

# Why Piddle Around?

## JOBS AND ECONOMIC DEVELOPMENT

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The economy slows and states scramble for a response. State economic development gurus scour state budgets, asking: “Where do we find money to create jobs?” Meanwhile unemployment and welfare leaders dole cash to claimants asking: “How long must we wait for jobs.” The opportunity to turn cash support into jobs and economic development is ripe. Sound familiar?

### A Lesson from the Depression – How not to do it

In 1935, with unemployment at 18%, President Roosevelt decided to fund jobs, not unemployment and he created the Works **Progress** Administration (WPA). The WPA used government money for government jobs and was warmly received at first. But when it became apparent that many of the supposed jobs were merely “make work”, the WPA lost favor and became rhetorically known as **We Piddle Around**.



Roosevelt reemphasized the project nature of the program, renaming it the Works **Projects** Administration and over eight years, the WPA built thousands of schools, bridges and other public projects. More importantly, 8.5 million people worked and reaped the financial and psychological benefits of work.

Unfortunately, the WPA was expensive and, according to many economists had little economic development effect on the national economy, which eventually climbed out of the Great Depression with monetary stimulus and the consequent private sector spending.

The lessons are simple: 1) real work works and “make work” doesn’t, 2) private works not public works stimulate the economy and 3) costs must be controlled.

### Promoting Work Today – Subsidized Wages

The modern-day scaled-down cousins of the WPA are subsidized wage programs. They come in a variety of forms, but are widely underutilized in most states.

Subsidized wage programs take the money states spend on the unemployed (cash benefits or classroom training) and offer it to employers who agree to provide job seekers with a job, training and a regular wage. The subsidy normally funds about half of the employer’s wage cost for three to six months, providing an incentive and ensuring a partnership.

Wage subsidies have evolved to answer the criticisms of the Roosevelt era program. They: 1) create real work with employers who will not hire an employee for “make work;” 2) promote economic development by fostering job creation and immediately increasing production; and 3) contain costs by simply converting previously committed money.

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## An Example

One State's subsidized wage program involved over 10,000 employers. When surveyed by the state, over 96% that used the program were in favor of the program and over 80% said it helped their business by: 1) lowering costs; 2) increasing their capacity; and/or 3) supporting expansion.

## Job Seekers

Job seekers fared well too. State studies show that over 65% of participants found permanent jobs at the end of the program and that it increased their wages. Over 80% of participants approved of the program and said they would choose it again, if they could.

## Sounds Like Economic Development?

The State invested over \$25 million normally used to subsidize unemployment but diverted to subsidize jobs. Thus funds were injected back into the economy in the form of production. Wages paid in the economy were twice the amount of benefit checks, and the unemployed became producers in the economy, tapping the multiplier effect and adding to the tax base.

Compare this to other economic development programs, for example, tax credits that lure jobs from one community to another – arguably a zero sum game. And consider the cost/savings for an average state:

- *In 2007, over one third of US unemployment insurance claimants exhausted their claims without finding work costing states well over \$4,000 a piece – US Department of Labor.*
- *Welfare recipients who need the most help spend years on welfare costing nearly \$10,000 per year and sometimes bumping into their five-year eligibility limits without finding work.*
- *Typical wage subsidies range from \$1,000 to \$4,000.*

But is on-the-job training needed? According to the W.E. Upjohn Institute for Employment Research, not only is on-the-job training critical, attaining it through subsidized wages is one of the most effective ways to help certain people move into work.<sup>1</sup>

With so many cost-free ways to create jobs and economic development, one question remains:

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### Funding

How do states fund subsidized wages?

- *Unemployment Insurance – divert part of the UI tax to a state-controlled fund similar to other diversions many states have or include it in the state's training UI program and continue benefits for claimants who participate in on-the-job training*
- *Workforce Investment Act – local boards can fund on-the-job training as provided under the Act*
- *Welfare (TANF) – can be included in the state plan (many states already have)*
- *NAFTA and Trade Adjustment Act – allowable under the terms of both acts*
- *Food Stamp Employment and Training – include it in the state's plan*
- *WOTC, the Work Opportunities Tax Credit – a federal wage subsidy for specific targeted groups of people.*

<sup>1</sup> Jobs for the Poor: Can Labor Demand Policies Help, 2001, Upjohn Institute, Timothy J. Bartik, Senior Economist.