CHAPTER 3

Benefits of a Strong Labor Market

THE NATION'S LABOR MARKET is performing at record levels: the number of workers employed is at an all-time high, the unemployment rate is at a 30-year low, and real (inflation-adjusted) wages are increasing after years of stagnation. Groups whose economic status has not improved in the past decades are now experiencing progress. The real wages of blacks and Hispanics have risen rapidly in the past 2 to 3 years, and their unemployment rates are at long-time lows; employment among male high school dropouts, single women with children, and immigrants, as well as among blacks and Hispanics, has increased; and the gap in earnings between immigrant and native workers is narrowing.

The most recent data also show that the employment relationship is strong. Job displacement—job losses due to layoffs, plant closures, and the like—has declined substantially since the 1993-95 period, and among those who have been displaced, the share that have found new work has increased. These reemployed workers still typically earn less on the new job than at the job they lost, but these wage losses are at record lows. Moreover, the popular assertion that secure lifetime jobs are disappearing appears to be overstated. This is not to suggest that the picture is entirely benign: some groups have experienced declines in job tenure since the 1980s, and the rate of job displacement remains relatively high given the current strength of the labor market. To address these and other problems, this Administration has undertaken a number of measures to strengthen education and job training and to promote lifelong learning.

Besides spreading the benefits of economic growth more widely, the robust labor market has generated other, less obvious benefits. It has contributed to a decrease in welfare case loads, allowing States and localities to focus increased resources on designing and implementing welfare reform. In addition, low unemployment and, especially, the rise in average wages may have contributed to a reduction in crime. Several studies have demonstrated an inverse relationship between labor market opportunities and criminal behavior: the better the options in legal employment, the less likely are potential criminals to commit crimes.

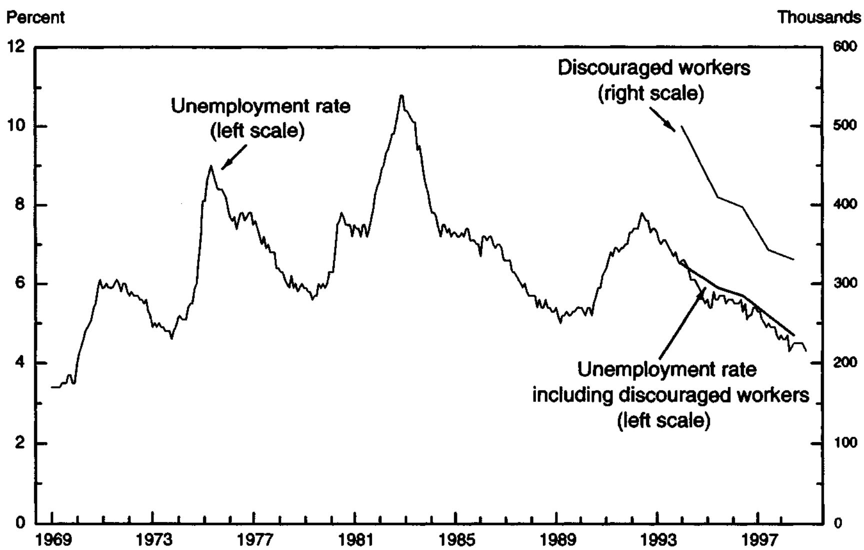
The chapter begins by documenting economy-wide developments in the labor market in the past few years within the context of longer run changes. It then focuses on recent improvements experienced by workers who have traditionally not fared as well in the labor market, including high school dropouts, blacks, Hispanics, youth, immigrants, and single mothers. The chapter then goes on to examine some important but less obvious side benefits of the tight labor market. This is followed by a discussion of evidence on changes in the relationship between workers and employers, including job displacement, job tenure, and the contingent work force. Finally, the chapter reviews recent policy developments to promote job training and lifelong learning.

ECONOMY-WIDE DEVELOPMENTS IN THE LABOR MARKET

EMPLOYMENT

The usual indicators of labor market progress—employment, unemployment, and wages—show that working men and women continue to benefit from the ongoing economic expansion. Employment is at an all-time high, with 133 million Americans at work in December 1998, and only 4.3 percent of the labor force unemployed. Having fallen from 7.3 percent in January 1993, the unemployment rate is at its lowest level since February 1970 (Chart 3-1).

Chart 3-1 **Unemployment and Discouraged Workers**
The unemployment rate is at its lowest level since February 1970. Including discouraged workers increases the rate by at most four-tenths of a percentage point.



Note: Discouraged workers and the unemployment rate including them are annual averages.
Source: Department of Labor (Bureau of Labor Statistics).

Data on discouraged workers provide further evidence of a strong labor market. The number of discouraged workers—workers who are not employed and who have not looked for work in the past 4 weeks because they did not think they could find a job—has shrunk by one-third since 1994, the earliest year for which comparable data are available. Discouraged workers are not counted in the labor force and therefore are not captured in the official unemployment rate. However, because there are so few discouraged workers, redefining the unemployment rate to include them as unemployed increases the unemployment rate by no more than 0.4 percentage point (see Chart 3-1).

Much of the growth in employment reflects an increase in the share of women looking for and finding jobs. More women than ever before have joined the labor force: among women aged 25-64, 72.4 percent were working or seeking work in 1998, up from 70.2 percent in 1993 and 33.1 percent in 1948. The labor force participation rate among men aged 25-64 gradually declined during the 1960s and early 1970s, but it has remained steady at about 88 percent ever since.

A tight labor market in a high-employment economy means that more men and women who are looking for jobs are finding them, and finding them faster. Those unemployed in 1998 had been searching for work an average of 14.5 weeks, down from 18.8 weeks in 1994, the earliest year with comparable data. The average length of a spell of unemployment is sensitive to the number of those undergoing long spells. In 1998, 14.1 percent of the unemployed had been searching for a job for over 27 weeks, far below the 1994 figure of 20.3 percent. By contrast, the share of those unemployed for less than 15 weeks rose from 64.2 percent to 73.6 percent during the same period.

WAGES

One of the best documented labor market trends of the past few decades has been the decline in real wages among men. According to the Current Population Survey (CPS; see Box 3-1 for a description of

Box 3-1.—Sources of Wage Data

This chapter uses several different sources of data on wages. The Bureau of Labor Statistics (BLS) of the Department of Labor publishes estimates derived from monthly surveys of both households and establishments: the CPS, which surveys about 50,000 households, and payroll records reported by about 390,000 establishments representing the nonfarm sector. Earnings data tabulated by the BLS from the household data usually describe the median weekly earnings of full-time workers aged 16 and over. However, because significant portions of the populations of interest in much of this chapter often do not work full time, in many cases the Council of Economic Advisers has made special tabulations of wages including *all* workers aged 16 and over—part-time

Box 3-1.—*continued*

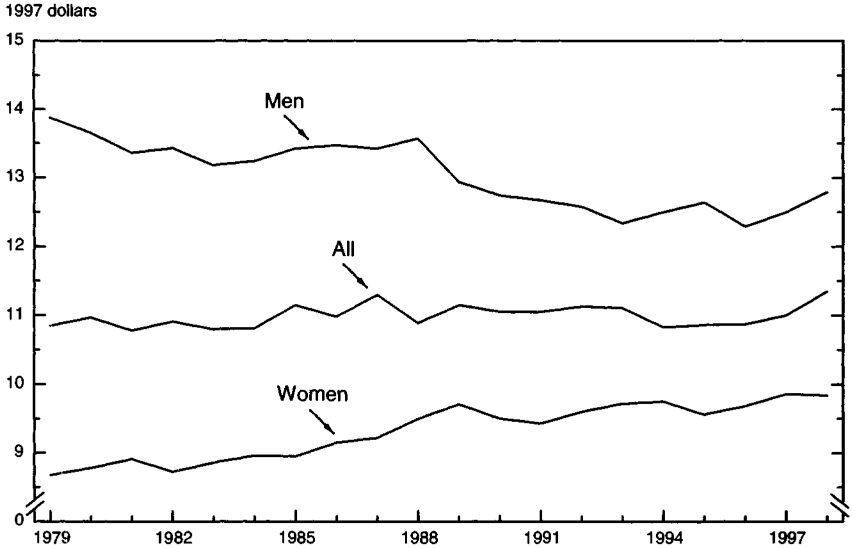
as well as full-time—in the CPS data. Unless otherwise specified, this is the population referred to in this chapter.

All of the Council's tabulations use the merged Outgoing Rotation Group (ORG) files of the CPS, which include a subset (25 percent) of the full CPS sample who are asked about their earnings and hours on their current job each month. In the ORG data, hourly wages are measured by dividing usual weekly earnings by usual weekly hours, both as measured on the individual's main job. All wage data are presented in real 1997 dollars, adjusted for inflation using the CPI-U-X1 (the urban consumer price index with rental equivalence).

