Introduction

Less skilled and low-paid workers—those in approximately the lowest thirty percentiles of the earnings distribution—are in trouble in the United States. Their real wages fell during the 1980s, and their employment prospects have worsened. While workers in the middle parts of the earnings distribution have not fared well, the sharp drop in the rewards to those at the bottom has shocked many economists and analysts. One outcome of the fall in earnings for those at the bottom of the distribution has been that the gap between low-paid and the high-paid workers grew markedly through the 1980s , bringing the United States to levels of inequality not seen since the Great Depression. But lower earnings have not created a job boom for the less skilled. While the employment and hours worked by the less skilled vary cyclically, the trend has been for less skilled men in particular to work fewer hours (Juhn, Murphy, and Topel 1991; Freeman 1995).

There is a wide spectrum of views on the question of what kind of policies might increase the wages and employment of low-paid workers in the United States. Some analysts favor no policy interventions and would leave the position of low-paid workers to the market in the hope that they will respond to adversity by increasing their investment in skills and that employers will respond by increasing their demand for less skilled workers once these workers become cheaper. Some favor private charitable activity to help those in trouble. Others favor restrictions on immigration or trade. Still others endorse increased education and training. There are advocates of increasing the Earned Income Tax Credit and advocates of reducing the capital gains tax to spur investment or of general tax cuts to raise take-home pay. Some favor a policy of encouraging the growth of unionism or other forms of worker organizations that can collectively force employers to increase the pay of low-wage workers. Others want to increase the minimum wage or mandate employer-funded benefits.

In addition, many people favor general policies to maintain a macroeconomic expansion in the hope that strong growth will ultimately "trickle down" to all, so that special policies to aid low-paid and less skilled workers will be unnecessary. Growth through the mid-1990s did not benefit these workers, and we are dubious that "growth, growth, growth" will by itself resolve their economic problems. Not until the rate of unemployment reached 5 percent or less in 1996 to 1997 did the earnings of many low-paid workers begin to pick up. Whether the U.S. economy can maintain unemployment in the range of 4 to 5 percent and avoid a recession that will inevitably reduce the wages and employment of those workers is debatable. In any case, the real earnings of low-paid workers have a long way to go to reach the levels of 1973, much less to restore only the level of disparity between their pay and that of high-paid workers that existed before the increase in earnings inequality. Strong economic growth is probably necessary but not sufficient to improve the earnings of workers in the lower tiers of the earnings and skill distribution in this country. Special measures or policies to help low-paid workers are probably needed if the United States is to share its economic prosperity with these workers.

This book examines a set of policies that have been relatively neglected in discussions of ways to improve the market for less skilled workers: *micro demand-side policies* that seek to induce firms and government agencies to increase their employment of less skilled workers or that seek to raise the pay and benefits of low-skill labor. Some of the demand-side policies we examine are concerned with increasing employment. Others focus on improving the wages and benefits of low-paid workers. Since particular policies target either employment or wages, the researchers who study them often focus on one or the other of these outcomes. But policies that affect demand for labor impact both employment and wages. We contrast these policies to education and training policies that affect the supply of labor.

In years past, analysts and decision makers viewed demand-side policies as important tools to improve the employment situation of workers in trouble. During the Depression the Roosevelt administration created the Public Works Administration (PWA) and the Works Program Administration (WPA) to provide public-sector employment. The Johnson administration initiated affirmative action programs to shift demand toward discriminated groups. The Nixon administration developed the Comprehensive Employment and Training Act (CETA), which included federal funds to support state and local government jobs for low-skill workers; at one point, CETA enrolled one million adult workers and one million youths in summer jobs. The Carter administration experimented with subsidies for employment and short-term compensation programs to provide unemployment insurance to workers whose hours of work were reduced but who were not laid off.

In the 1990s, however, most attention turned from demand-side policies to supply-side policies: job training and schooling to raise labor skills; lower taxes by instituting an Earned Income Tax Credit to raise the take-home pay of the less skilled.[1] But for all their putative virtues, supply-side policies have not been the panacea that many had hoped. It takes a very large investment in skills to restore the 20 to 25 percent loss in real earnings experienced by low-skill Americans.[2] Given the magnitude of the problem, it seemed to us important to look again at the experience with policies that affect the other blade of the market scissors—demand for labor.

