

Different problems will each require policy responses appropriate to the nature of the problem area. That is, initiatives for changing attitudes would be quite different from design changes to modify the amount or length of subsidies. Using data collected in this investigation, we summarize below the findings for each of the four problem areas.

The responses of employers and government staff consistently indicated inadequate knowledge about the existence and the benefits of the programs. State government employment counselors considered themselves unfamiliar with the programs and were uncomfortable when explaining the tax credits to employers or clients. Employers stated that lack of information from the government had been a major factor in their low utilization of the programs. In sum, lack of knowledge about the tax credit programs by employers, government staff, and clients appears to be a significant factor in the disappointing program results. While economic models are not able to estimate the magnitude of the influence of wage subsidies, the current knowledge barrier has the effect of reducing the actual tax benefits available to Wisconsin businesses. In addition, remedying this informational deficiency is a prerequisite to obtaining accurate information on which to evaluate the actual effectiveness of wage bill subsidies.

Attitudes expressed by employers and government staff were also found to reduce utilization of these programs. Responses by government staff indicated that using the tax credit as a placement tool is not consistent with their professional orientation toward human capital improvement. Clients should be prepared to sell their own qualifications and must be "job ready" before entering job search. It is the attitudes of employers, however, which constitute the most important element in this area, since without employer participation the programs cannot succeed. Our investigation found that while employers hold generally negative attitudes toward government programs, most stated that they would not reject a "credit-eligible" job applicant. Employers also consistently indicated that the top criterion in hiring decisions was the job qualification of the applicant. Nevertheless, almost two-thirds of the employers surveyed stated that wage bill subsidy programs should be continued as public policy in the future. Our evidence thus suggests that while employers are cautious about government programs and while hiring is based upon individual qualifications, employers also indicated that they felt "credit-eligible" persons would have all or most of the qualifications to be a good employee, and they supported the continuation of wage bill subsidy programs. Our project could not measure the relative strength of these mixed positive and negative attitudes.

Before discussing the remaining findings, we must note that knowledge and attitude barriers represent fundamental problems which must be resolved prior to addressing design and administrative issues. Consequently, we have developed a research plan for a controlled field experiment to measure the effectiveness of the tax credit programs under circumstances intended to eliminate knowledge deficiencies and inaccuracies (attitudes). Specifically, our subsequent research will inform employers about such wage bill subsidies through a literature-only method and through a phone-contact-plus-literature approach; clients will also be trained to present their tax credit eligibility during the interview process. These activities should permit a more accurate assessment of the proactive influence of the programs in the hiring process. Proactive use of the tax credit is an essential element of the theoretical appeal of these subsidies; the retroactive use (after hiring) of tax credits has led to criticism of the credits as constituting business windfalls rather than incentives for employers to modify hiring practices.

Our findings concerning <u>design</u> problems in the current programs were surprising, given the initial research hypothesis that design elements would be an important factor in explaining program underutilization. In general, employer responses did not consistently support design factors as a major problem. It appears, however, that employers lacked sufficient knowledge to make specific comments on design problems. The responses of both employers and government staff nevertheless indicate that design factors (the amount of subsidy; its duration; cash payment rather than tax credit) remain potentially important issues for future consideration.

Administration of the programs was the final area analyzed as creating a barrier to optimal performance. It represents a complex interconnection of program fiscal resources, organizational arrangements, and service priorities. In general the findings indicate that staff did not perceive administration to be a significant problem. Conversely, the responses by employers familiar with the programs identified problems associated with obtaining information and/or cooperation from responsible government agencies. While insufficient federal support for program operations may be a major administrative problem, it appears that considerable variation exists among the administrative efforts of local offices to operate these programs. Particularly with respect to the Targeted Jobs Tax Credit, administration is complex and confusing for both clients and employers.

Overall, we found that targeted wage bill subsidy programs have been underutilized but that the current programs are favorably regarded by some employers and may positively influence employment opportunities for certain economically disadvantaged persons. The evidence indicates that inadequate knowledge and uninformed attitudes are currently inhibiting increased utilization of these programs. At the same time, our findings do not preclude the possibility that "displacement effects" (eligible workers displace other disadvantaged job seekers), inadequacy of the amount of subsidy, and other variables may reduce the effectiveness of this policy. Additional research is needed to resolve these questions concerning the efficacy of these programs.

RELATED POLICY ISSUES

Our research project has attempted to clarify the issues surrounding underutilization of existing targeted wage bill subsidy programs. There are additional questions which are part of the broader policy issues of poverty and unemployment.

Targeted subsidies need to be analyzed with respect to the goal of individual economic self-sufficiency. It has been hypothesized that current programs have an inherent bias in favor of low-skill, low-wage employment. Consequently, a typical subsidized job may not pay a wage sufficient to remove the worker from welfare. Analysis of the overall efficiency of the wage bill subsidy approach to unemployment should also include costs associated with displacement and with a "churning effect" (replacement of original subsidy-eligible workers with others when the subsidy term expires), and distortions in the competitive relationships between employers. The goal of increasing net job creation is an appropriate criterion for measuring the efficiency of targeted and general wage bill subsidies.

Finally, recognition should be given to the fact that wage bill subsidies represent only one policy tool among many to achieve reduction of structural unemployment. The overall problem appears to be the result of both an inappropriately prepared supply of, and an inadequate demand for, labor. The appropriate policy response would therefore appear to call for a mix of strategies to improve labor supply while increasing labor demand. With regard to labor supply, effort should be made to improve both the educational system and employment/training programs. Efforts should also be made to eliminate work disincentives contained in income maintenance programs. To increase labor demand, there are numerous strategies which should be considered: alternatives range from cash subsidies to the private sector to promoting economic development ventures. Much remains to be learned about the optimal mix of supply and demand strategies which will increase employment under varying economic conditions.

NOTES

[1]The estimate for 1980 includes the value of in-kind as well as cash transfers.

[2]The interviewers suspected that some respondents who claimed familiarity with the WIN Tax Credit program were actually making an association with the overall WIN job development effort.

[3]The actual estimates were: Madison area, 31% (N=4); Green Bay area, 46.2% (N=4); Kenosha area, 45% (N=8); LaCrosse area, 8% (N=5). The low number of respondents reflects the fact that not all counselors utilize the tax credit in job development efforts.

[4]This is not meant to suggest that the counselors are not important in the job placement process. Counselors prepare the client for that search process and often suggest possible employers.

[5]Pro forma notification typically involves the mailing of a brochure explaining the credit and forwarding appropriate forms to employers after a hire.

[6]One WIN staff person interviewed had a nearly perfect record regarding utilization of the tax credit. He achieved this by personally contacting each firm hiring (or considering hiring) one of his clients to explain the program in detail and then assisting the employer in utilizing the subsidy. This was time-consuming, but he apparently <u>believed</u> it was worth the effort.

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