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Public Policy Brief

Small Business and Welfare Reform

Levy Institute Survey of Hiring
and Employment Practices

Oren M. Levin-Waldman

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Contents



Preface	
<i>Dimitri B. Papadimitriou</i>	5
Small Business and Welfare Reform	
<i>Oren M. Levin-Waldman</i>	7
About the Author	34

Preface

Since the Personal Responsibility and Work Reconciliation Act was passed in August 1996, the number of people on welfare has fallen by over 4 million to just under 8 million at the end of September 1998. This is the lowest level of caseloads in thirty years. While the robust growth in aggregate employment may have contributed to the sharp decline during the last two years, the major driving force behind the reductions is the new welfare regime. Continuing economic expansion and job growth will alleviate the hardships faced by families whose welfare benefits have been reduced or eliminated. However, an effective, long-term welfare policy cannot take for granted that the exceptional economic performance in the United States in recent years will continue indefinitely.

In this Public Policy Brief, Resident Scholar Oren M. Levin-Waldman argues that the labor market might not function the same way for welfare recipients as it does for other workers. The results of the 1998 Levy Institute Survey of Small Businesses suggest that only a small proportion of the people these firms hired after the welfare reform were former welfare recipients. Since more than half of all private, nonfarm employment is in small businesses, this finding raises concern: Can we assume that most former recipients are being hired by large firms or in welfare jobs, or are some or many of them merely being dropped from the welfare rolls and left unable to find or sustain employment?

The survey also indicated that some employers are reluctant to hire former welfare recipients because they perceive them as differing from other workers in characteristics that determine employability, namely, general education, work experience, skills, and work habits. This finding suggests that programs might be necessary to fill in gaps in training and education and to help change employers' perceptions of former recipients.

Levin-Waldman's study offers us some insight into what the elements of a successful welfare reform program might be. To be considered successful, welfare reform should enable former welfare recipients to get a job and keep it and that job should pay enough to support them and their families. Government wage and training subsidies would offer incentives to employers to hire former welfare recipients and to give them on-the-job training; over two-thirds of the businesses surveyed said they would hire former recipients if the government paid part or all of the resulting wage costs. A policy to create more such subsidies, to increase the amount offered, and to publicize these programs would help former welfare recipients enter the labor market and acquire the skills necessary to succeed there.

A survey conducted by the National Governors' Association last year found that most of the jobs held by former welfare recipients do not pay enough to lift a family out of poverty. If work does not pay, the loss of public assistance income under the new welfare regime will push poor families deeper into poverty. Levin-Waldman suggests that one way to make people better off working than on welfare is to increase the minimum wage. The survey results are encouraging on this subject. Less than 10 percent of the businesses surveyed said they would alter their plans to hire former recipients if the minimum wage were increased and only 20 percent said they would reduce overall employment if the minimum wage were raised to \$6.00. Since the businesses that tend to hire former welfare recipients tend to be the businesses most affected by minimum wage increases, subsidies would mitigate the effects of increases imposed on them, thereby serving the twin goals of efficiency and equity.

Given time limits placed on the receipt of benefits and stricter eligibility requirements for new recipients, the downward drift in caseloads will persist in the absence of serious macroeconomic shocks. How we deal with the problem of an expanding pool of people who otherwise might have been on welfare will shape not just their economic well-being, but also the very social fabric of this country. Levin-Waldman clearly favors an approach to leading former welfare recipients to economic independence that involves an active partnership between small business and government rather than a program of government mandates. I hope you will find his analysis informative and I welcome your comments.

Dimitri B. Papadimitriou, *President*
March 1999

Small Business and Welfare Reform

During the summer of 1996 the federal government enacted the Personal Responsibility and Work Opportunity Reconciliation Act—the most sweeping reform of welfare since its inception in 1935. For the first time the duration of welfare benefits is limited and those qualifying for benefits are required to work or participate in some type of job assistance or training program. Welfare's federal entitlement status is ended and states are offered, at least temporarily, block grants to develop their own programs. To receive the grants, the states must meet some federally mandated regulations, but the specifics of the “new” welfare are defined and implemented at the state level. States are free to develop programs as extensive as they like, perhaps including job service programs such as training and job search assistance. They are also free to develop programs as limited as they like, perhaps little more than channeling former recipients into the low-skilled labor market.

The new welfare rests on certain assumptions. One is that states are better able than the federal government to establish welfare programs that best meet their own needs and that block grants to the states will enable them to do that. Another assumption is that welfare recipients should be moved off the welfare rolls and into the labor market and that time limits on benefits will accomplish that. Reform initiatives of the past assumed that the transition from welfare to work depended on the creation of more jobs and the development of recipients' skills. The new welfare assumes that there are jobs out there that will provide people currently on welfare with incomes sufficient to support themselves and their families and that welfare recipients have the requisite skills to fill those jobs, which are mostly at the low end of the wage scale (Burtless 1995). What they need, then, is to be properly socialized into patterns of work.

There are, however, several questions about the assumptions underpinning the new welfare. Where are these jobs—in the public sector or the private sector? In the private sector, will the jobs come from small or big business? If jobs do exist, do welfare recipients possess the skills necessary to fill them? Small business already employs more than half of private sector workers (Wiatrowski 1994) and some research finds it to be the biggest generator of new private sector jobs (Birch 1987). Although there is a vast literature on the role of small business in the economy, little is known about small business hiring practices. The Levy Institute conducted a survey of small businesses designed to elicit information about their hiring practices and specifically their response to changes in the welfare law and their willingness to hire former welfare recipients. Survey results show that small businesses have been hiring, but they have not been hiring welfare recipients. If jobs do exist and new workers are being hired, why are former welfare recipients not being hired and what conditions would make small businesses willing to do so?