Which, if any, demand-side policies have succeeded in raising the employment or earnings of low-skill workers in the past, and which have not succeeded? Regardless of the past success of these policies, what lessons can we draw from them for the development of future programs?

This book contains seven studies that examine the effectiveness of micro demand-side policies—by which we mean policies that affect employers' demand for labor without risking the macro-economic problems of inflation. Even within the boundaries of micro demand policies, the book is selective. The policies examined partly reflect the interests and expertise of the researchers. The book is also selective because some demand-side programs—for instance, increased tariffs that would shift demand from foreign goods to American goods—have such high costs (even without foreign retaliatory tariffs) as to be nearly impossible to justify as cost-effective. For example, Gary Hufbauer and Kimberly Elliott (1994) estimate that the consumer cost of saving a job by tariffs is more than $100,000, with an average of around $170,000. It is hard to imagine circumstances under which the benefits of saved jobs would be worth even the lower end of the cost estimates, so we do not examine this policy.

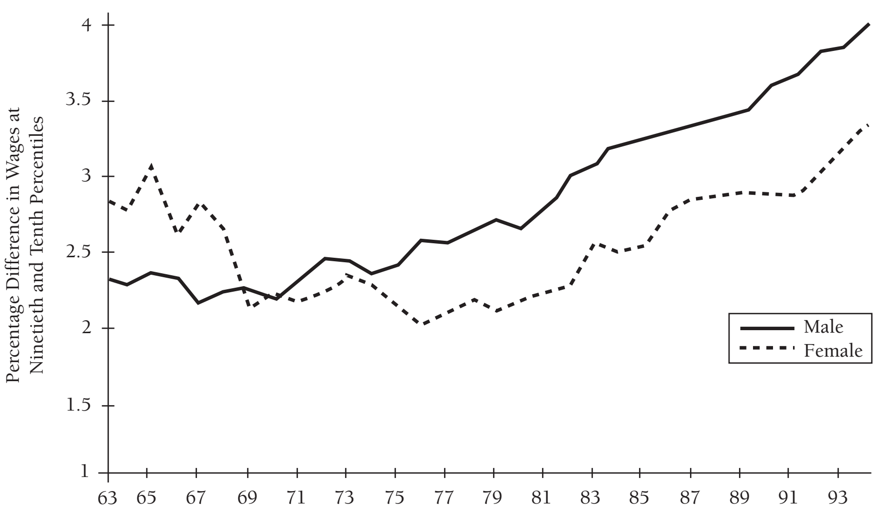
Most of the policies on which the book reports operated in an economic context different from the 1990s world of inequality. Some of the policies have been tried more extensively in countries besides the United States. It is important to remember that policies that work or do not work in one economic environment or country may work differently in a new setting. Nevertheless, if a policy failed in the past, we would be leery of trying it in the present without at least tailoring it to current circumstances. Similarly, if a policy succeeded in the past, we are more likely to believe that something analogous would work in the present—though, again, we would want to tailor it to fit current realities. To assess the potential for micro demand-side policies to raise the economic position of low-skill and low-paid workers, we must understand both the current problem facing these workers and the effectiveness of policies in the past.

The 1990s Problem

The 1980s to 1990s was an epoch that witnessed a huge rise in earnings inequality in the United States (see Levy and Murnane [1992]), fueled by substantial falls in the real hourly pay of young and less educated workers, particularly men. As these changes have been well documented elsewhere, we simply note four aspects of the problem in the mid-1990s.

First, the wage distribution has become bifurcated in many dimensions. From the 1980s through the mid-1990s, educated, older, and highly paid workers gained in wages relative to less educated, young, and low-paid workers. Figure I.1 shows the change in a commonly used measure of earnings inequality—the earnings of persons at the ninetieth percentile relative to the earnings of persons at the tenth percentile. The value of 2.3 for the 90/10 ratio in 1963 indicates that a male at the ninetieth percentile earned 2.3 times as much as a male at the tenth percentile.