This chapter also uses BLS establishment data, collected from businesses and State and local governments. From these data are derived estimates of average weekly earnings and hours worked for production and nonsupervisory workers. In addition, the employment cost index (ECI), also constructed from establishment data, measures total compensation paid to workers, including both wages and salaries and the cost of benefits such as health plans. Fixed industry weights are used to ensure that the ECI reflects *only* changes in compensation, not shifts in employment across industries and occupations. The CPS wage data and average weekly earnings of production and nonsupervisory workers do reflect these shifts, as well as wage trends within industries and occupations.

the data), between 1979 and 1993 the median real wage for men fell by 11.1 percent (Chart 3-2). However, progress has been made since 1996: the median real wage for men rose 1.7 percent in 1997 and 2.3 percent in 1998. Women experienced slightly stronger real wage growth in 1997 of 1.9 percent, but their wages were flat in 1998. Other measures of compensation show similar increases. Data reported by establishments (businesses and government agencies; the CPS data cited above are from surveys of households) show that, after stabilizing in the early 1990s, real hourly earnings of production and nonsupervisory workers have risen by 5.4 percent since 1993. The employment cost index (see Box 3-1) shows that total compensation (wages and salaries plus benefits) per worker increased by 2.2 percent in real terms from the third quarter of 1997 to the third quarter of 1998. Employers' wage and salary costs in that period rose by 2.7 percent and benefit costs (health insurance, paid leave, supplemental pay, retirement benefits, and the like) by 1.2 percent. Establishment data also show that the average workweek for production and nonsupervisory workers continued to hover between 34.4 and 34.8 hours, as it has since the mid-1980s.

Chart 3-2 **Median Hourly Wages of Men and Women Aged 16 and Over**
Men's wages generally declined between 1979 and 1993, but have risen in more recent years. Women's wages have risen steadily.



Note: Sample includes part-time as well as full-time workers.
Source: Council of Economic Advisers tabulations of Current Population Survey data.

DISADVANTAGED GROUPS

A strong labor market is particularly important to less advantaged groups in the labor market, such as workers with less education, younger workers, racial and ethnic minorities, and immigrants. The unemployment rates of these groups typically swing up and down more than the average during expansions and recessions. When employers find it hard to fill vacancies, they are more willing to hire and train workers whom they might pass over when they have fewer openings and an abundance of applicants.

For the same reason, a tight labor market can also pull up wages for disadvantaged workers. When labor is scarce, these workers can command better pay than at other times. The current expansion is especially important for disadvantaged workers given their experience from the late 1970s to the early 1990s, when wage inequality grew and less skilled groups faced persistently declining wages, on average.

The reasons for these wage declines and the rise in inequality that accompanied them were discussed in the 1997 *Economic Report of the President* and are still being debated, but it seems clear that demand for highly skilled workers has been expanding faster than supply, whereas demand for less skilled workers has declined even faster than supply. Even though the fraction of the population without a high school diploma has shrunk, as older, less educated cohorts have retired and been replaced by younger, more educated ones, the number of jobs available to high school dropouts shrank even faster from the late 1970s to the early 1990s. An important explanation is technological change in manufacturing, as a result of which the manufacturing sector requires fewer workers to produce more output than in the past. Competition from lower wage, low-skilled labor in other countries may also have been a factor, although most studies find that technological change is more important than increased international trade in explaining the declining demand in the United States for workers with no more than a high school diploma. Meanwhile, employment has expanded dramatically in the financial, professional, and business services industries, where most jobs require a college education or beyond.

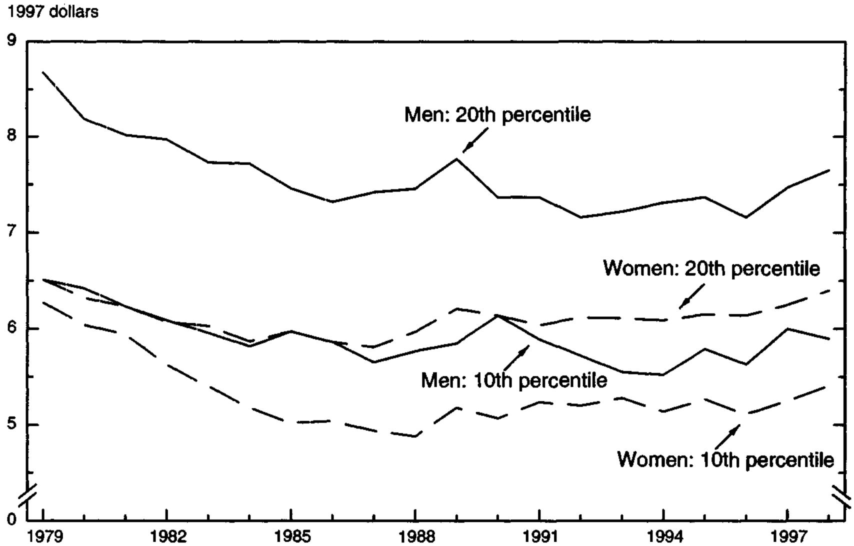
Unions have historically helped less educated workers obtain higher wages than they could get otherwise. As employment in the highly unionized goods-producing, transport, and utilities industries has declined as a share of the work force since the 1950s, however, so has union membership. Like the American economy in general, the labor market has become more competitive in recent decades, with compensation and job security more often determined by market forces than before. This has benefited many American workers who were in a position to take advantage of the new job opportunities, but it has been hard on less skilled workers at the lower end of the wage distribution.

The Administration's efforts to keep the economy expanding and to make work pay have been particularly important to these workers. Not only is the overall labor market performing at record levels, but several groups of workers who had been experiencing low employment rates, declining wages, and high rates of unemployment have begun to show marked improvements. These groups include low-wage workers, workers with less than a college education, blacks and Hispanics, immigrants, and single mothers.

LOW-WAGE WORKERS

It is well established that workers at the lower end of the wage distribution have not fared well in recent decades: from the late 1970s through the early 1990s, the purchasing power of their wages declined. Between 1979 and 1993 the real hourly wages of male and female workers (including part-timers) at the 10th percentile of the wage distribution fell by 14.8 percent and 15.8 percent, respectively (Chart 3-3). More recently, however, these lowest paid workers have seen significant gains. Real hourly wages for men 16 and older at the 10th and 20th percentiles have increased by about 6 percent since 1993, with especially large gains in the past 2 years. One might expect the earnings of low-wage women to have declined in recent years as supply expanded when a large number of them left welfare and entered the labor force. But on the contrary, wage increases for women were

Chart 3-3 **Hourly Wages of Low-Wage Workers Aged 16 and Over**
During the 1980s, wages declined for men and women at the 10th and 20th percentiles of the wage distribution, but significant gains have occurred since 1993.



Note: Sample includes part-time as well as full-time workers.
Source: Council of Economic Advisers tabulations of Current Population Survey data.

significant, with wages for those at the 20th percentile increasing by 4.7 percent since 1993.

These gains have not been confined to the lower end of the wage distribution. Real hourly earnings of the median male worker have increased by 3.6 percent since 1993, while those of the highest earning men and women (measured at the 90th percentile; these data are not shown in the chart) have increased by 6.4 percent and 6.2 percent, respectively.

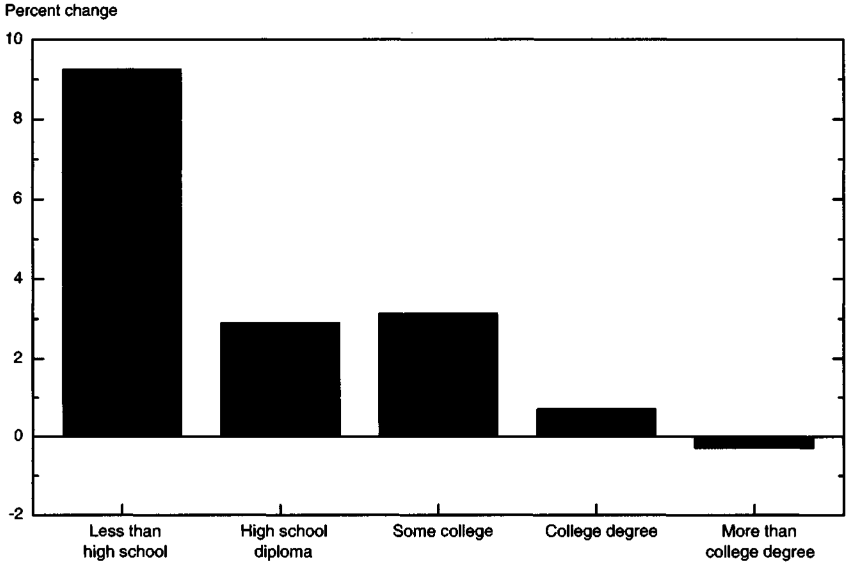
LESS EDUCATED WORKERS

Education is a key determinant of labor market success, and much of the decrease in real wages for low-wage workers over the past two decades may be due to changes in the economy that have placed increasing value on skilled labor. The shift from goods-producing industries to services and to a more technology-intensive workplace has increased the premium on education, and particularly on workers who have at least a bachelor's degree. In this new economic environment it is important to monitor the progress of those with less education, who risk missing out on gains in the economy as a whole. During the current economic expansion, however, those with less education appear to be sharing in the benefits of the tight labor market in a number of ways.

Since 1993 the strong labor market has sharply reduced unemployment rates for workers at all levels of educational attainment.

Particularly interesting, however, are changes in the employment-to-population ratio for people with different levels of attainment. As Chart 3-4 shows, high school dropouts have experienced a much larger relative increase in their employment rate than have workers with more education. This increase is the joint result of increased labor force participation among dropouts and decreased unemployment among those dropouts who are in the labor force. The economy created enough low-skilled jobs to employ a larger share of the dropout population, which is shrinking as more-educated younger cohorts replace older ones. Chart 3-4 shows the results for men and women combined, but looking at men and women separately yields the same qualitative result.