In this brief, I attempt to find answers by analyzing small businesses' responses to questions about worker characteristics that affect employability, the impact of changes in the minimum wage, and the role of government subsidies in hiring and providing on-the-job training. What emerges from the analysis is that employers consider welfare recipients to be lacking the education and experience they expect in their potential employees. This deficiency will not be remedied simply by imposing work requirements and time limits on benefits. The analysis also suggests that there is a serious role for small business in successful welfare reform that has perhaps been overlooked. What is necessary for an effective and long-lasting transition from welfare to work is a process of human capital development that can be accomplished through active cooperation between government and small business.

The New Welfare

Research into the causes of poverty is divided into two schools of thought: economic and behavioral. The economic school argues essentially that people are on welfare because they lack the skills necessary to obtain jobs that will lift them out of poverty and because there are too few better-paying jobs. Since the only jobs that most welfare recipients

can get are jobs that will not make them better off than being on welfare, there is no rational reason for them to forsake welfare for work (Blank 1997; Bane and Ellwood 1994; Murray 1984). The imposition of time limits in the new law denies welfare recipients the luxury of choosing public assistance over work, but it fails to address the reasons that make many recipients choose welfare over low-wage work, and one such reason is that they lack the appropriate education and training to enter the labor market at higher wages.¹

The new welfare reflects the behavioral school, which suggests that people are poor because they have not been properly socialized into the work ethic, not because there are not enough job opportunities for them. People are poor and on welfare because they have certain behavioral traits that are different from traits of people in the mainstream middle class and prevent them from functioning in the labor market and becoming self-sufficient. According to the preamble to the Personal Responsibility Act, many people are on welfare because they had children out of wedlock and as teenagers; they have been forced to drop out of school as a result of such behavior and consequently lack the skills necessary to obtain jobs that will pay a wage high enough to enable them to live above the poverty line. The behavioral school sees U.S. social policy prior to the Personal Responsibility Act as too permissive, asserting that many of the pathologies plaguing the inner city that are commonly associated with welfare might not exist if public assistance programs had made it clear that work and other civic and communal responsibilities were expected of all people (Banfield 1974; Mead 1986; Kaus 1992). The new law will force people to be socialized by putting an end to the permissive policies of the past.

Points of some merit can be found in both schools. That people lack certain skills means that they are susceptible to poverty. And that it is possible to be better off on welfare than at work also means that they will not be socialized into the work ethic (Wilson 1987, 1996). From a policy standpoint, the question arises as to whether there is a correct approach to socialization.

Prior to the new law, the focus of reform efforts was on the development of skills through government programs. The results of these programs,

however, have been mixed. The reasons for this are beyond the scope of this paper, but a couple do deserve mention. First, many of the programs established during the War on Poverty and Great Society programs of the 1960s were not adequately funded, in part because the federal government was simultaneously funding a war in Vietnam. Second, many of the programs were developed by people who were not necessarily in touch with the many different communities they were attempting to serve (Moynihan 1970; Teles 1996). Criticisms of these programs, especially from those who espoused the behavioral school, began almost immediately upon their inauguration. Opponents of welfare programs called for work requirements and a return to traditional federalism, whereby the states would be responsible for domestic policies and the federal government would be responsible for national defense, foreign policy, and the postal service. Attempts to increase funding were met with opposition that succeeded in halting expansion of the programs (Glazer 1988; Davies 1996). The devolution of welfare authority back to the states can be viewed as a backlash against the failure of federal one-size-fits-all programs to help poor people who lived in different communities and had different needs. That the devolution finally occurred in 1996, after many similar efforts, reflects the changed political landscape as it was expressed in the 1994 midterm elections (Ladd 1995; Burnham 1996).

On the assumption that states should be allowed to develop a welfare-to-work program that meets their needs, the new law transfers authority back to the states in the form of block grants. In exchange for their block grants, states are required to create their own welfare-to-work programs, but the job assistance they provide can be as little as job search assistance. On the behavioral assumption that inadequate training is not the immediate cause of welfare dependency, the new law makes no provision for training other than what individual states might want to do. Given that the states are also required to show a 50 percent reduction in their welfare rolls by 2002, there is every reason to believe that some states will attempt to meet this requirement by disqualifying as many welfare recipients as they can and pushing them into the labor market. Since the new law took effect, there have been marked reductions. From August 1996 to March 1998 states have reduced their caseloads by 30 percent on average, with reductions in individual states ranging from 80 percent in Idaho to no reduction in Nebraska. The only state in which there was an increase in welfare caseloads after the new law was Hawaii.²

Reductions in the caseloads, however, do not necessarily mean that former recipients have found employment. What has become of these people who were on the rolls? Have they made the transition into the labor market or have they simply been pushed off the rolls? Moreover, were any efforts made to find out whether there are jobs for them and whether businesses would be willing to hire them? If the new welfare assumes that small business may do some of the heavy lifting, it would be useful to test this assumption by finding out something about its hiring practices.

Small Business's Role in Job Creation

The definition of "small" business has by no means been static. The law that set up the Small Business Administration (SBA) in 1953 defined a small business as a firm that "was independently owned and operated . . . and not dominant in its field of operation" (Blackford 1991, 2). During the late 1950s the SBA considered as small all industrial establishments with less than 250 employees, wholesalers whose annual sales amounted to \$5 million or less, and retail and service establishments with annual sales of no more than \$1 million. By the late 1980s the definition had changed to include businesses with as many as 500 employees and businesses with over 500 that met other criteria, principally, being a single-unit enterprise rather than an enterprise with plants in more than one location.