Figure I.1 Difference in Weekly Wages for Male and Female American Workers at the 90th and 10th Percentiles, 1963 to 1993



Source: Author's tabulation of the March CPSs.

By this and other metrics, earnings inequality increased from the late 1960s through the mid-1990s. Despite impressive economic and employment growth from the mid-1980s through the mid-1990s, inequality continued to grow.

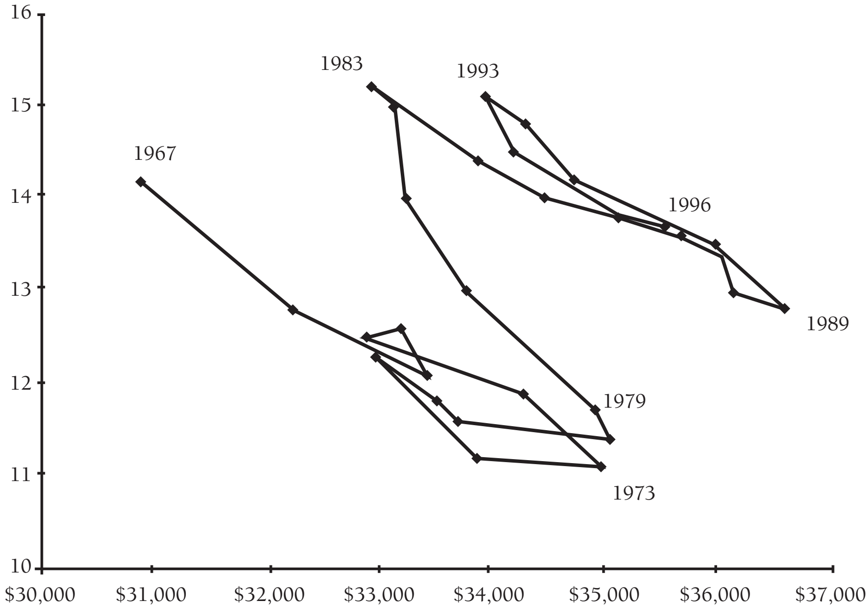
Second, the rise of inequality was due to falling real earnings for low-paid workers, not to huge gains in real earnings for the more skilled and better paid and smaller gains for others. Some groups enjoyed large increases in pay—CEOs, sports, movie, and TV stars, for instance—but for the most part, real earnings stagnated for men and rose modestly for women. The distribution widened because real earnings fell for a substantial number of low-paid workers, particularly men. The magnitude of decline in the earnings of low-paid workers varies depending on the years covered, the earnings measure, and the price series used to deflate earnings. For young men with less than a high school education and for those in the bottom percentiles of the earnings distribution, the fall in real earnings has been on the order of 15 to 25 percent.

Third, the fall in the hourly pay of the less skilled was accompanied by decreases in the amount of time they were employed over the year. Annual hours employed over the year also became more unequally distributed in the United States. If you were a high-skill and high-paid employee, your wages and hours worked rose, whereas if you were low-skill and low-paid, your wages and hours worked fell. Thus, yearly earnings became even more unequal than hourly pay. And fringe benefits such as private pensions and employer health care coverage also became more unequally distributed, at least among male workers. Almost all skilled and high-paid workers have pensions and health insurance. The unskilled and low-paid were increasingly unlikely to have these benefits.

Fourth, the "rising tide of economic growth that lifts all boats," the historic pattern by which nearly all Americans benefited from rising national income or employment, broke down in the 1980s (see Blank and Blinder [1986] and Danziger and Gottschalk [1995]). Between 1967 and 1979, as figure I.2 shows, poverty varied with the business cycle, falling as income rose and rising in recessions. But in the 1980s, even though median income rose, poverty did not fall. In 1989 the official poverty rate was higher than in 1979, when the median income had been lower and the unemployment rate modestly higher. The pattern of declining poverty during expansions reemerged in the post-1993 expansion. But the tradeoff had dramatically worsened. Even with median income above its 1979 level, poverty rates were a full two points higher.