Chart 3-4 **Percent Change in Employment Rate by Level of Education, 1993-1998**
Among persons aged 25 to 64, high school dropouts have experienced a larger relative increase in their employment rate since 1993 than those with more education.



Source: Council of Economic Advisers tabulations of Current Population Survey data.

Workers with less education are not only experiencing employment gains; they are also beginning to share in wage gains. From 1993 to 1998, male high school graduates aged 20 and over without any college attendance experienced a real increase in their median wage of 2.8 percent. Although small, this was an improvement over their experience from 1979 to 1993, when their median wage *fell* by 21.8 percent. In 1998 the median real wage of male high school dropouts aged 20 and over finally increased, for the first time since at least 1979, by 7.0 percent.

Although, as these numbers show, both the employment and the earnings of workers with less education have been improving, education remains a key determinant of labor market outcomes. The fiscal 1999 budget passed by the Congress contained a down payment for the

Administration's initiatives to reduce class size by hiring 100,000 new teachers. The Administration has also encouraged both young people and adults to pursue further education and job training. The new GEAR UP program, for example, provides mentors to disadvantaged students preparing for college, and the new HOPE Scholarship tax credit provides up to $1,500 for the first 2 years of college or vocational school. Also, in 1998 the Administration obtained an increase both in total funding for Pell grants, to $7.7 billion, and in the maximum grant, from $3,000 to $3,125. These grants provide financial aid to undergraduates on the basis of need.

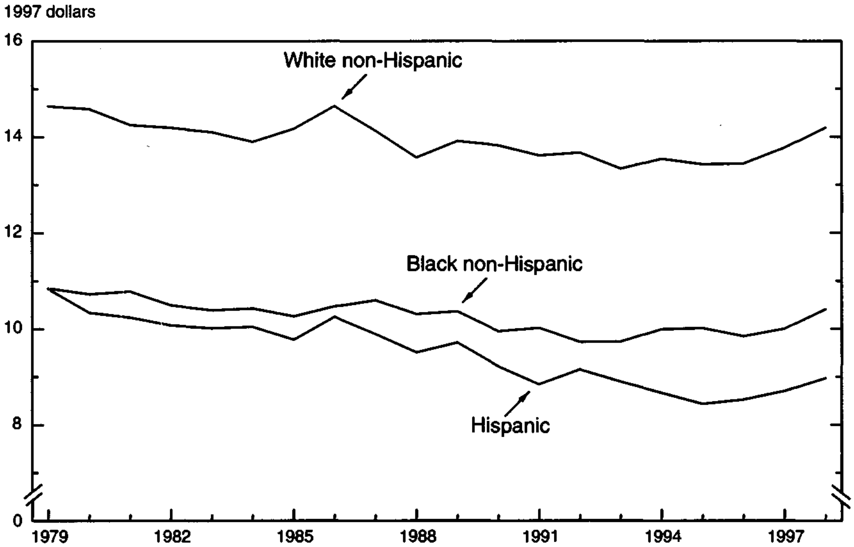
For fiscal 2000 the Administration is proposing substantial changes to America's schools. Measures in the President's budget will hold teachers, schools, and students more accountable for educational outcomes; will reduce class size; will provide for building and renovating public schools; and will recruit outstanding new teachers. The President has asked the Congress to expand on the $1.2 billion down payment made last year to reduce class size in the first three grades to a national average of 18. The Administration has proposed new Federal tax credits as incentives to help States and school districts build new public schools and renovate existing ones. The President's budget contains a series of new initiatives and funding increases to help recruit well-prepared people to teach where they are most needed, in high-poverty urban and rural communities. In addition, the President is proposing to help the more than 44 million adults who perform at the lowest level of literacy to acquire reading and writing skills. His budget would, among other things, establish a 10 percent tax credit for employers who provide workplace education programs for their employees who lack basic skills.

BLACKS AND HISPANICS

After years of decline, the real wages of black men began to increase in 1993; they have risen by 5.8 percent since 1996 alone. Black women and Hispanic men and women have also experienced recent gains (Charts 3-5 and 3-6). Because blacks and Hispanics are disproportionately represented in the lower end of the wage distribution, the long-run trends in their wages are similar to those for low-wage workers generally. Both of these minority groups have less education on average than the rest of the work force, and Hispanics are younger on average. When the real wages of workers without a college education started declining in the 1970s, the median real wages of black and Hispanic men started declining as well. In the last few years, however, their wages have been rising.

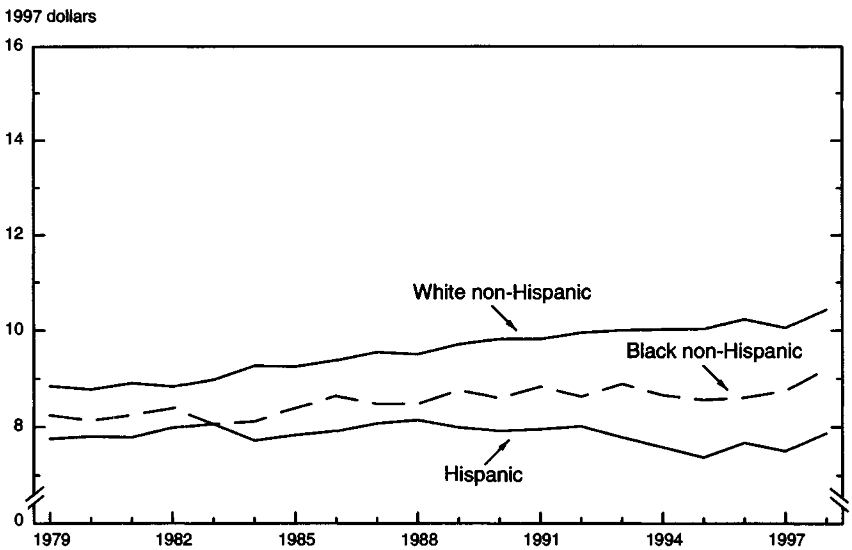
Employment opportunities are also expanding for minorities. The unemployment rates for blacks and Hispanics in 1998 were the lowest ever recorded, and were 4.1 and 3.6 percentage points lower, respectively, than in 1993. But minority unemployment is still unacceptably

Chart 3-5 **Median Hourly Wages of Men Aged 16 and Older by Race and Ethnicity**
After years of decline, wages have risen for white and black men since 1993 and for Hispanic men since 1995.



Note: Sample includes part-time as well as full-time workers.
Source: Council of Economic Advisers tabulations of Current Population Survey data.

Chart 3-6 **Median Hourly Wages of Women Aged 16 and Older by Race and Ethnicity**
Black and white women now earn their highest wages ever, and wages of Hispanic women have increased recently.

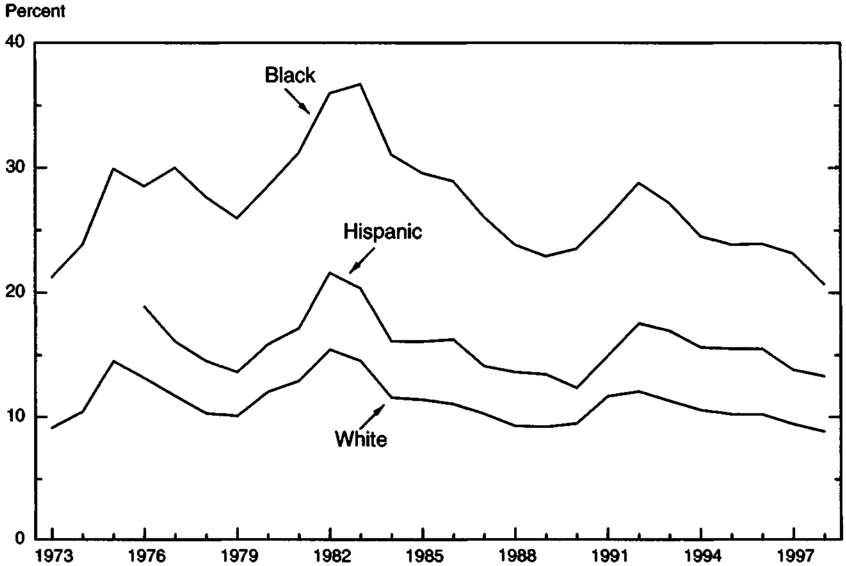


Note: Sample includes part-time as well as full-time workers.
Source: Council of Economic Advisers tabulations of Current Population Survey data.

high, at 8.9 percent for blacks and 7.2 percent for Hispanics in 1998, compared with 3.9 percent for whites.

The tight labor market of the 1990s appears to be helping even young minority workers, who suffered greater wage declines than others in the 1980s and who typically have extraordinarily high unemployment rates. By 1998 the unemployment rate among black youth aged 16-24 was 20.7 percent, lower than in any year since the data series began in 1973. And the unemployment rate among young Hispanics aged 16-24 dropped 3.7 percentage points between 1993 and 1998 (Chart 3-7). Moreover, the median real wages of young black males aged 16-24 rose by 6.2 percent in 1998 alone.

