

Labor Market Policy Issues

Policy and Economics in the 2024 Presidential Election

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Positive vs. Normative

Positive

Descriptive factual statements

Normative

Value-based statements

Positive vs. Normative

Positive

Descriptive factual statements

Normative

Value-based statements

Economics is a positive discipline as it aims to document and analyze individual and collective behaviors. It is also, and more importantly, a normative discipline as its main goal is to better the world through economic policies and recommendations.

-Jean Tirole, 2014 Nobel Laureate in Economics

In this context: economics is a positive science that can aid when voters choose means to accomplish their ends. It does not dictate the choice of those ends.

Outline

Approach for our discussion:

Identify labor market **policy issues** → Review broad **candidate positions** →
Identify **tradeoffs** → discuss relevant **economic insights**

What are **some** of the current labor-market policy issues on your mind?

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What are *some* of the current labor-market policy issues on your mind?

- Minimum Wage
- Childcare / Family leave
- AI
- EITC
- Retirement & Social Security
- Immigration – Dr. Charlton
- Macro considerations – Dr. Gilpin
- Other: Unions, Unemployment Insurance, Manufacturing

The Minimum Wage

Broad Positions

Harris: Increase the federal minimum wage

Trump: Increasing the minimum wage would hurt small businesses and employment

Identifying Tradeoffs

Primary: Are low-wage workers earnings increased?
Are there meaningful employment effects?
Does the minimum wage decrease poverty?

Other: What are effects on amenities, other inputs, firm entry and exit, output prices and demand, profits, and productivity?
Are there “downstream effects” on health, crime, and education?

The Minimum Wage

Economic Insights

Two contrasting viewpoints on **wage** and **employment effects**

1. MW policies have “limited direct employment effects while significantly increasing the earnings of low-wage workers” (Dube & Lindner, 2024)
2. There is a “(i) clear preponderance of negative employment estimates; (ii) evidence is stronger for teens, young adults, less-educated; (iii) need to focus on directly-affected workers; the evidence from low-wage industries is mixed” (Neumark & Shirley, 2022)

Recent evidence on **poverty** and **wealth**:

- 2010 to 2019: 75% of MW workers experience a wage increase within 12 mo. (Clemans and Strain, 2023)
- “Poor performance of past minimum wages in curbing poverty” ... “Less than 10 percent of workers who would be affected by a newly proposed \$15 federal minimum wage live in poor families.” (Burkhauser, McNichols, Sabia, 2023)

The Earned Income Tax Credit

Broad Positions (relatively less attention on EITC this cycle)

Trump: Emphasis on tax cuts, but supports expanding child tax credits

Harris: Explicit plan to extend EITC benefits. Permanently extend the ARPA EITC expansion for workers without qualifying children

Identifying Tradeoffs

Primary: What are the documented benefits on labor supply / poverty and are they likely to persist with further expansions?

How costly are additional EITC expansions?

Are there documented work dis-incentives?

Other: What are effects on other outcomes?

The Earned Income Tax Credit

Economic Insights

Introduced in 1975, EITC expansions, CTC, and state-level EITC have created many opportunities for researchers to estimate effects of EITC-related programs

Primary effects on **poverty** and **labor supply**

- Positive effects on labor supply single mothers, smaller and negative for married mothers, no effects for men
- “Millions of families are brought above the poverty line ... for recipients and their children ... evidence of unintended consequences (e.g., marriage and fertility).” (Nichols Rothstien, 2016; Hoynes, 2019)

Downstream outcomes

- Improves **infant health** (Baker 2008; Hoynes, Miller, and Simon 2015; Strully, Rehkopf, and Xuan 2010) and boosts **maternal health** (Evans and Garthwaite 2014). Positive effects on **child test scores** (Dahl and Lochner 2012; Chetty, et al. 2011) and **educational attainment** (Bastian and Michelmores 2018; Manoli and Turner 2018)

Paid Family Leave

Broad Positions

Harris: mentions build back better, promised to continue pushing for paid family program & universal preschool

Trump: Not a primary point of emphasis. Mentions pandemic-era emergency paid leave support. 2019: passed bill for 12 weeks of paid leave for federal workers

Identifying Tradeoffs

Primary: What are the take-up rates, program benefits, opportunity costs?
How does PFL affect labor market attachment, leave length, long-term labor market outcomes, children's outcomes?

Other: Your thoughts?

Paid Family Leave

Economic Insights

A massive literature focuses on quasi-experimental analyses that exploit policy changes to estimate PFL effects

Primary effects: **leave taking**, **labor outcomes**, and **children's welfare**

- PFL increases mothers' time of leave after giving birth
- PFL can increase the labor force attachment and wage growth of mothers
- Parental leave improves children's short run health outcomes but mixed evidence on longer run outcomes such as education and wages
- **Overall:** strong evidence for beneficial effects on infant, child, and parental health

“PFML policies are likely to have important short- and long-term benefits for population health, without generating large costs for employers.”

(Bartel et al., 2023)

AI & the Labor Market

Broad Positions

Trump: Supports deregulation. First mover emphasis given threats from global rivals

Harris: Cautious approach, but promoting leadership in tech

Identifying Tradeoffs

Primary: Is AI taking us to a jobless future?

Will AI lead to fraud and bias that affects labor markets?

Does AI enrich human productivity and the work experience?

How will AI affect the distribution of income and wealth?

Other: Your inquiries?

AI & the Labor Market

Economic Insights

Caution! We have limited evidence on the labor market consequences of AI.