These aspects of U.S. economic performance have attracted considerable national concern. After all, our history is one of rising earnings

Figure I.2 Median Household Income and Poverty, 1967 to 1996



Source: U.S. Dept. of Labor, Bureau of the Census, *Current Population Reports*, series p-60

for all. It is newsworthy when gross domestic product (GDP) grows and many Americans do not enjoy rising incomes. But even as we focus in this volume on the problems of low or declining earnings for low-skill and low-paid workers and possible micro demand-side solutions to those problems, it is important to recall that the American job market has done well along other dimensions. The impressively high level of employment relative to the adult population is the envy of much of the advanced world. More and more women have found work, buttressing family incomes. Many firms have introduced new ways of working with employees and unions that go far beyond the adversarial labor-management relations of the past.

But our focus is not on economic successes but on the problems that have marred these successes. For two decades, if not longer, the benefits of economic progress have been highly concentrated among the skilled and high-paid to the exclusion of many workers on the middle and lower rungs of the earnings distribution. How long this will continue is uncertain. While the economy often changes in surprising ways, no one anticipates a sudden reversal in the job market fortunes of low-paid and less educated workers—hence our examination of possible demand-side policies to redress these problems.

Causes Versus Cures

Why does the rising tide no longer raise all boats? What has caused the problem of rising inequality? Many analysts have examined possible causes (see Danziger and Gottschalk 1995; Blackburn, Bloom, and Freeman 1990; Katz and Murphy 1992). Some attribute the change to declining relative demand for the services of low-skill workers compared to the relative supply of these workers. Many believe the decline in demand for low-skill workers is due to changes in technology associated in large part with computerization. Others argue that a major cause of the shift in demand has been increased international trade and outsourcing. Still others attribute some of the problems of low-skill American workers to the influx of sizable numbers of less skilled immigrants in the 1980s and 1990s. Some analysts stress changes in wage-setting institutions: the decline in unionization and the falling real value of the minimum wage.

This book does not address the question of causality. None of the contributors ask why inequality suddenly burst onto the national scene or why the rate of growth of real earnings fell for so many workers. The problem of causality is certainly important, and it has motivated much research and argumentation. We do not address it, however, because our focus is on potential policy cures to the problem, and causality is largely irrelevant to policy cures. A moment's thought makes this point clear. Assume that the cause of rising inequality is technological change. Would the cure then be to return to 1950s technology? No one would endorse a Luddite policy of smashing machines. If a worker's earnings fall because technology has outmoded his skills, train him and give him a tax cut or subsidy to allow him to have a decent living standard, but do not ban computers or advanced technologies. Just as we cure myopia (a largely genetic disease) with glasses or contact lenses (environmental changes), so too can we cure increased inequality in earnings due to technology, trade, or declining unionization with very different policies.

We note further that in assessing programs that raise the earnings of workers in the lower rungs of the wage distribution, we must weigh the costs of the programs against the benefits of the higher earnings. Virtually every governmental intervention in the market has an efficiency cost. Taxes must be raised, and administrative costs and "deadweight losses" are then incurred as people change their behavior in response to the new taxes. On the other hand, the fact that costs are incurred does not mean that programs should be rejected, but that you, we, the nation must balance the costs against the gains.

Micro Demand-Side Policies

The chapters in this volume cover four types of micro demand-side policies. The first set are those policies that try to lower the cost of employing some groups of workers by offering tax credits or subsidies to employers (Katz) or tax concessions to firms to locate in designated areas (Gramlich and Heflin).

The second type of policy focuses directly on government employment. If the private sector cannot be induced to hire less skilled workers, perhaps government should hire some of them or, more radically, serve as an employer of last resort (Gottschalk).

The third sort of policy changes modes of pay. One such change is to introduce more profit-sharing into wage-setting, a policy that is supposed to induce employers to hire more workers in good times and lay off fewer in bad times (Kruse). A very different change in the mode of pay is to mandate minimum pay or benefits for low-paid workers (Houseman).

