The Daily Dish

Work and the Social Safety Net

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Eakinomics: Work and the Social Safety Net

One of the striking trends in recent U.S. economic history is the decline in labor force participation. The most visible phenomenon has been the sharp decline in the past decade: the labor force participation rate fell from 66.0 percent in December 2007 to 62.7 percent as of October 2017. This recent move, however, is built upon two long term trends: 1) A steady decline in the labor force participation of prime age men. According to the Bureau of Labor Statistics, 97.5 percent of prime-age males were in the labor force in 1953; by 2017 it had fallen to 88.6. 2) A stagnation in the labor force participation rate of prime-age women. After rising from 34.9 percent in 1948 to 74.0 percent in 1990, the rate has since essentially flattened out.

These trends likely reflect any number of factors, including skills acquisition, opioid abuse and other influences. But certainly, one would want to make sure that public policies do not discriminate against work. What kind of changes would ensure that? AAF's Ben Gitis presents a menu of policy options that can level the policy playing field between work and being out of the labor force. Among the options are to expand the Earned Income Tax Credit (EITC) for childless adults. The EITC is the most effective federal anti-poverty program, credited with keeping 6.5 million people out of poverty in 2015. The EITC encourages work and economic-self sufficiency. Unfortunately, the EITC falls short when it comes to the childless. While the maximum credit for an adult with one child is $3,400, the maximum credit for an adult with no children is only $510. Expanding the credit for childless adults is one way to increase labor force participation and work.

A second possibility is to reform disability insurance. The short version is that there has been no discernible rise in the number of Americans with disabilities. Nevertheless, participation in disability insurance has risen from 1 percent of prime-age males to 3 percent in recent years. In order to receive disability insurance, participants must show, for an extended period of time, that they are unable to work. Once they are on disability insurance, they must keep earnings low or they will lose the benefit. These are fundamental incentives against work that suggest that the disability insurance program is reducing labor force participation.

A final option is work requirements in social safety net programs like Medicaid, child support enforcement, food stamps, and housing assistance. Federal programs can reduce material deprivation, but they have not produced low poverty rates because they do not increase self-sufficiency. While work requirements are not universally appropriate, targeted increases in work requirements can provide skills and a better set of lifetime opportunities.

These are not the only options. But they are indicative of a strategy that can both improve the top-line performance of the labor market and the lifetime opportunities of program participants.