Chart 3-7 **Unemployment Rates of Persons Aged 16-24 by Race and Ethnicity**
Unemployment rates among young people have fallen since the early 1990s, although blacks continue to have more than twice the unemployment rate of whites.



Source: Department of Labor (Bureau of Labor Statistics).

IMMIGRANTS

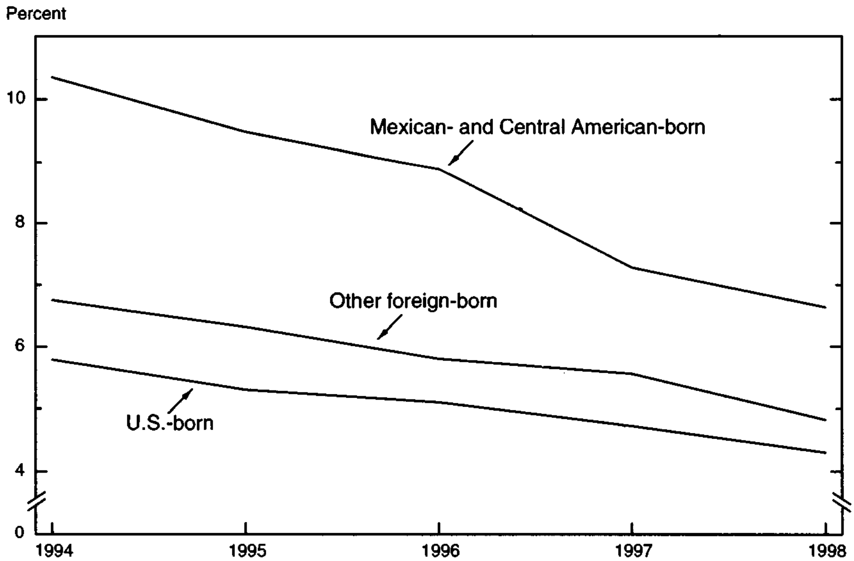
Foreign-born workers often face challenges in the labor market that native-born workers do not: weaker English skills, a lack of networks for finding jobs, and unfamiliarity with American institutions and workplace culture sometimes create barriers to their obtaining good jobs. Foreign-born workers, including those from Mexico and Central America (who account for about 30 percent of new immigrants since 1980), are less likely to have completed high school than are American-born workers. However, there is wider variation in educational attainment among immigrants than among natives; whereas many immigrants have minimal schooling, many others have completed college.

In fact, in 1990 immigrants and natives were equally likely to have a college degree.

A worrisome trend has been the decline in relative educational attainment and wages of successive cohorts of immigrants over the past few decades. Although educational levels have risen across successive cohorts since 1960, they have not kept up with the educational attainment of natives. Immigrants who entered in the late 1980s are much more likely to lack a high school diploma than persons born in the United States. However, during the past 4 years, immigrants have clearly been sharing in the labor market benefits of the economic expansion, particularly through reduced unemployment rates. (Comparable data are not available for earlier years of the CPS because the CPS did not collect data on country of birth until 1994.)

Unemployment rates decreased from 1994 to 1998 throughout the working population, but immigrants have experienced especially large declines (Chart 3-8). Particularly striking is the narrowing of the gap in unemployment rates between native-born workers and those born in Mexico and Central America. This trend has been coupled with steady

Chart 3-8 **Unemployment Rates by Nativity**
The gap in unemployment rates between natives and foreign-born persons has narrowed since 1994.



Source: Council of Economic Advisers tabulations of Current Population Survey data.

levels of labor force participation for men in this group and a small increase among women. As a result, employment rates for both males and females from Mexico and Central America have increased. A rising share of these workers are also working full time.

Certain groups of immigrants are also earning more. Since 1995 the median real wage of Mexican- and Central American-born immigrants has risen, by a total of 6.8 percent for men and 3.8 percent for women. This is particularly encouraging because one might expect the continuing addition of low-wage new entrants to the population of Mexican- and Central American-born immigrants to depress the group's median wage, even though individual immigrants' wages tend to increase with time in the United States. In fact, because entrants since 1995 are likely to have below-median wages and are included in the pool used to calculate the median wage in 1998, wages for Mexican- and Central American-born immigrants already employed in the United States in 1995 have probably risen by even more than the median for the group overall. The increases in the minimum wage in 1996 and 1997, as well as the President's proposed $1-per-hour increase over the next 2 years (Box 3-2), are especially important for large numbers of these immigrants, whose wages are at or near the minimum.

Box 3-2.—Increasing the Minimum Wage

On October 1, 1996, the minimum wage was raised from $4.25 to $4.75 an hour. It was again increased to $5.15 an hour on September 1, 1997. These were the first increases in the minimum wage in 5 years, during which its real value had fallen by 15 percent. The President has proposed to increase the minimum wage further, by $1 per hour over the next 2 years.

As Chart 3-3 shows, the wages of low-wage workers have increased markedly since 1996, and the recent increases in the minimum wage are likely to explain some of this rise. It has been estimated that almost 10 million workers benefited from the recent minimum wage hikes. Some have suggested that much of the benefit from a higher minimum wage goes to teenagers from well-off families, but in fact most minimum wage workers are adults from lower income families, and their wages are a major source of their families' earnings. Among workers who were earning between $4.25 and $5.15 an hour just prior to the 1996 increase, 71 percent were aged 20 or older, 58 percent were women, and one-third were black or Hispanic. Almost half (46 percent) of the affected workers worked full time, and most lived in low-income households. Over half the benefits from the higher minimum wage went to households in the bottom 40 percent of the income distribution. In 1997 the earnings of the average minimum wage worker accounted for 54 percent of his or her family's total earnings.

A potential side effect of increasing the minimum wage is a reduction in employment: with low-wage labor more expensive,

Box 3-2.—*continued*

some firms may hire fewer workers. Many studies have examined this issue, and the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996 and 1997 increases, using several different methods, found that the employment effects were statistically insignificant. Moreover, the unemployment rates of black teenagers and high school dropouts—two groups of workers most likely to be affected by the wage hike—are lower today than they were just prior to the increases.

Increases in the minimum wage and expansions in the earned income tax credit reinforce each other. Among low-wage workers, the joint effect of these changes has been a substantial increase in income. Between 1993 and 1997 the inflation-adjusted minimum wage rose by 9 percent, while the maximum payment under the earned income tax credit rose by 38 percent for one-child families (116 percent for two-child families). For families with one earner working full time at the minimum wage, the combination of higher earnings and a larger tax refund would have raised total income by 14 percent if the family had one child, and by 27 percent for a family with two or more children. As a result of these policy changes, one- and two-child families with a single full-time minimum wage worker now earn enough to escape poverty.

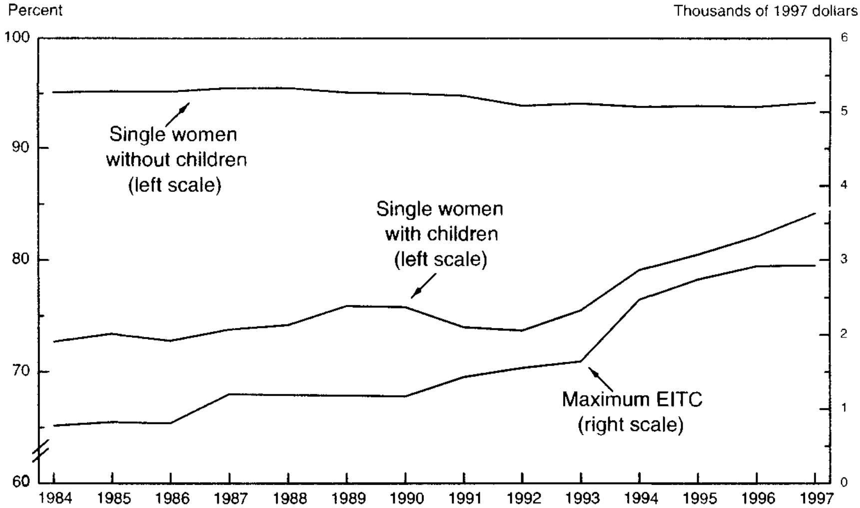
SINGLE MOTHERS

The percentage of children living in single-parent families, usually with a single mother, has risen sharply over the past few decades. The share of all families (defined as households in which one or more persons live with children of their own under age 18) that were headed by a single parent increased from 13 percent in 1970 to 32 percent in 1998. The majority of these families rely heavily on the mother's labor earnings; therefore, the labor market opportunities available to these mothers are critical for their families' economic well-being.

The labor force participation rate of single mothers aged 16-45 has been climbing since 1993, after remaining essentially flat for many years (Chart 3-9). In just the 4 years from 1993 to 1997, their participation rate increased by 8.7 percentage points, from 75.5 percent to 84.2 percent.

What caused this unusually large rise? The expansion of the earned income tax credit (EITC; Box 3-3) seems to have contributed. During the same 4 years the real value of the maximum EITC payment increased by 38 percent for workers with one child, including single mothers, and by 116 percent for those with two or more children. In contrast, the proportion of single women without children who

Chart 3-9 **Labor Force Participation Rates of Single Women**
The share of single mothers in the labor force has increased dramatically since 1993, due in part to increases in the earned income tax credit (EITC).