The question of how critical small business is to the generation of jobs has been controversial. The dominant view for the better part of this century has been that small firms do not have an important role in the economy and that their role will be diminishing in the future. An alternative view is that small firms contribute to technological innovation and competitiveness and play a significant role in job creation (Acs and Audretsch 1993).

Different scholars have arrived at different estimates of how significant small businesses are in job creation. Blackford (1991), for instance, summarized SBA figures and claimed that between 1980 and 1986 small companies in the United States generated 64 percent of the 10.5 million jobs created. David Birch estimated that 5 percent of firms with less than 500 employees accounted for 75 percent of the new jobs created through expansion during the 1970s and 10 percent accounted for 90 percent (Dennis, Phillips, and Starr 1994). Birch estimated that during the

1980s a little more than 2.9 million net total jobs were created in single-unit enterprises (Birch 1987, 14–16).

Other researchers have come to different conclusions. In particular, Brown, Hamilton, and Medoff (1990) have argued that despite small businesses' overall record of job creation, the jobs created are not as stable as those created by big businesses. More small firms enter the market, but there are also substantially more failures. Firms that survive and manage to grow may no longer be small. Employment in big business is more stable and more rewarding because compensation in both wages and fringe benefits is greater. Although Brown, Hamilton, and Medoff do not offer a counter estimate of how many jobs were actually created by small businesses during the 1980s, they maintain that employment in small businesses actually decreased.

These differences are mainly due to differences in the definition of small business used, the sources of the data used, and the time periods studied. But irrespective of the validity of one view or the other, Census Bureau data from the SBA show that small firms (defined as firms that employ less than 500 workers) accounted for 56.5 percent of private sector employment in 1996 (Small Business Administration 1997). That they may account for roughly half of private sector employment is a significant reason to assess them as prospective new employers for former welfare recipients. Another reason stems from the belief that changes in the labor force will have their greatest impact on small businesses (Lichtenstein 1992). As Lichtenstein observes, the cohort of 16 to 24 year olds is shrinking and a portion of this cohort is poorly educated. With small firms employing about two-thirds of all entry-level employees and more and more high school graduates ill-prepared for the labor market, meeting small business needs will be a tall order.

According to Lichtenstein, SBA data suggest that formal on-the-job training of employees is prevalent in big business, but business, commercial, and vocational school training of potential employees is much more significant for small firms.³ Improvements in the educational system might have tremendous benefits for small businesses. Since many small business employees also need remedial education in basic skills, improvements in the educational system would be one obvious course for public policy (Lichtenstein 1992). However, if prior education and training of potential employees is so

important for small businesses, they will be less inclined to hire former welfare recipients now because the educational and skills levels of the current recipients may be inferior to those of the rest of the labor force.

Can a coherent employment policy be crafted that addresses the concerns of small business about the future of the labor market and at the same time allows it to generate jobs now for the least skilled members of society? The simultaneous needs of small business and welfare reform offer an opportunity to revisit some of the nation's economic development strategies.

The Levy Institute Small Business Survey

Because little is known about small business hiring practices and the new welfare appears to be predicated on certain assumptions about hiring by small business, we set out to survey small businesses, specifically on welfare reform and the minimum wage. A stratified sample of 560 small businesses (defined as businesses with less than 500 employees) across industries was randomly selected from a national directory. Over the course of three weeks during the winter of 1998, they were contacted by telephone and asked a series of questions concerning their hiring practices in light of recent changes in the national welfare law. Specific questions included whether they had hired at all since the new welfare law took effect; whether they had hired any former welfare recipients; what they look for in terms of education, skills, and other characteristics when making hiring decisions; and whether government subsidies would be a positive inducement for them to hire former welfare recipients.

The survey questions can be divided into three categories (which overlap): hiring practices and preferences, effect of increases in the minimum wage on employment decisions, and response to different types of government wage and training subsidies.

Hiring Practices and Preferences

The two basic questions with regard to small business hiring are whether firms have hired any workers and whether they have hired any former welfare recipients. As Table 1 makes clear, there is a big difference between the responses to the two questions.

Table 1 Hiring Since the New Welfare Law Took Effect (Percentage)

Question	Yes	No
Have you hired any new workers since August 1996?	69.7	30.0
If you have hired, have you hired any former welfare recipients?	16.2	83.8

Note: Of the 560 firms surveyed, 390 hired new workers; of the 390, only 63 hired former welfare recipients.

Fewer than one in six businesses that have hired since the new welfare law took effect hired former welfare recipients. These findings are curious for two reasons. First, if small businesses are major creators of new jobs and jobs will accrue to all in a strong economy, we would expect there to be no difference between the responses to the two questions. Second, if, as pundits would like us to believe, state welfare caseloads have been reduced because the economy overall has been doing exceptionally well, we would expect many of those who have been hired to be former welfare recipients. If they are not being hired by small businesses, they are being hired by either big businesses or the public sector (most likely in temporary workfare jobs) or they are simply being pushed off the rolls to fend for themselves. Even if a sizable number of former welfare recipients are working in public sector jobs as partial fulfillment of their requirements for the continued receipt of temporary assistance, that is not the same as saying these people have successfully found employment.

Why are small businesses not hiring former welfare recipients? Is there something about them that makes them less attractive to prospective employers relative to other workers in the labor market? Respondents were asked a series of questions related to the skills, training, education, and experience they expect new employees to possess. These characteristics may well serve to differentiate former welfare recipients from other workers in the labor force. When asked whether they would require potential employees to have some skills for entry-level jobs, 69.8 percent of those surveyed indicated that they required certain skills and 27.3 percent indicated that they did not.