- Technology can and does affect demand

“New technologies do not just replace labor ... in a competitive market, automation will reduce prices. ... technology may improve product quality, customization, or speed of delivery. All of these things can increase demand. If demand increases sufficiently, employment will grow” (Bessen, 2019)

- Potential harms of AI in the labor market

“damaging competition, consumer privacy and consumer choice; excessively automating work, fueling inequality, inefficiently pushing down wages, and failing to improve worker productivity; and damaging political discourse”

“costs are not inherent to the nature of AI technologies, but are related to how they are being used ... empower corporations and governments against workers and citizens” (Acemoglu, 2021)

AI & the Labor Market

Economic Insights

(Acemoglu et al. 2022)

- Identify AI adoption using vacancies for workers specializing in AI-related activities
 - Data include the near-universe of job vacancies and detailed skill requirements
 - Rapid take-off of AI vacancy postings starting in 2010, accelerating around 2015-16
- **Findings:**
 - AI is altering the task structure of jobs, replacing some human-performed tasks and generating new tasks
 - AI exposure is associated with lower non-AI and overall hiring
 - No detectable effects on employment or wages at industry or occupation level
- Overall patterns are consistent with AI algorithms substituting for human skills

AI & the Labor Market

Economic Insights

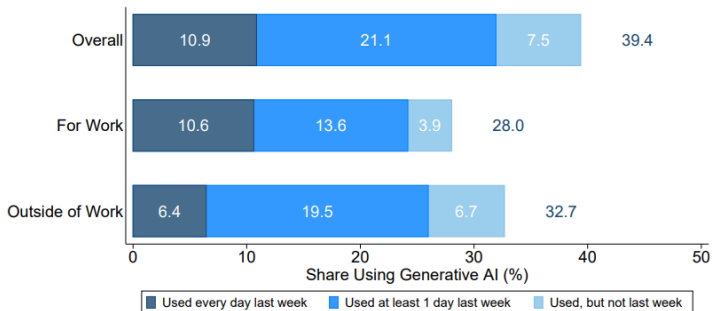
(Brynjolfsson, Li, and Raymond, 2023)

- Estimate the effects of an AI tool used by customer support agents
 - Staggered introduction of a generative AI conversational assistant, 5,179 customer support agents at a fortune 500 company
- **Findings:**
 - Access to the AI tool increases productivity by 14% on average, including a 34% improvement for novice and low-skilled workers
 - AI model disseminates the best practices of more able workers and helps newer workers move down the experience curve
 - AI assistance improves customer sentiment, increases employee retention, and may lead to worker learning

AI & the Labor Market

Economic Insights (Bick, Blandin, and Deming, 2024)

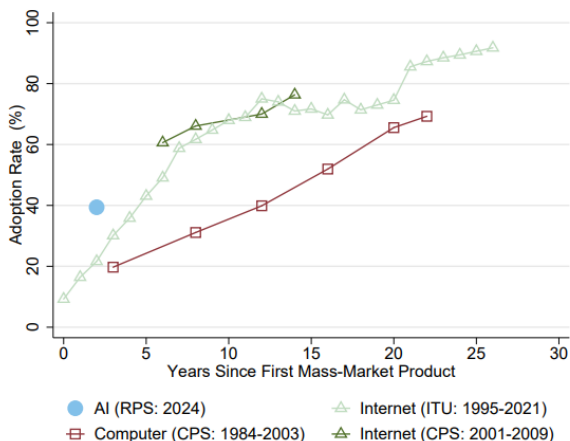
Figure 2: Share of Working Age Adults Using Generative AI



AI & the Labor Market

Economic Insights (Bick, Blandin, and Deming, 2024)

Figure 4: The Trajectory of Computer, Internet, and AI Adoption



Retirement & Social Security

Broad Positions

Harris: "Strengthen the program and expand benefits by asking the wealthiest Americans to pay their fair share."

Trump: End taxes on social security benefits. Stimulate growth to fund SS fund

Identifying Tradeoffs

Primary: How to fund given real and pressing solvency issues?

Improve program financial stability or hurt the welfare of the elderly?

Other: How do SS benefit incentives affect retirement, work, savings, etc.?

When and why do people claim?

Concerns about the baby boomers claiming SSI?

What is happening to the welfare of folks in poverty and old age?

Retirement and Social Security

Economic Insights

- Will we reform?

Retirement and Social Security

Economic Insights

- Will we reform? Who knows?

Let's consider the response to a past major reform

(Engelhardt, Gruber, Anil Kumar, 2022)

- What happens to elderly welfare when we allow for Early Eligibility Age (EEA)?
 - Born in 1896...first claim benefits at age 65, the full benefits age (FBA)
 - Born in 1897...claim early at 64; 1898...claim early at 63; 1899+...claim early at 62.
 - Claiming at age 62 represented a 20% reduction in benefits
- **Findings:**
 - EEA lowered claiming age by 1.4 years, which lowered SS benefits for male-headed families in retirement by 1.5% at the mean, 3% at the median, and 4% at the 25th percentile
 - EEA decreased total income but only for the lower half of the income distribution

Retirement and Social Security

Economic Insights

“How Does Social Security Reform Indecision Affect Younger Cohorts?”
(Shoven, Slavov, and Watson, 2021)

- **Unknown:** Will we face SS benefit cuts, payroll tax increases, or an increase in the partial or full retirement ages?
 - The value of receiving information in 2020 rather than 2035 can be very significant
 - This “free lunch” can be realized by making a decision about a problem that will have to be faced in the near future
- Costly for two main reasons:
 1. Folks assume benefits will be maintained and then are surprised by benefit cuts
 2. Folks assume they'll face benefit cuts only to find out in 2035 that they won't

What *should* be done?

What *should* be done?

You Decide! Go Vote!