Note: After 1990, the maximum EITC is the average of the maximum for taxpayers with one child and with more than one child.
Source: Jeffrey B. Liebman "The Impact of the EITC on Incentives and Income Distribution," Tax Policy and the Economy, 1998. Updated by Council of Economic Advisers.

participated in the labor market—who became eligible for only a very small credit in 1994, if their earnings were very low—did not change over this period. As Chart 3-9 shows, the difference in labor force participation rates of single women with and without children has closely tracked growth in maximum EITC benefits.

One recent study concluded that as much as 60 percent of the increase in employment of single mothers since 1984 was attributable to expansions in the EITC. For the period between 1992 and 1996 the EITC explains 33 percent of the increase in annual employment among

Box 3-3.—The Earned Income Tax Credit

The EITC is a tax credit for low-income workers designed to reduce their overall tax burden. The credit is refundable; that is, workers can receive the full amount to which they are entitled even if it exceeds the income tax they owe. Workers apply directly to the Internal Revenue Service for the EITC and generally receive the credit as part of their tax refund.

Only families with a working member are eligible for the EITC, and the amount depends on the family's labor market earnings. For example, a worker with one child will receive a credit of 34 cents per dollar of 1998 earnings, up to a maximum of $2,271. A family with two or more children gets 40 cents per dollar up to a

Box 3-3.—*continued*

maximum of $3,756 (Chart 3-10). Childless workers aged 25-64 with earnings under $10,030 are eligible for a much smaller credit of less than 8 cents per dollar up to a maximum of $341. For all eligible workers the credit remains at the maximum over a range of earnings and then is gradually phased out.

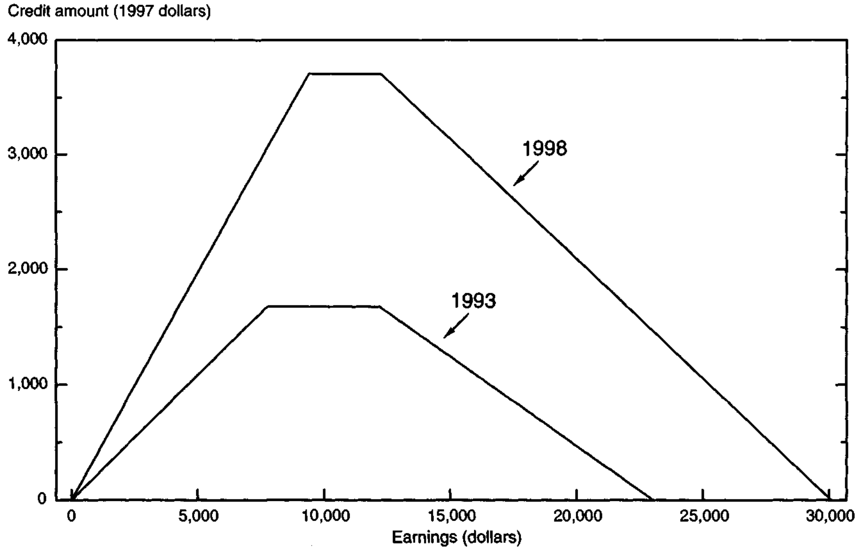
The EITC was significantly expanded under the Omnibus Budget Reconciliation Act (OBRA) of 1993. Before the 1993 law was passed, eligible working parents received just 19 to 20 cents for each dollar earned up to the maximum. OBRA 1993 increased the maximum credit for families with two or more children by over $1,500 (in 1998 dollars) and extended eligibility to families with incomes up to $30,095—about $3,600 more than under previous law. These expansions have resulted in significant increases in the labor force participation of single mothers.

A large proportion of families eligible for the EITC—81 to 86 percent in 1990—have claimed the credit. About 19.8 million workers are expected to claim the credit in tax year 1998, receiving an average of $1,584. About 16.4 million of these claims will be for workers living with children; these families will receive an average credit of $1,870.

The EITC is targeted to families living in poverty, with the goal of lifting their income above the poverty line. The latest estimate from the Bureau of the Census shows that the EITC lifted 4.3 million persons—workers themselves and their family members—out of poverty in 1997, more than twice as many as in 1993. Just over half (2.2 million) of these were under the age of 18, and 1.8 million were living in families headed by unmarried women. Updates by the Council of Economic Advisers of analyses reported in the 1998 *Economic Report of the President* find that over half the decline in child poverty between 1993 and 1997 can be explained by changes in taxes, most importantly in the EITC. The EITC enabled about 1.1 million blacks and nearly 1.2 million Hispanics to escape poverty in 1997. These statistics make it clear that the EITC has become a major weapon in the fight against poverty.

this group. A second study examined the 1986 EITC expansion, which was more modest than the 1993 expansion, and found that it, too, significantly increased labor force participation among single mothers, especially those with less education. Still another study, looking at the effects of the EITC on all eligible families, found that the 1993 expansion could account for an increase in labor supply of 19.9 million hours by 1996 and induced an estimated 516,000 families to move from welfare into the work force.

Chart 3-10 **The Earned Income Tax Credit in 1993 and 1998**
The EITC has been expanded considerably since 1993, with the maximum credit increasing by over $2,000.



Note: Credit amount depicted is for a family with two or more children.
Source: Department of the Treasury.

Other factors also contributed to the increase in labor force participation among single mothers. Changes in the welfare system, culminating in the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, were very important. PRWORA replaced the Aid to Families with Dependent Children (AFDC) program with Temporary Assistance for Needy Families (TANF), which made most Federal welfare assistance dependent on work effort and limited the lifetime duration of assistance. Before PRWORA was passed, States had been experimenting with work requirements and time limits under waivers of the Federal rules governing AFDC since the early 1990s. Even before that, States had been changing their formulas for calculating AFDC benefits in ways that made it more worthwhile for low-income single mothers to work. It has been estimated that changes in the welfare system account for about 30 percent of the increase in employment of single mothers between 1984 and 1996, and at least 20 percent of the increase between 1992 and 1996. PRWORA is discussed further below.

Expansions of Medicaid coverage to low-income children who were not eligible for AFDC removed another disincentive to their mothers' working. Expansions of training and child care programs for low-income workers also encouraged these women to work. These factors played a much smaller role than did the EITC and welfare reform, however. Finally, the tighter labor market has made employers more willing to hire welfare recipients and has made it easier for all single mothers to find jobs in recent years.

OVERCOMING DISADVANTAGES IN THE LABOR MARKET

The last several years have seen the gains from the ongoing economic expansion distributed throughout the population, reaching groups that had previously been left out. Low-wage workers, high school dropouts, blacks, Hispanics, immigrants, younger workers, and single mothers have all enjoyed better labor market outcomes. Administration policies, most importantly the expansion of the EITC and the increases in the minimum wage, along with efforts to keep the overall economy growing, have played a central role in achieving these successes.

However, members of these disadvantaged groups are still much more likely than other workers to be unemployed, and when they do find a job, they still earn lower wages than other groups. A competitive labor market is a two-edged sword. Although competition is the most efficient way to allocate labor and get goods produced at lower cost, it may result for some in wages that fail to ensure an adequate income. Competitive market forces produced an increasingly unequal distribution of earnings from the late 1970s into the early 1990s, so that some people found it difficult, even by working hard, to support their families.

Government can mitigate these undesirable side effects of labor market competition. Beyond its emphasis on education, this Administration has responded to the problem of low wages for the less skilled by expanding the EITC and raising the minimum wage, as described in Boxes 3-2 and 3-3. The Administration will continue to address this concern by designing policies that make work pay, improve education, and expand opportunities for education and job training, as described previously in this chapter. Moreover, the President's fiscal 2000 budget proposes an $84 million increase in funding for civil rights enforcement, including $14 million for an Equal Pay Initiative at the Equal Employment Opportunity Commission and the Department of Labor.

BENEFITS TO SOCIETY OF A STRONG LABOR MARKET

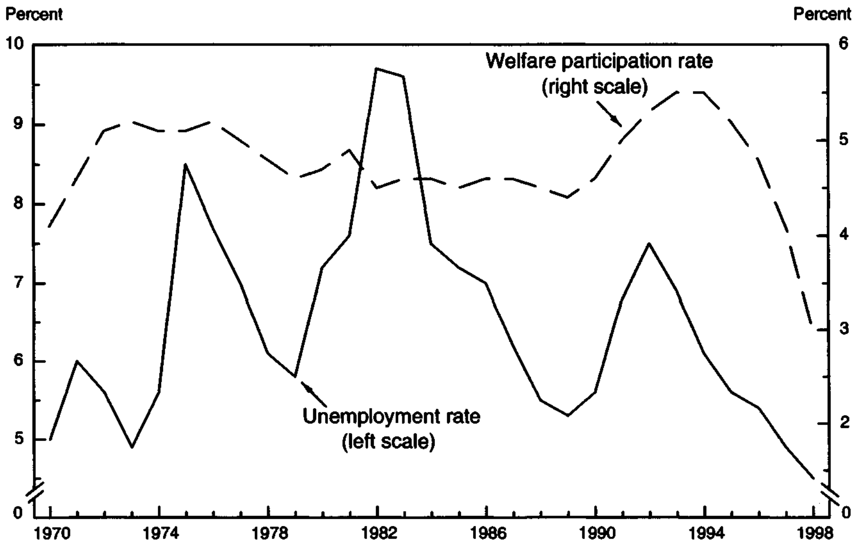
Better employment opportunities and higher wages are obviously good for workers individually. But today's strong labor market is enhancing the well-being of the whole of American society in ways that are less obvious. One way is by easing the implementation of the 1996 welfare reform act; another is by reducing crime.