As much of the earlier efforts at welfare reform revolved around the assumption that welfare recipients could not make a successful transition into the labor market unless they developed hard skills (specialized training, computer and technical skills, proven competence in certain areas), it was assumed that training programs would have positive results. The new law appears to assume that they do not need to develop hard skills, but they do need soft skills. Soft skills can be defined as those abilities that develop as a function of labor market involvement, including general work experience (employment history), interpersonal and administrative skills, and traits such as having a positive attitude, having a neat appearance, being dependable, and being willing to take instruction.

The survey data suggest that neither the old nor the new assumption can stand on its own. Responses were mixed to questions about skills and traits employers are looking for in prospective employees. Overall, similar percentages of employers considered hard and soft skills to be important (Table 2), and employers did give some weight to traits (Table 3).

Table 2 Skills Employers Require for Entry-Level Jobs (Percentage)

General experience	18.0
Specialized (certification, license, etc.)	18.4
Clerical (typing, phone, etc.)	11.6
Computer and technical	10.4
People (communication, personal)	9.3
Administrative and educational	0.9
No response	31.4

Note: Question was asked of all 560 firms in the survey.

Table 3 Skills and Traits Employers Look For in Prospective Employees (Percentage)

Neatness, dress, appearance	32.9
Positive attitude, personable, able to communicate, etc.	22.0
Dependable, reliable, able to take direction	18.4
General work experience, education, etc.	15.9
No response	10.9

Note: Question was asked of all 560 firms in the sample.

Because a goal of the survey was to determine the factors that influence hiring decisions, all respondents, regardless of whether they hired or not, were asked whether they were most interested in the training or the experience workers had or both (see Table 4). If respondents replied to question 1 that training was most important, they were asked question 2, about what type of training was most important: general education, some type of technical or vocational training, both, or other. If in response to question 1 they indicated that experience was most important, they were asked question 3, about what type of experience was most important: specific experience, general employment history, or both. If in response to question 1 they indicated that a combination of training and experience was most important, they were asked both question 2 and question 3.

Table 4 Employers' Preferences for Training and Experience (Percentage)

Question 1: When hiring new employees, are you most interested in the training or the experience they have?

Training	8.9
Experience	39.6
Both	32.0
Neither	13.9
No response	5.6

Question 2 (asked of employers who responded "training" or "both" to question 1): What kind of training do you feel is most important for potential employees to have?

	Training	Both
General education	34.0	31.8
Technical or vocational training	44.0	34.6
Other	18.0	27.4
Both	2.0	0.6
No response	2.0	2.8

Question 3 (asked of employers who responded "experience" or "both" to question 1): What type of experience is most important to you?

	Experience	Both
Specific experience	54.1	54.7
General employment history	37.8	25.1
Both	4.5	11.2
No response	0.9	3.4

Note: Question 1 was asked of all 560 firms in the sample; questions 2 and 3 excluded firms that responded "neither" or did not respond to question 1, leaving 451 firms. Of these, 50 considered training alone to be the most important, 222 considered experience to be the most important, and 179 considered a combination of training and experience to be the most important.

Overall, small business employers appear to be most interested in experience when making a hiring decision, followed by a combination of experience and training. A relatively small percentage of those sampled indicated that training alone was most important to them; of those who did, the largest percentage indicated that technical or vocational training was most important for potential employees to have. Of those who were most interested in both training and experience, there was an almost even split between a preference for general education and a preference for technical or vocational training. And of those who were most interested in experience, slightly over half thought that specific experience was most important. The percentage that felt specific experience was most important was slightly higher for those who initially indicated that they were most interested in both experience and training than for those most interested in experience alone.

Table 5 Preferences of Employers Who Hired New Workers Other Than Former Recipients and Employers Who Hired Former Recipients (Percentage)

Question 2 (asked of employers who responded “training” or “both” to question 1 in Table 4): What kind of training do you feel is most important for potential employees to have?

	Training		Both	
	New Workers (22)	Welfare Recipients (2)	New Workers (121)	Welfare Recipients (17)
General education	31.8	0	29.8	66.7
Technical or vocational training	45.5	0	37.2	16.7
Other	22.7	50.0	28.1	16.7
Both	0	50.0	4.1	0
No response	0	0	0.8	0

Question 3 (asked of employers who responded “experience” or “both” to question 1 in Table 4): What type of experience is most important to you?

	Experience		Both	
	New Workers (120)	Welfare Recipients (28)	New Workers (119)	Welfare Recipients (17)
Specific experience	57.5	35.7	59.7	47.1
General employment history	37.5	46.4	25.2	41.2
Both	4.2	14.3	11.8	5.9
No response	0.8	3.6	3.4	5.9

Note: Figures in parentheses indicate the number of firms in each category. The combined total of firms in the three categories (training, experience, and both) will not add up to the total number of firms that hired (390, see Table 1); the difference is accounted for by the employers who hired and responded “neither” or did not respond to question 1 in Table 4. The number of firms in the category “Both” is different in questions 2 and 3 because of nonresponse.

We next attempted to determine if there were any differences in responses to questions about training and experience between employers who hired new workers other than welfare recipients and those who hired welfare recipients (see Table 5). Of employers who indicated that they were most interested in training and hired, only 8.3 percent hired former welfare recipients, and those who did were split between both (a combination of general education and technical or vocational training) and other. Of employers who indicated that they were most interested in both (training and experience) and hired former welfare recipients, 66.7 percent considered general education to be most important; 29.8 percent of employers who indicated that they were most interested in both (training and experience) and hired new workers other than recipients considered general education to be most important. Of employers who hired new workers other than recipients, 37.2 percent considered technical or vocational training to be most important, compared to 16.7 percent of employers who hired former welfare recipients. This difference in preference for general education among those who indicated that they were most interested in the combination of training and experience is quite important because of this group, only 12.9 percent actually hired former welfare recipients. It will also be recalled from Table 4 that only 31.8 percent of those who were most interested in both considered general education to be most important.