The fourth kind of policy focuses on changing the regulations or rules of hiring that can influence firms' employment decisions. One such policy is work-sharing—limiting the hours worked by the currently employed to induce firms to hire more people (Freeman). Another employment regulation is the antidiscrimination law that seeks to shift demand for labor from groups that have benefited from discrimination, notably white males, to groups, notably women, minorities, or older or disabled workers (including white males), that have suffered from discrimination (Holzer). Finally, employers and the law distinguish between part-time and full-time workers, and firms hire some workers on a contingent rather than permanent basis, raising the question of whether changing these regulations or policies might raise the economic position of the low-paid (Blank).

The final chapter presents a broad comparison of the American job market with that of a country with different demand-and-supply policies, Germany (Nickell). This chapter makes it clear that economic differences between countries are related to systemic institutional differences that are not easily altered and reminds us that while micro demand-side policies may improve the economic prospects of some workers, they cannot readily change the overall nature of the U.S. labor market.

Policies to Lower the Cost of Employing the Disadvantaged

The contributors to this book reached certain conclusions on the effectiveness of micro demand-side policies.

1. Wage subsidies to employers to hire disadvantaged workers have succeeded in raising demand for labor for those workers, albeit modestly, and thus deserve consideration in any national policy to restore the economic well-being of low-wage or low-skill workers.

Subsidizing the pay of disadvantaged workers to increase their employability has been part of the antipoverty arsenal since the mid-1970s. Among the most important such programs are the Targeted Job Tax Credit (enacted in 1978 and expired in 1994), which provides tax credits to employers that hire individuals from particular disadvantaged groups, and the Youth Incentive Entitlement Pilot Project (YIEPP), which guaranteed full-time summer jobs and part-time school-year jobs to sixteen- to nineteen-year-olds in selected communities.

Lawrence Katz examines the nation's experience with these and related programs that cover part of the costs of hiring disadvantaged workers. He reports that upwards of 9 percent of economically disadvantaged youths were at one point hired under the Targeted Job Tax Credit, and that the credit appears to have increased employment of the covered group. While many employers were reluctant to use the YIEPP, presumably because the covered workers were stigmatized as risky, enough employers participated so that employment rates rose modestly in covered communities. Katz suggests that if wage subsidies were general—covering, say, all low-wage worker—the stigma might be reduced, and that a tax credit for wage subsidies could play a role in increasing the demand for less skilled workers.

2. Subsidies to employers to locate in particular impoverished areas are not cost-effective. Creating jobs in enterprise zones is expensive, because many of the jobs go to workers from other locales.

The federal government has often targeted jobs programs at specific areas by offering special incentives to businesses to locate in those areas. The Area Redevelopment Act of 1961 and its successor, the Appalachia Act, were designed to break down the barriers of spatial isolation and encourage firms to locate in particular distressed areas. State governments often compete for business investments, offering incentives for firms to locate in their area rather than somewhere else.

Edward Gramlich and Colleen Heflin summarize studies that have shown that moving jobs to disadvantaged workers is very expensive, roughly $60,000 for each new job; that cost is not quite as high as the cost of creating jobs through tariffs, but it is likely to exceed any benefits of such job creation. They conclude that the cost of moving jobs to workers is substantially higher than the costs of alternative mobility strategies that move workers to jobs.

The lesson from these studies is that subsidy policies should target disadvantaged people, not disadvantaged areas. Further, to avoid stigmatizing the recipients of subsidies, the broader the group covered by the subsidy the better. This conclusion is consistent with Western European efforts to lower the cost of hiring low-paid workers by reducing the payroll tax firms pay for them, shifting the cost of that tax (which pays for pensions) to taxpayers with higher incomes.

Public Jobs

If private employers cannot be induced to hire less skilled workers, then perhaps the government should do so as an employer of last resort.

3. Public employment policies can increase the number of workers from targeted groups working during the program. These policies are less successful at raising future wages.

Public service employment policies that deal directly with joblessness by having the government hire workers in high unemployment groups have been used in the United States and other countries at various times. U.S. programs, such as the Public Service Employment (PSE) segment of the Comprehensive Employment and Training Act (CETA) of the 1970s, have concentrated on particular disadvantaged workers. Western European programs have been more inclusive.