WELFARE REFORM

It has been 2½ years since the President signed the Personal Responsibility and Work Opportunity Reconciliation Act into law, initiating dramatic changes in the Nation's welfare system. Welfare assistance is now work-focused and time-limited: with few exceptions, Federal welfare assistance is strongly linked to the recipient's efforts to find a job. Adults cannot receive aid for more than a total of 5 years during their lifetime, and in some States the maximum is even less. PRWORA shifted greater responsibility for welfare management to States and localities, many of which have responded quickly by redesigning and implementing their own welfare programs. In most States this effort builds on reforms initiated under waivers approved by this Administration before PRWORA was passed.

Welfare case loads have fallen dramatically since PRWORA was enacted in August 1996 (Chart 3-11). Moreover, this reduction has been experienced nationwide, with every State except Hawaii and Rhode Island posting double-digit percentage reductions in case loads. The national case load peaked in 1994, and since that time it has declined by 42 percent; in 17 States the case load in September 1998 was less than half what it had been in March 1994.

Chart 3-11 **Welfare Participation and Unemployment**
The percent of the population on welfare has declined dramatically since 1994.



Note: Welfare participation rate for 1998 is for September.
Sources: Departments of Labor (Bureau of Labor Statistics) and Health and Human Services.

What caused this unprecedented case load reduction? Case loads normally fluctuate with the business cycle, rising in periods of high unemployment and declining when unemployment is low, as it is today. Chart 3-11 illustrates the relationship between labor market opportunities and welfare participation over the past three decades. When unemployment increased in the early 1970s, so, too, did welfare participation. The renewed increase in welfare participation in the late 1980s and early 1990s, as well as the decline that began in 1994, also corresponded with changes in employment opportunities during these periods.

Other evidence suggests that in the current expansion many businesses are coming to see welfare recipients as an untapped source of employees. In a 1998 survey of 400 businesses that are members of the Welfare to Work Partnership (Box 3-4), 71 percent stated that they or their industry faced a labor shortage, and that the tight labor market was one of the main reasons they were hiring welfare recipients. More-

Box 3-4.—The Welfare to Work Partnership

At the President's urging, the Welfare to Work Partnership was launched in May 1997 to lead the national effort to encourage businesses to hire people from the welfare rolls. Founded with five participating businesses, the partnership grew to include 5,000 businesses within 1 year; it currently has a membership of 10,000. In 1997 the 3,200 businesses then participating hired an estimated 135,000 welfare recipients.

An important goal of the partnership is to increase awareness within the business community that welfare recipients are productive potential employees. A survey of Michigan firms suggests that lack of such awareness may be an important barrier to some businesses: among firms that said they had been contacted by the Michigan employment agency and informed about the advantages of hiring from the welfare rolls, the majority had subsequently hired at least one welfare recipient. To overcome the awareness barrier, the partnership provides outreach, technical assistance, and support for hiring welfare recipients through a variety of channels, including a toll-free number, a World Wide Web site, a "Blueprint for Business" manual, and a guide to retaining welfare workers.

Many firms realize that welfare recipients are a pool of good potential workers, and the partnership has helped firms learn how to locate and identify them. In fact, in a survey of partnership firms who have hired former welfare recipients, 76 percent reported that these workers were "good, productive employees." The tight labor market has motivated many firms to consider hiring welfare recipients, but the hope is that the efforts of the partnership and the employment emphasis of PRWORA have built a relationship between employers and welfare offices that will endure into leaner times. If so, firms will continue to tap into the pool of reliable employees on the welfare rolls even after their hiring pressures ease.

over, the tight labor market is most likely causing employers to expand efforts to invest in and retain current workers, including former welfare recipients. The skills and job experience that former welfare recipients are accumulating during this expansion may be a lasting benefit.

However, the trend in welfare participation does not always match that in unemployment, most notably when other important changes are taking place, including changes in welfare benefits and in family structure, as well as policy reforms. Indeed, welfare participation did not increase during the recession of the early 1980s. It is difficult to determine how much each of several factors—the economy, program reforms, and other factors—has contributed to the recent case load decline. An analysis by the Council of Economic Advisers that examines these competing factors finds that a 1-percentage-point decline in the unemployment rate in each of 2 successive years is associated with roughly a 4 percent decline in the case load in the second year. Other studies have corroborated this finding. Applying this estimate to the change in the unemployment rate between 1994 and 1998 indicates that the improvement in the labor market can explain an 8.3 percent drop in welfare case loads. Given that the national welfare case load actually fell by 42.3 percent during this period, it appears that improved labor market conditions were responsible for roughly one-fifth of that decline. Similar analyses indicate that the share of the decline since 1996 that can be explained by the strength of the economy is much smaller, reflecting the importance of other changes, especially welfare reform. This result builds on the Council's analyses, which show that welfare reform achieved through State waivers played an important role in the case load reductions of the mid-1990s.

The case load reduction, combined with fixed block grant funding under PRWORA, has translated into greater resources for States and localities. The amount of the Federal welfare grant given to each State is now fixed (with some exceptions) and guaranteed, typically at the level of funding that the State received in 1994. As a result, States receive more Federal assistance today than they would have under the AFDC program, under which Federal transfers decreased as the case load fell. It has been estimated that, in 1997, 46 States had more welfare resources at their disposal—State and Federal dollars combined—under PRWORA than they would have had if the old system had been maintained. The difference nationwide was $4.7 billion, with a median difference across all States of $44 million, or 22 percent.

States are using these expanded resources in a variety of ways. Some have enhanced investment in services such as child care, transportation, and substance abuse treatment for those who remain on welfare, many of whom face multiple barriers to employment. Other States are expanding support for welfare recipients who have gone to work. In part because States have been unable to forecast case load levels with any degree of accuracy, some States have a portion of their

TANF grants in reserve at the Treasury. These States will be able to draw upon these reserves should case loads once again increase or should those remaining on assistance need more intensive and costly services. Many States are responding by reducing their own contribution to welfare funding (but can do so by no more than the Federal maintenance-of-effort requirement allows).

Although the additional resources have thus allowed States to concentrate on designing and implementing welfare reform, the expanded resources come with greater responsibility and accountability. States and localities now have many more decisions to make regarding their welfare programs. Moreover, because the Federal block grant is fixed, States bear most of the risk associated with a future rise in the case load.

Since PRWORA's enactment, this Administration has pursued various initiatives to enhance the welfare reform effort. The $3 billion Welfare to Work Grants Program targets long-term, hard-to-employ welfare recipients and noncustodial parents, helping them move into lasting, unsubsidized employment. These resources can be used for job creation, job placement, and job retention efforts. Most of the resources are given directly to localities through private industry councils or local work force boards. The Administration has proposed an additional $1 billion for the Welfare to Work Grants Program in fiscal 2000. The welfare-to-work tax credit is a credit to employers to encourage them to hire and retain long-term welfare recipients. The credit for each eligible worker hired is equal to 35 percent of the first $10,000 in wages during the first year of employment, and 50 percent of the first $10,000 in the second year.

The Congress fully funded (at $283 million) the President's proposal for welfare-to-work housing vouchers for fiscal 1999. The vouchers may be used by welfare families to reduce a long commute or to secure more stable housing to eliminate emergencies that keep them from getting to work every day on time. Another important barrier facing people who want to move from welfare to work—in cities and in rural areas—is lack of transportation to jobs, training programs, and child care centers. With the President's leadership, the Transportation Equity Act for the 21st Century authorized $750 million over 5 years to address this problem.

CRIME

The incidence of crime can be related to many factors, both in the individual and in the policy environment, but clearly one determinant is conditions in the legal labor market. A person who has a good job usually finds his or her time better spent in legitimate activities than in committing crimes, and risks losing more income from incarceration than does someone who is unemployed or earning low wages. Statistics show that crime rates have in fact been dropping since the current economic expansion began: between 1991 and 1997, property crimes and violent crimes per capita fell 16 percent and 19 percent, respectively, and the total crime index dropped 17 percent.

Studies have found that unemployment is related to crime rates, but that the effect tends to be modest and insufficient to explain changes in crime rates over periods longer than the business cycle. New studies suggest, however, that crime may be more strongly correlated with wages than with unemployment. These studies find that potential criminals are more likely to be influenced by longer term prospects in the mainstream economy than by shorter term conditions, and that wages are a better measure of these longer term prospects than is the unemployment rate.

The new research shows that young men—the demographic group most likely to commit crimes—respond to wage incentives. Declining real wages during the 1980s and early 1990s appear to have influenced the rise in crime rates. In particular, the decline in wages of less skilled men between 1979 and 1995 is estimated to have increased property crimes by 10 to 13 percent and violent crimes by about half that amount. These findings are consistent with the idea that economic incentives play a greater role in economically motivated crimes such as burglary and robbery. In addition, because blacks have lower wages on average than whites, about one-quarter of the racial difference in the probability of committing a crime can be explained by the wage gap between the races.