Of employers who indicated they were most interested in experience, the percentage who thought specific experience most important was higher among employers who hired new workers (57.5 percent) than among those who hired former recipients (35.7 percent). This pattern holds for those who indicated that they were interested in both experience and training; 59.7 percent of those who hired new workers considered specific experience to be most important, compared to 47.1 percent of those who hired former recipients. Of the employers who hired former welfare recipients and considered experience most important, a higher percentage chose general employment history as most important than chose specific experience (46.4, percent, compared to 35.7 percent). In contrast, of the employers who hired former welfare recipients and considered a combination of training and experience most important, a higher percentage chose specific experience as most important than chose general employment history (47.1 percent, compared to 41.2 percent).

It is interesting that with respect to experience, both the firms that consider experience alone to be the most important and the firms that consider a combination of experience and training to be most important feel that general employment history is more important when it comes to hiring former welfare recipients than other new workers. To the extent that this observation is true, it supports one of the assumptions of the new law: former recipients need to be socialized into the regular rhythms of work to enable them to develop the type of general employment history that other new workers have. The recipients' lack of general employment history is a key reason why only a small proportion of new workers hired have been former recipients.

The results reported in Table 5 show that a large percentage of the firms that hired former welfare recipients considered general education and general employment history to be highly important factors. If this observation is also true for the firms outside the sample, then some of the assumptions underlying the new welfare do not add up. Time limits and work requirements may socialize recipients into patterns of work, but the experience they obtain cannot compensate for basic deficiencies in their education. That general education is not as important among those who hired new workers other than recipients would suggest a gulf between the expectations of the employers with respect to the educational levels of the two populations. These findings suggest that more is needed than allowing states to force recipients into the labor market through time limits and to offer only limited job search assistance. Such minimal steps will not result in recipients' being hired if employers do not want to take a chance on them because they lack education and employment history.

Minimum Wage

The needs of former welfare recipients do not necessarily point in the direction of increases in the minimum wage, but the issue is germane to the discussion of effective welfare reform. Although a set of policies designed to make welfare recipients more marketable can serve to get them into the labor market, there still needs to be a set of effective labor market institutions that serve to keep them there. It is often noted that the high turnover in the labor market among those who ultimately wind up on welfare is associated with a low wage.

Even those who advocate tough welfare roll reductions also maintain that the minimum wage has to be raised as a necessary carrot to complement the stick of work requirements (Bane and Ellwood 1994). It is probably no coincidence that Congress passed the last minimum wage increase at precisely the same time it passed the most draconian welfare reform.

Respondents were asked three basic questions about the minimum wage: (1) Would an increase [unspecified] in the minimum wage alter your decision to hire former welfare recipients? (2) Did the recent increase in the minimum wage affect your hiring or employment decisions? (3) If the minimum wage were raised to \$6.00 per hour, would it affect your overall hiring or employment decisions? Table 6 shows the responses to the three questions.

Table 6 Responses to Basic Questions about the Minimum Wage (Percentage)

Question	Yes	No	No Response
1. Would an increase in the minimum wage alter your decision to hire former welfare recipients?	9.6	85.2	5.2
2. Did the recent increase in the minimum wage affect your overall hiring or employment decisions?	6.6	89.1	4.3
3. If the minimum wage were raised to \$6.00 per hour, would it affect your overall hiring or employment decisions?	20.7	75.4	4.9

Few of the businesses surveyed (9.6 percent) felt that increasing the minimum wage would affect their willingness to hire former welfare recipients. This is good news for those looking to the small business sector to absorb former welfare recipients. These results also indicate that small business may not oppose attempts to increase the minimum by proponents of a so-called living wage for former welfare recipients.

An even smaller proportion (6.6 percent) felt that the recent hike in the minimum wage (to \$5.15 per hour) had affected their overall hiring and employment practices. The percentage of businesses who replied that their decisions would be affected by an increase to a \$6.00 minimum is somewhat larger (20.7 percent). The percentages (even the somewhat

larger one) indicate that minimum wage increases will not necessarily have the dire employment consequences often predicted.

Subsidies

The states that have been most successful in moving their welfare recipients to work have been those that have offered subsidies to businesses to hire them. In Wisconsin, for example, subsidies averaging \$300 per month are offered to employers to offset some of the initial costs of training and supervising new employees. In Massachusetts employers receive \$3.50 per hour for each program participant for the first nine months and \$2.50 per hour for the next three months (Levin-Waldman 1997). Edmund Phelps (1997) has suggested that the best way for government to get jobs for people is to offer employer-based subsidies.

Subsidies have the obvious advantage of getting welfare recipients in the door so that they can obtain the experience essential to becoming more marketable. Subsidies might also be structured to have the additional advantage of being an incentive to employers to provide on-the-job training. Of course, subsidies cannot guarantee continuing employment. Once they are phased out, employers may lay off subsidized workers. However, if the goal of subsidies is to get people in the door so they can obtain experience and develop an employment history, this concern becomes irrelevant. Their experience, even if short-lived, will make it easier for them to find jobs in the future. Also, if the subsidies are tied to a training requirement, employers might have less incentive to lay off workers because the employers will have made an investment in human capital that might be of benefit to them.

Responses to survey questions about subsidies indicate that they would indeed be a powerful incentive for businesses to hire former welfare recipients. When employers were asked if they would hire any or additional former welfare recipients if the government were to pay all or part of their wages, 76.3 percent said yes and only 11.1 percent said no (the remainder simply didn't know or didn't respond). When asked if they would be willing to provide on-the-job training, 85.4 percent said yes, and only 9.5 percent said no.