The effectiveness of public employment programs has been questioned on the grounds that, rather than creating new jobs for targeted groups, they simply replace existing jobs with PSE jobs through various mechanisms—for instance, by substituting those workers for employees they would otherwise have hired, freeing that money for other purposes.

Peter Gottschalk reviews the U.S. experience with a diverse set of public-sector job programs, ranging from CETA to the Job Corps to Community Work Experience Programs (CWEPs) that require welfare recipients to work. Overall, the programs succeeded in raising employment. The low-skill and disadvantaged workers covered consistently accepted the public-sector low-paid jobs. But the programs had less success in raising the future wages or skills of these workers.

Policies That Change Modes of Pay

4. Profit-sharing is not common among low-skill workers and is unlikely to raise their employment significantly.

Profit-sharing—firms paying part of an employee's wage as an agreed-upon share of profits or net revenues—has desirable economic attributes. It can save jobs in downturns by cutting labor costs as profits fall. It gives firms an incentive to want more workers, since each additional hire spreads profits over more people and thus also reduces the cost of employment. In the 1980s the notion that profit-sharing might alleviate employment problems was popular. Many countries, such as France, have legislated the use of profit-sharing as a mode of pay, and the Japanese, Koreans, and other East Asians use an implicit form of profit-sharing through bonuses (Freeman and Weitzman 1987).

Does profit-sharing increase employment of less skilled workers? Douglas Kruse finds the evidence that the effect is weak at best. First, low-skill workers are currently less likely to be covered by profit-sharing than skilled workers, presumably because their work offers them less chance to influence profits through individual decisions on the job. The primary exception is the worker who receives tips, as in hotels and some restaurants. Second, the rate of displacement from jobs paid under profit-sharing is only marginally lower than under other jobs. Thus, it is unlikely that very much employment gain would result from changing the method of pay. In short, encouraging more profit-sharing does not look as if it would do much to raise the economic well-being of low-wage and low-skill workers.

5. Mandated wages and benefits can increase the compensation of low-paid workers, with little cost in jobs.

A natural way for governments to try to raise the compensation of low-wage workers is through legislation that mandates that firms pay all workers at least a specified minimum wage and provide certain benefits, such as health insurance. Minimum wages are found in virtually all countries, as are public pension programs such as social security funded by payroll taxes. Many countries also use payroll or income taxes to pay for national health insurance. Low-wage workers gain from such policies when their pension or health insurance benefits exceed the taxes they pay.

But mandating minimum benefits or wages is problematic. Increasing one part of a compensation package, such as employer spending on health insurance, induces employers to lower other parts of compensation, shifting the cost of the mandated benefit to workers. The result may very well be a change in the form of pay but not in the overall level. A second problem, most prominently associated with minimum wages, is that mandated increases in pay or benefits that firms cannot shift back to workers make employment more expensive and, thus, can lead firms to cut employment.

Evaluating the evidence on these two problems, Susan Houseman concludes that mandated wages or benefits can raise the compensation of low-paid workers. The link between mandated benefits and wages is not a strong one-to-one relation. The effects of minimum wages on employment have recently been found to be small—often indistinguishable from zero, at least at the low levels of the minimum wage in the United States.

By raising the cost of hiring low-paid workers, mandated wages or benefits operate in the opposite direction from policies that subsidize the employment of those workers. Mandates succeed if elasticities of labor demand for these workers are modest: then the costs can be raised fairly high and few jobs disappear. Subsidies succeed if those elasticities are large: lowering the costs marginally leads to large increases in employment. That wage subsidies have only modest effects in expanding employment and that mandates lead to modest job losses are thus consistent conclusions.[3]

Policies That Change Employment Regulations

Policies that change employment regulations usually have the goal of distributing demand for labor differently—to increase the demand, say, for employees instead of hours, for minorities and women instead of for white men, or for permanent employees instead of for contingent workers. If the policies are targeted at low-employment or low-wage groups, however, they may improve the position of those workers at the expense of workers in more advantaged groups.

6. Work-sharing arrangements negotiated between employers and unions have saved some jobs in Europe and Canada, but these schemes are no panacea for unemployment and have not worked well in the United States, where workers seek overtime and higher earnings rather than more leisure time.