Falling wages therefore provide at least a partial explanation for why property crimes did not fall much over the 1980s and early 1990s as the proportion of 18- to 24-year-olds in the population declined. Of course, other factors such as policing and sentencing practices also affect crime rates. But the correlation between wages and crime suggests that the current strong labor market and wage growth among young men have helped reduce crime rates.

JOB DISPLACEMENT, TENURE, AND THE CONTINGENT WORK FORCE

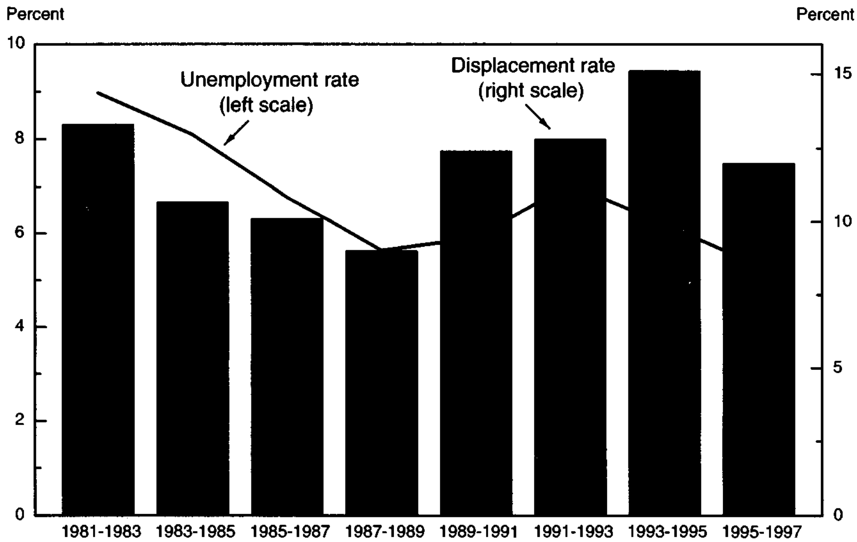
Popular accounts sometimes suggest that the relationship between workers and firms is undergoing profound change. The contemporary work environment, in this view, is characterized by more frequent corporate downsizings and other job displacements, the disappearance of lifetime employment, and the rapid growth of a "contingent work force" that can no longer count on high and rising earnings and job security. However, a growing body of research using nationally representative data calls this picture into question.

JOB DISPLACEMENT

Workers are considered displaced if they leave their jobs involuntarily, because of a plant closing, insufficient or slack work, abolition of their position or shift, or some other, similar reason. Since 1984 the Bureau of Labor Statistics (BLS) has conducted a biennial, nationally representative survey of workers who have been displaced from their jobs sometime in the 3 years prior to the survey (in the early years of the survey the period was 5 years). Data from the 1996 survey showed job displacement to be unusually high given the overall strength of the economy. Extrapolation of the survey's findings indicated that about 15 percent of the work force had been displaced at some time between 1993 and 1995. This figure was up from 12.8 percent in 1991-93, despite a drop in the overall unemployment rate from 7.5 percent in 1992 to 6.1 percent in 1994 (Chart 3-12). This rise in job displacement led some analysts to argue that the employer-employee relationship had changed and that displacement was on a rising trend.

Chart 3-12 **Job Displacement Rate**

The displacement rate fell to 12 percent for the 1995-97 period, but it is still a third higher than in 1987-89, when unemployment was about the same.

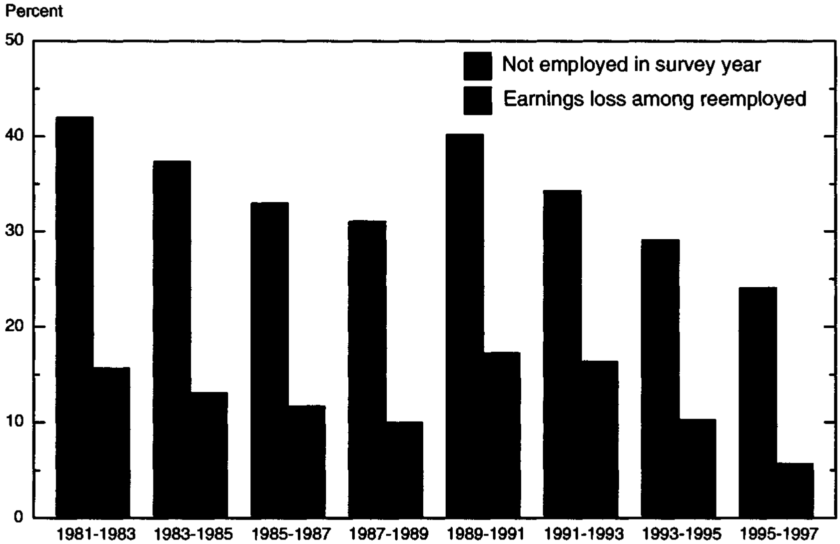


Sources: Henry S. Farber, "Education and Job Loss in the United States: 1981-1997," Princeton University, 1998, and Department of Labor (Bureau of Labor Statistics).

Results from the 1998 survey, however, suggest that this interpretation may have been premature: that survey showed a substantial decline in job displacement, to 12.0 percent for the 1995-97 period. All major groups of workers experienced improvements: men and women, younger and older workers, high school dropouts and college-educated workers, and workers in manufacturing as well as those in professional services. Nevertheless, the rate of job displacement in 1995-97 was still one-third higher than it had been in 1987-89, when the unemployment rate was at a similar level.

Historically, between 30 and 42 percent of displaced workers were not employed 1 to 3 years after losing their jobs. Thus it is encouraging that this rate has fallen to 24 percent in the latest survey (Chart 3-13).

Chart 3-13 **Outcomes After Job Displacement**
Among displaced workers, the share not employed 1 to 3 years after losing their jobs fell to 24 percent in 1995-97; losses in earnings reached a record low of 5.7 percent.



Source: Henry S. Farber, "Education and Job Loss in the United States: 1981-1997," Princeton University, 1998.

In addition, reemployed workers typically earn less than they did in their previous jobs. For example, one study of workers in the 1970s and 1980s who had at least some earnings in the years after displacement finds an average earnings decline of 29 percent in the year of displacement, which subsequently shrinks to 10 percent. Here again the latest data are encouraging: the reduction in weekly earnings among those reemployed was only 5.7 percent in 1995-97, a record low, and earnings losses were at or near record lows for workers of all levels of education.

JOB TENURE

Trends in average job tenure—the length of time a person stays with the same employer—are often confused with trends in downsizing and job displacement. In fact these trends may be quite different: because many workers leave their jobs voluntarily, statistics on job tenure may not accurately reflect rates of displacement. Yet much media attention has focused on a purported disappearance of lifetime jobs, suggesting that workers are holding jobs for shorter periods, and often implying that these job terminations are more frequently involuntary. The evidence finds that the percentage of workers with long job tenure (10 or more years) has declined somewhat. The share of workers aged 35-64 who have long job tenure fell by about 5 percentage points between 1979 and 1996 but remains substantial at roughly 35 percent. The decline in the percentage of long-tenured workers has occurred across many segments of the population. Workers at all levels of educational attainment have experienced similar rates of tenure decline, and declines have occurred across industries and occupations, narrowing gaps in average tenure that formerly prevailed between occupations. The trends differ for men and women, however, and the aggregate decline in the percentage of long-tenured workers masks an *increase* among women. Accounting for part of the overall decline since 1979 in the percentage of long-tenured workers are shifts in the demographic, industrial, and occupational composition of the labor force. Some of the decline is also due to the large number of new workers that firms have hired during the current expansion. Obviously, the addition of many workers with short job tenure by itself lowers the median tenure in the work force.

Retention rates, which give the likelihood that a given worker will remain with the same employer in the next year, are not complicated by the changing rate at which new workers are hired. Analysis of retention rates complements findings on the cross-sectional distribution of tenure over all workers. Workers with less than 2 years of tenure had moderately *higher* retention rates in the mid-1990s than in the late 1980s. On the other hand, retention rates appear to have decreased among workers with longer tenure. Again, however, some of these changes may be due to voluntary separation.

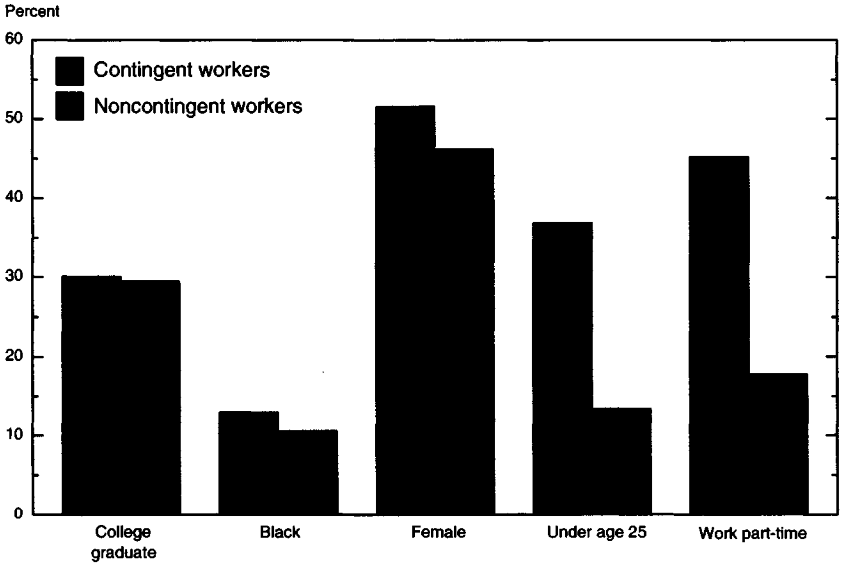
THE CONTINGENT WORK FORCE

Contingent employment is defined by the BLS as employment without an implicit or explicit long-term contract. The BLS has conducted two surveys of such employment. The first, in 1995, found that contingent employment made up a relatively small share of total employment. The second, in 1997, found that that share was not increasing. Using the BLS's "middle" definition of contingency, about 2.4 percent of the labor force (3 million workers) identified themselves as contingent workers in February 1997, a slightly smaller share than in February 1995. This definition includes workers who say they expect to work (and have worked) under their current arrangements for 1 year or less, whether they are wage and salary workers, self-employed persons, or independent contractors. In addition, it includes temporary help and contract company workers if they have worked and expect to work for the customer to whom they were assigned for 1 year or less.