Respondents were then asked to indicate whether they agreed or disagreed with several propositions related to the benefits of providing on-the-job training (see Table 7).

Table 7 Benefits of On-the-Job Training

Proposition 1: It develops employee skills tailored to business needs.

Agree	90.0
Disagree	1.0
Don't know	2.0
Not applicable	7.0

Proposition 2: It engenders greater loyalty among workers.

Agree	68.2
Disagree	18.0
Don't know	6.3
Not applicable	7.5

Proposition 3: It reduces turnover.

Agree	53.9
Disagree	28.1
Don't know	10.5
Not applicable	7.5

Proposition 4: It makes workers more productive.

Agree	78.9
Disagree	6.6
Don't know	7.0
Not applicable	7.5

When employers were asked if they would provide on-the-job training were government to pay part or all of the cost of such training, 72.3 percent said yes, 6.6 percent said no, and only 1.6 percent indicated that it depended on the size of the subsidy (13.6 percent indicated other and 5.9 percent did not respond). Employers were asked how much of a subsidy they would want in order to provide on-the-job training. The largest percentage of employers, 28.9 percent, said they would need a subsidy of 50 percent, 6.4 percent said 100 percent, 5.2 percent said 10 percent, and 7.7 percent said 25 percent (14.6 percent said they needed something else, but did not indicate what it was and 37.1 percent did not respond).

When employers were asked if they would hire more former welfare recipients were government to offer subsidies for on-the-job training, the percentage who said yes dropped to 55.4 percent (from the 72.3 who said they would provide training for new workers) and the percentage of those who said no more than doubled to 14.8 percent (29.9 percent did not respond). Employers see a difference between providing on-the-job training to new workers and on-the-job training to former welfare recipients. Although a program of subsidies for on-the-job training

requirements might not make most employers willing to hire former welfare recipients, the fact it would influence 55.4 percent of them to do so suggests that this policy tool could certainly contribute to making at least some former recipients into productive members of the labor force.

Policy Implications

The goal of any welfare-to-work program ought to be to make people who have not had the experience of working into productive members of the labor force. Given the mixed record of government training programs in making participants more marketable, subsidies to employers to provide the type of the on-the-job training that best meets their needs might make more sense (Levin-Waldman 1996, 1997; Phelps 1997).

Under the current welfare law, states are free to offer training programs as elaborate as they like or not to offer them at all. Some have subsidies; others do not. A uniform program of subsidies would ensure that businesses that might be inclined to hire former welfare recipients (but are unable to because they are in areas where subsidies are unavailable) are able to do so. Moreover, providing subsidies to employers for on-the-job training would enable employers to train workers in accordance with their own needs.

The idea of offering subsidies is by no means radical. Currently, subsidies are available to businesses through the tax code. Firms hiring former welfare recipients who had been on welfare for 9 out of the previous 18 months are eligible for a credit up to \$2,400 under the federal Work Opportunity Tax Credit (WOTC). In addition to the WOTC, there is the Welfare-to-Work Credit (WTWC), which offers a credit of 35 percent of the first \$10,000 of an employee's wages the first year and 50 percent during the second. One reason these credits have not had a substantial impact is that few employers know about them. Regenstein, Meyer, and Hicks (1998) found in a survey of businesses in 13 states that only 12 percent had used the WOTC and that at least 65 percent had no knowledge of it. The remaining 23 percent knew about it, but had not used it. Moreover, 51 percent indicated that even if they knew about it, the WOTC would not influence their hiring decisions. It may be that employers, even if they are aware of the credits, find the tax code too complicated to deal with. Moreover, they must lay out the money for wages first and

then recoup the costs upon filing their returns. The provision of subsidies in the form of simple transfer payments might be more effective.

In accomplishing successful welfare reform, there are essentially two issues. The first has to do with getting former recipients into the labor market. This is where subsidies for on-the-job training become necessary. As our survey shows, many employers would be willing to hire welfare recipients and provide on-the-job training for them if government offered a subsidy for the training.

The second issue has to do with keeping recipients in the labor market. A policy intended to get workers a job has to go hand in hand with a policy aimed at keeping them there. Wages that are high enough so that recipients are better off working than on welfare would be an incentive for them to stay in the market. Also, employers may recognize the benefits of on-the-job training, but they may be reluctant to provide it because of high turnover, particularly in the low-skilled sector of the labor market (Freeman 1994; Lynch 1994). Higher wages might reduce turnover, thereby reducing the reluctance of employers to provide training.

An argument can be made that the minimum wage ought to be raised to a level that allows those who earn it to live above the poverty line. At the very least, it ought to be increased until it reaches its tipping point—the point at which it begins to have some unemployment effects. The effects of a mandated increase imposed on business could be mitigated somewhat with larger subsidies to employers who hire former welfare recipients and provide on-the-job training. Given that those businesses that have hired former welfare recipients are businesses that tend to be more affected by increases in the minimum wage, larger subsidies would make sense from the standpoint of both efficiency and fairness.

Former recipients can be moved from welfare to work when government works in partnership with business, not when government simply mandates a course of action. Responses to questions about subsidies clearly indicate that were government and business to split the costs of hiring and training workers, many small firms would be willing to create jobs for them. Survey data reveal the weaknesses of some of the new welfare's underpinning assumptions and also point to substantive changes that might achieve more effective welfare reform. With the right mix of

incentives and mandates in place, small business could effectively become the focal point of an employment strategy aimed at hiring the most disadvantaged members of society.

Appendix: Survey Instrument and Aggregate Responses

Numbers are percentages of firms surveyed, unless otherwise noted. The total number of firms included in the study was 560.