When unemployment rates are high, some people call for sharing the burden of joblessness by lowering the hours of current employees and distributing those hours to the jobless. In the 1970s Congress enacted legislation that allowed states to alter unemployment benefits systems to provide unemployment compensation to workers who worked fewer hours. The idea was to encourage firms to reduce hours rather than to lay off workers over the business cycle. In the 1980s and 1990s some Western European countries, notably France, tried work-sharing schemes to lower unemployment.

Richard Freeman's review of the evidence on work-sharing shows that it works only under limited conditions that are not well met in the United States. Work-sharing saves jobs when workers want additional leisure rather than earnings; when the employed and unemployed have similar skills; and when management and unions work out specific sharing arrangements. When the Mitterand government of France tried to impose work-sharing on the entire economy in the early 1980s, the program resulted in disaster and was abandoned within a year. By contrast, when unions and employers have negotiated work-sharing through collective bargaining, as in Germany, some jobs have been saved in major manufacturing activities.

American workers and firms use the short-time compensation features of the U.S. unemployment benefits system relatively rarely. One reason is that workers whose real wages have stagnated want more work and greater earnings, not more leisure. Another is that firms that offer expensive health insurance policies prefer to spread those fixed costs over more hours worked by employees rather than incur additional costs for new employees. In addition, the skills of workers differ so much that substitution of hours for employees is more difficult than advocates of work-sharing recognize.

7. Equal employment and affirmative action programs have shifted demand toward minorities and women but have not eliminated the disadvantages faced by minorities, owing in part to the concentration of these workers in economically distressed inner cities.

Since many minority and women workers who suffered from labor market discrimination in years past are still less skilled and lower paid than other workers, equal employment laws disproportionately raise demand for this group of less skilled workers. In the 1970s the debate over whether these programs worked was contentious, but as more and more studies examined the programs, their effectiveness became clearer. There was also debate over whether the concentration of minorities in inner cities contributed to their employment problems.[4]

Harry Holzer's review of the evidence supports the claim that existing statutes have in fact opened up jobs for women and minorities, at the expense of white male workers. He also finds evidence for spatial problems for black workers, in the form of substantial discrepancies between the success of minority workers who obtain jobs in suburban locations and the number of applicants. This finding suggests that focusing equal opportunity or affirmative action resources on suburban employers could expand the demand for black workers and raise the employment or wages of these workers.

8. Imposing uniform standards for benefits on all jobs, including contingent work, could raise the costs of nonstandard forms of work and lower the employment opportunities of contingent workers. However, unemployment insurance could be fruitfully extended to part-time workers.

Many "nonstandard workers"—contingent and part-time workers—are low-paid and lack the pension and health benefits of permanent or full-time workers. Thus, one way to improve the economic well-being of the low-paid is to enact regulations forcing employers to give these workers comparable benefits or pay as full-time workers. For instance, regulations could require that part-timers receive certain benefits, such as coverage by unemployment insurance, prorated to their time worked rather than being excluded from those benefits, and that workers in temporary jobs receive the same benefits as permanent employees of hiring firms.

Rebecca Blank argues that such an extension of benefits would raise costs so high as to threaten to eliminate many part-time or contingent jobs. Some workers would clearly benefit from turning nonstandard jobs into jobs with permanent full-time pay or benefits, but many employees prefer contingent work arrangements and many employers find these flexible arrangements beneficial to their businesses. The costs of making contingent or part-time work more expensive could thus very well exceed the benefits of limiting nonstandard work arrangements. In the case of unemployment insurance, however, the logic and evidence suggest room for extending normal workplace benefits to many of the workers hired under nonstandard contracts.

A Comparative Perspective

The final chapter assesses micro demand-side policies that might improve the employment or wages of low-paid or low-skill American workers. It considers why low-paid workers in Germany have enjoyed sizable increases in real earnings in contrast to their American peers and the possible role of a host of policies, including micro demand-side policies, in this difference in outcomes.