Forty percent of contingent workers in 1997 were in so-called alternative work arrangements. They included independent contractors, on-call workers, temporary help agency workers, and workers provided by contract firms; the remaining 60 percent were in "traditional" jobs. None of these categories of contingent workers comprised more than 0.5 percent of the labor force.

Contingent and noncontingent workers were strikingly similar in terms of educational attainment and race (Chart 3-14). Also, contingent workers were employed in a wide variety of occupations, belying the view that all contingent jobs are low-skilled jobs. However, contingent workers include a relatively large proportion of very young workers: 37 percent of contingent workers, but only 13 percent of noncontingent workers, were less than 25 years old.

Chart 3-14 **Characteristics of Contingent and Noncontingent Workers, February 1997**
Contingent and noncontingent workers are similar in terms of educational attainment and race. Contingent workers are more likely to be young and working part time.



Source: Department of Labor (Bureau of Labor Statistics).

Forty-five percent of contingent workers were employed part time, compared with only 18 percent of noncontingent workers. Contingent workers also earned less: their median weekly earnings were only 53 percent of that of noncontingent workers, although differences in age and hours worked appear to account for much of the earnings gap. Regardless of age, however, contingent workers were less likely to be offered health insurance or a pension plan by their employer.

Data from 1997 show that nearly half of all contingent workers accepted their contingent jobs for personal reasons: because they wanted a flexible work schedule, for example, or because they were in school or in training. Thus, although contingent work is not a matter of choice for many people, it may allow others to balance their work and their non-labor market activities. In fact, although 57 percent of contingent workers stated that they would prefer a noncontingent job, 36 percent said they preferred contingency.

For contingent work to become widespread, of course, it must also meet the needs of employers. Accordingly, a 1996 survey asked employers their reasons for using flexible staffing arrangements. (These arrangements, which included hiring from temporary agencies, short-term hires, regular part-time work, on-call arrangements, and contract work, were most likely not all contingent jobs as defined above. But most were probably either contingent jobs or alternative work arrangements.) The most commonly cited reasons were fluctuations in workload and the need to cover absences of regular staff. Many employers also said they hired from temporary agencies or took on part-time workers as a means of screening candidates for regular jobs: 21 percent of those using agency temporaries and 15 percent of those using regular part-time workers cited this reason as important. Savings on wage and benefit costs were cited as important by only 12 percent of employers using agency temporaries, by 21 percent of those using regular part-time workers, and by 10 percent of those using short-term hires and on-call workers. Even so, the survey found that the hourly costs of workers in flexible staffing arrangements were lower than those of regular workers in similar arrangements, and that the savings were primarily due to lower benefit costs.

MYTHS AND REALITIES

Nationally representative data on the employer-employee relationship thus run counter to much current conventional wisdom. The last several years have seen both a decline in job displacement and, for those who are displaced, shorter spells of joblessness and a smaller loss of earnings upon finding a new job. The disappearing lifetime job of popular mythology is not to be found in the data, which instead show only modest declines in job tenure. Moreover, contingent workers are not disproportionately workers with little education, the wages they earn are similar to those of noncontingent workers of the same age, and contingent work has not become more prevalent in recent years. In addition, the flexibility of the contingent arrangement appears to be a significant benefit to many workers as well as to their employers. On the other hand, job displacement remains relatively high given today's low unemployment rates, and contingent workers are much less likely to receive pension or health benefits than are noncontingent workers. These developments are part of the reason why this Administration has expanded and redesigned Federal policies and programs of job training, education, lifelong learning, and assistance to dislocated workers—initiatives discussed in the next section.

NEW DEVELOPMENTS IN JOB TRAINING AND LIFELONG LEARNING

The Federal Government and the governments of the States provide assistance to workers through a number of channels. Unemployment insurance, job training, and reemployment services are cornerstones of the worker support network, helping workers to identify job opportunities and to retool, and providing financial support until they find their next job.

In the face of a rapidly changing global economy and the increased rewards to more highly skilled workers, this Administration has sought to strengthen America's work force development system and to promote lifelong learning. In August 1998 the President signed the Workforce Investment Act (WIA), which gives workers greater control over their training, streamlines public employment and training services, and makes all training providers more accountable for their services. WIA establishes Individual Training Accounts, self-directed accounts that allow workers more choice over their own training or retraining. To help workers make informed decisions about which training program is best for them, WIA also requires that training providers report the performance of their graduates in terms of job placement, earnings, and job retention. In addition, WIA establishes universal access to core employment services, such as skills assessment, career counseling, information about vacancies, job search assistance, and follow-up services to assist in job retention.

WIA streamlines employment services through consolidation. The Federal Government has set up partnerships with 48 States to build systems of one-stop career centers, which provide convenient access to a variety of training and employment programs under one roof. The act requires each local area to have at least one one-stop center providing job training, employment service activities, unemployment insurance, vocational rehabilitation, adult education, and other assistance. More than 800 such centers are already in operation.

WIA also strengthens accountability for States, localities, and training providers. States and localities will have to meet performance goals for job placement, earnings of placed workers, and retention, or else face sanctions. But if they exceed their goals, localities qualify to receive State incentive grants. To become eligible for funds under WIA, training providers must be certified under the Higher Education Act, the National Apprenticeship Act, or the State procedure used by the local Workforce Investment Board. To retain eligibility, each provider must meet performance standards established by the local board. The information that training providers must report on the performance of their graduates will be available at the one-stop centers, allowing potential trainees to make an informed choice among programs. This in turn will make providers more responsive to trainees' needs.

The Administration is especially concerned about those whose careers are interrupted by corporate restructuring, changes in government policies, or turbulence in global markets. The Administration has pushed to expand assistance programs for these dislocated workers, helping to nearly triple funding for these programs to $1.4 billion between 1993 and 1999. Under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), one of the funding streams consolidated under the WIA, the Administration provides grants to State and local programs. They in turn decide who most needs assistance and how best to provide services, which can include on-site rapid response for announced plant closings, job search counseling and support, literacy courses, vocational education, and financial assistance during training. In addition, the Trade Adjustment Assistance (TAA) program, including a special transitional adjustment assistance provision under the legislation implementing the North American Free Trade Agreement (NAFTA-TAA), continues to help those workers whose jobs may be affected by competition from imports.

Workers are considered dislocated if they have lost their jobs and are unlikely to return to their previous industries or occupations. Included are those who have lost their jobs as a result of massive layoffs, plant closure, natural disaster, or Federal action. Farmers and ranchers hurt by general economic conditions, as well as the long-term unemployed with limited opportunities in their original occupations, may also qualify. (Note that the definition of "dislocated" is more narrow than that of "displaced" workers, discussed above.) In program year 1998, over 600,000 of these dislocated workers will have participated in the EDWAA program. In the program year that ended in June 1997, 71 percent of dislocated workers leaving the program were employed and had earnings, on average, of $10.39 per hour, or 94 percent of their previous wages. The Administration's strong and continued support for this program has also generated new funding for assisting trade-impacted workers not formerly covered by TAA or NAFTA-TAA and for buttressing the training system with innovative approaches for targeted groups.

The lifetime learning tax credit, enacted in 1997, targets adults who want to go back to school, change careers, or take a course or two to upgrade their skills, as well as college juniors and seniors and graduate and professional degree students. The 20 percent credit applies to the first $5,000 of a family's qualified education expenses through 2002, and to the first $10,000 thereafter.

Information about job openings and potential workers is especially important in a rapidly changing economy. America's Labor Market Information System, an Internet-based system that shares data on available jobs (America's Job Bank) and workers (America's Talent Bank), has been designed to meet this need. America's Job Bank (located on the World Wide Web at http://www.ajb.dni.us/) posts roughly 700,000 jobs on any given day and received over 6 million "hits" (individual job searches) in July 1998 alone. America's Talent Bank (http://www.atb.org) was fully integrated with the job bank in May 1998, and as of July a total of 112,000 résumés had been posted with the service. In addition, workers and employers can obtain information about the wages and employment prospects of certain occupations across the country using America's Career InfoNet (http://www.acinet.org/acinet/).

These policies help ensure that all workers can find employment following a job loss, or improve their training and skills in order to move up in the labor market. This Administration is committed to making sure that the labor market benefits all workers, and that the benefits of the current economic expansion are enjoyed by all.