1. What does your business make or do (based on ICPSR code)?

a. services/blue collar (automotive, craft, repair, etc.)	12.5
b. services/professional (financial, etc.)	26.3
c. manufacturing	6.1
d. construction	1.8
e. wholesale sales	1.8
f. retail sales	16.8
g. real estate, insurance, etc.	6.6
h. personal services (hair care, house cleaning, etc.)	3.8
i. child care services	2.7
j. food services	12.5
k. fast food/convenience store	5.7
l. public (library, etc.)	3.4
m. recreational/entertainment	4.8
n. storage	0.5
o. temporary services	0.9
p. other	2.7

2. How many people do you employ?

a. 1–4	35.0
b. 5–9	22.9
c. 10–19	16.3
d. 20–49	10.5
e. 50–99	7.3
f. 100–249	4.8
g. 250–500	3.2

3. I am going to ask you to identify how many employees fall into different age categories. About how many employees do you have in their:

a. teens	2.7
b. 20s	14.6
c. 30s	16.1
d. 40s	14.5
e. 50s	8.6
f. 60s	3.5
g. 70s or older	0.2
h. no response	40.3

Note: Numbers are percentages of employees in all firms combined ($n = 17,074$).

4. I am going to ask you to identify the number of employees in different educational categories. How many employees:
- | | |
|--|------|
| a. have not finished high school | 6.3 |
| b. have a high school diploma, but no college training | 21.2 |
| c. have some college or vocational training | 13.8 |
| d. have a college degree | 14.8 |
| e. have a professional degree (engineer, lawyer) | 2.1 |
| f. have continued college beyond graduation | 2.3 |
| g. other (specify) | 0.8 |
| h. no response | 39.6 |

Note: Numbers are percentages of employees in all firms combined (n = 17,074).

5. What was your gross income last year? (Prompts: dollar value of gross sales, gross receipts, dollar amount of business)
- | | |
|--------------------------|------|
| a. \$0–500,000 | 18.2 |
| b. \$500,001–2,500,000 | 9.8 |
| c. \$2,500,001–7,500,000 | 2.9 |
| d. \$7,500,001+ | 3.6 |
| e. no response | 65.5 |
6. Have you hired any new workers since August 1996?
- | | |
|--------------------------------|------|
| a. yes [proceed to question 7] | 69.7 |
| b. no [skip to question 11] | 29.8 |
| c. no response | 0.5 |
7. Were those you hired primarily born in the U.S. or did they immigrate to this country?
- | | |
|---------------|------|
| a. U.S. born | 66.2 |
| b. immigrants | 3.4 |
| c. n/a | 30.4 |
8. Have you recently hired any former welfare recipients?
- | | |
|-----------------------------|------|
| a. yes | 11.5 |
| b. no [skip to question 11] | 54.1 |
| c. n/a | 34.4 |
9. How many have you hired?
- | | |
|----------------|------|
| a. 1–4 | 7.7 |
| b. 5–9 | 0.9 |
| c. 10–19 | 0.7 |
| d. 20–49 | 0.2 |
| e. 50–99 | 0.0 |
| f. 100–249 | 0.2 |
| g. no response | 90.4 |

- | | |
|---|------|
| 10. What hourly wage do you pay them? | |
| a. \$5.15 (minimum wage) | 4.6 |
| b. \$5.16–7.49 | 4.5 |
| c. \$7.50–10.00 | 1.1 |
| d. \$10.00+ | 0.4 |
| e. no response | 89.4 |
| 11. Would you hire any or additional former welfare recipients if the government paid all or part of their wages? | |
| a. yes | 76.3 |
| b. no | 11.1 |
| c. no response/don't know | 12.6 |
| 12. Would an increase in the minimum wage alter your decision to hire former welfare recipients? | |
| a. yes [proceed to question 13] | 9.6 |
| b. no [skip to question 14] | 85.2 |
| c. no response | 5.2 |
| 13. In what way would your decision be altered? | |
| a. hire fewer workers | 2.3 |
| b. lay off workers | 0.4 |
| c. reduce benefits | 0.2 |
| d. don't know | 0.2 |
| e. n/a | 2.5 |
| f. no response | 94.5 |
| 14. What is the typical hourly wage that you pay to your entry-level (or lowest skill level) employees? | |
| a. \$5.15 (minimum wage) | 17.5 |
| b. \$5.16–7.49 | 42.5 |
| c. \$7.50–10.00 | 18.9 |
| d. \$10.00+ | 3.8 |
| e. no response | 17.3 |
| 15. How many of your current employees are paid the minimum wage? | 7.9 |
| <i>Note:</i> Number is percentage of employees in all firms combined ($n = 17,074$). | |
| 16. Did the recent increase in the minimum wage affect your hiring or employment decisions? | |
| a. yes [proceed to question 16a] | 6.6 |
| b. no [skip to question 16b] | 89.1 |
| c. no response | 4.3 |

- 16a. How did the minimum wage increase affect your hiring or employment decisions?
- a. hire fewer workers 1.1
 - b. lay off workers 1.3
 - c. n/a 2.5
 - d. no response 95.2
- 16b. If the minimum wage were raised to \$6.00 per hour, would it affect your overall hiring or employment decisions?
- a. yes 20.7
 - b. no [skip to question 17] 75.4
 - c. no response 4.9
- 16c. How would it affect your hiring or employment decisions?
- a. hire fewer workers 6.0
 - b. lay off workers 2.7
 - c. reduce profits 0.4
 - d. reduce benefits 0.2
 - e. n/a 7.1
 - f. no response 83.6
17. Do the entry-level jobs in your firm require certain skills?
- a. yes 69.8
 - b. no [skip to question 19] 27.3
 - c. no response 2.9
18. What skills do they require?
- a. computer and technical 10.4
 - b. general experience 18.0
 - c. people (communication, personal) 9.3
 - d. specialized (certification, license, etc.) 18.4
 - e. clerical (typing, phone, etc.) 11.6
 - f. administrative 0.5
 - g. educational 0.4
 - h. no response 31.4
19. What kinds of things do you look for in prospective employees in terms of skills, traits, appearance, etc. when you think about hiring them?
- a. neatness, dress, appearance 32.9
 - b. dependable, reliable, able to take direction 18.4
 - c. general work experience, education, etc. 15.9
 - d. positive attitude, personable, able to communicate, etc. 22.0
 - e. no response 10.9