9. The major reason for the improved earnings of low-wage German workers compared to falling earnings for low-wage American workers is that German schooling brings all pupils to an acceptable level of achievement. While micro demand-side policies contributed only modestly to Germany's rising wages, a combination of minimum wages and job subsidies raised pay for some of the less skilled in the short run.

One of the most disturbing aspects of the problem of rising inequality and falling real wages for low-paid American workers is that it stands in sharp contrast to the improvement of wages for low-paid workers in many other advanced countries. Europeans often look at U.S. job performance and ask what they can learn to raise job creation and lower unemployment. Stephen Nickell looks at Germany's record of rapidly rising real earnings for low-paid workers and asks what we can do to raise pay for low-paid American workers.

He reports that Germany spends more on subsidized employment or direct government job creation and labor market training programs for those in trouble than the United States does, but he finds these expenditures insufficiently large to explain the greater increase in German real wages for low-skill workers. The fundamental reason for the narrower distribution of earnings in Germany is, he argues, that low-skill Germans have skills closer to the average than do low-skill Americans (or low-skill British workers), a difference that he attributes to the German education and training system.

From this perspective, Nickell argues that micro demand-side policies should be viewed largely as short-term transitional programs to stabilize or improve the position of low-skill and low-paid workers while the nation seeks to upgrade their skills or those of succeeding generations. He favors targeted micro demand-side programs as opposed to across-the-board tax cuts and combinations of programs to minimize undesirable side effects—such as loss of jobs due to mandated benefits.

All told, the studies in this volume show that some demand-side programs could help address the problems of low-skill, low-paid workers, while others do not seem to hold much promise. Tax credits to firms that hire low-wage workers can shift employment toward the disadvantaged workers who fall under these programs; public-sector employment can increase the number of jobs available to less skilled workers; and mandated benefits can improve the earnings of some low-paid workers. But area subsidies, laws to encourage profit-sharing or work-sharing, and limits on flexible contingent work arrangements would be less successful.

Past policies offer no magic micro demand-side solutions to the problems facing people in declining low-wage labor markets, but some programs do make a difference. Moreover, several policies that singly contribute only marginally to raising the employment or earnings of the low-paid can have a larger effect in combination. And substantially larger gains could also result from implementing some of the more carefully designed programs examined in this book. Just as the United States learned from successes and failures in the space program how best to advance in space, just as individual firms learn from their successful and unsuccessful products how best to compete in the market, so too should the nation's economic and labor policy makers and administrators learn from the successes and failures of past micro demand-side policies to develop more effective modes of raising the wages and employment of the low-paid.

Notes

1. Some attention was paid to demand-side policies in the 1990s. The Bush administration outlawed discrimination against the handicapped, and Congress increased the minimum wage. The Clinton administration tried to expand medical insurance coverage and raised the minimum wage.
2. Evaluation studies usually show that government training programs have positive but small impacts on future earnings of adult women, and little impact on the earnings of youth. The amount of training provided was too small to have a large impact on earnings. Even if a program invested the typical $6,000 per recipient and had a 10 percent rate of return, it would raise the earnings of trainees by only $600 per year. Hence, any hope that modest training programs could boost a family out of poverty and into the middle class had to be abandoned. As LaLonde (1995, 159) concludes: "We got what we paid for. Public sector investments and training are exceedingly modest compared to the magnitude of the skills deficiencies that policy makers are trying to address." Heckman (1993) estimates that even if human capital programs had a 10 percent rate of return, restoring the 1979 earnings differentials (between college-educated workers and high school graduates and between high school graduates and high school dropouts) would have cost more than $1,304 billion in 1989.
3. It may be possible to create better outcomes by combining wage subsidies and mandated benefits: the subsidies would permit the employer to pay the mandates without any loss of employment. In this case, the cost of the benefit falls

on taxpayers in general rather than on the firm or persons who consume its product. The firm becomes the conduit of the publicly funded mandated benefit

4. Antidiscrimination laws can increase equity and efficiency. When firms discriminate against women or minorities, they raise the prices of goods to consumers by ignoring a potential supply of labor and thus producing less than could be produced. Effective antidiscrimination laws should lead to higher measured GDP.

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