20. When hiring new employees, are you more interested in the training they have already received or the job experience they have?
- | | |
|--------------------------------------|------|
| a. training [proceed to question 21] | 8.9 |
| b. experience [skip to question 22] | 39.6 |
| c. both [proceed to question 21] | 32.0 |
| d. neither [skip to question 23] | 13.9 |
| e. no response | 5.6 |
21. Which kind of training do you feel is most important for potential employees to have: general educational training, vocational training, or another type of training?
- | | Employers Who
Answered Training
to Question 20
[skip to question 23] | Employers Who
Answered Both
to Question 20
[proceed to question 22] |
|--|---|--|
| a. general education | 34.0 | 31.8 |
| b. technical or
vocational training | 44.0 | 34.6 |
| c. other (specify) | 18.0 | 27.4 |
| d. both | 2.0 | 0.6 |
| e. no response | 2.0 | 2.8 |
22. What type of experience is most important to you: experience in a job similar to the one for which you are hiring or a history of continuous and general employment?
- | | Employers Who
Answered Experience
to Question 20 | Employers Who
Answered Both
to Question 20 |
|-------------------------------|--|--|
| a. specific experience | 54.1 | 54.7 |
| b. general employment history | 37.8 | 25.1 |
| c. both | 4.5 | 11.2 |
| d. no response | 0.9 | 3.4 |
23. Are you willing to provide on-the-job training to new employees?
- | | |
|---------------------------------|------|
| a. yes [proceed to question 24] | 85.4 |
| b. no [skip to question 25] | 9.5 |
| c. no response | 5.1 |
24. In what ways do you think your company benefits from providing such training?
- | | |
|---|------|
| a. do things the way you like, according to your techniques | 28.2 |
| b. no bad habits | 2.3 |
| c. do a better or faster job | 12.2 |
| d. promote growth in company | 4.5 |
| e. employees know what to do | 5.0 |
| f. better employees | 9.6 |
| g. get the people you need | 0.2 |
| h. n/a | 6.1 |
| i. no response | 31.9 |

25. I am going to read you a list of possible ways that a company might benefit from providing on-the-job training. Will you tell me whether you agree or disagree with the statements?

Agree Disagree Don't know N/A

a. Employees develop skills tailored to business needs with on-the-job training.	90.0	1.0	2.0	7.0
b. On-the-job training helps the business get greater loyalty from employees.	68.2	18.0	6.3	7.5
c. On-the-job training reduces turnover.	53.9	28.1	10.5	7.5
d. Workers have higher productivity with on-the-job training.	78.9	6.6	7.0	7.5

26. Would you be willing to provide training if the government paid for all or part of the cost?

a. yes [proceed to question 26a]	72.3
b. no [end of interview]	6.6
c. depends on how much they pay [proceed to question 26a]	1.6
d. other (specify) [skip to question 27]	13.6
e. no response	5.9

26a. Let's say the government subsidized workers' wages while they were receiving training. What proportion of the wages would the government need to pay for you to be able to provide training?
[Prompts: categories a-d]

a. 10 percent	5.2
b. quarter (25 percent)	7.7
c. half (50 percent)	28.9
d. all (100 percent)	6.4
e. other (specify)	14.6
f. no response	37.1

27. If you received a government subsidy for providing on-the-job training, would you hire more former welfare recipients?

a. yes	55.4
b. no	14.8
c. n/a	29.9

Notes

1. The argument of the economic school is buttressed by studies demonstrating the relationship between income and educational attainment (Murnane 1994; Card and Krueger 1992a, 1992b; Card and Sullivan 1988; Freeman and Holzer 1986). It is further reinforced by a literature illustrating a widening gap in income distribution (Danziger and Gottschalk 1995; Wolff 1994; Hungerford 1993; Levy 1988).
2. Author's calculations based on U.S. Department of Health and Human Services data (<http://www.acf.dhhs.gov/news/aug-mar.htm>).
3. The data is from the Office of Advocacy's recent publication *Small Business in the American Economy* (Lichtenstein 1992). It is based on Wave 3 of the 1984 Survey of Income and Program Participation (SIPP).

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About the Author

Oren M. Levin-Waldman is a resident scholar at the Levy Institute. His projects focus on achieving greater efficiency, equity, and effectiveness in the welfare and unemployment insurance systems and on developing a methodology for analyzing public policy that relies on the application of political philosophy as well as cost-benefit analysis. He has been examining adjustment mechanisms for the minimum wage, welfare reform and the potential for workforce development, and political realignment in the electorate. Levin-Waldman is the author of *Plant Closure, Regulation, and Liberalism: The Limits to Liberal Public Philosophy* and *Reconceiving Liberalism: Dilemmas of Contemporary Liberal Public Policy*. His Levy Institute publications include several Public Policy Briefs: *The Consolidated Assistance Program* (No. 21), *Making Unemployment Insurance Work* (No. 26), *A New Path from Welfare to Work* (No. 31), and *Automatic Adjustment of the Minimum Wage* (No. 42). Levin-Waldman received a B.A. in history, an M.A. in urban studies, and a Ph.D. in political science from Temple University.

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