



Insight

# Labor Market Policy in the President's FY 2015 Budget

BEN GITIS | MARCH 4, 2014

Through a combination of tax reform, the Opportunity, Growth, and Security Initiative, and Department of Labor (DOL) investment, the president's budget contains a myriad of infrastructure and job training programs aimed at increasing employment, improving mobility, and reducing poverty. It should not be a surprise that the president's budget promotes raising the federal minimum wage and extending unemployment benefits, despite both having negative labor market implications. However, the president also proposes expanding the earned income tax credit (EITC) for childless adults, as he promised to do in his State of the Union address.

## The Minimum Wage

The president continued his call to increase the federal minimum wage to \$10.10 per hour to combat poverty and income inequality. This is despite overwhelming evidence that it is a very ineffective anti-poverty tool and threatens the job security of the low-skill workers that the policy intends to help. For instance, in 2012 only [5.3 percent of the working poor](#) were actually paid at or below the current federal minimum wage. Meanwhile [the weight of research demonstrates](#) that increasing the minimum wage has negative job market implications for low-skill workers, either through layoffs or [reduced hiring](#). This was highlighted in a recent [Congressional Budget Office report](#) that found increasing the federal minimum wage to \$10.10 would reduce low-wage employment by 500,000 jobs and only bring 900,000 people out of poverty (out of 45 million in poverty).

## EITC for Childless Adults

The president proposes to double the maximum credit available for childless workers from \$500 to \$1,000 and to expand the age requirement for childless EITC workers from 25-65 to 21-67. This policy proposal is a strong step in the right direction for combating poverty and would be far more effective than an increase in the federal minimum wage. Unlike the minimum wage, the EITC effectively targets those in poverty and encourages work. However, [AAF research demonstrates](#) that under current law, the EITC only marginally benefits childless workers. Thus, expanding the EITC for childless workers would benefit a population that tends to be the most in need.

## Unemployment Benefits

The president also proposed extending emergency unemployment benefits for the long-term unemployed. Evidence indicates, however, that long-term unemployment insurance may have actually increased the unemployment rate during the recession by placing upward pressure on market wages. A [2013 AAF paper](#) found that the unemployment benefit extensions added as many as 1.3 percentage points to the unemployment

rate and prevented as many as 1,950,000 unemployed people from finding work. In addition, a recent paper from the [Federal Reserve Bank of Atlanta](#) found that the unemployment insurance extensions increased the national unemployment rate by 0.5 percentage point over the 2008-2012 period.

## Promise Zones

The president's budget sets aside money to continue supporting the Promise Zone Initiative, which aims to use federal funding to promote partnerships between the government and businesses to create jobs and increase economic opportunity in specific towns and neighborhoods. The president intends to add 15 Promise Zones to the five that already exist.

## Department of Labor

The president's budget provides \$11.8 billion in discretionary funding to the Department of Labor for job training and employment programs, enforcement of worker protection laws, safety net laws for the unemployed, and retirement security efforts.

Here are some highlights:

- \$3 billion in formula grants to state and local governments to provide training and employment services in American Job Centers. The Opportunity, Growth, and Security Initiative would provide an additional \$750 million for this effort.
- \$1.5 billion in 2015 to initiate a four-year, \$6 billion Community College Job-Driven Training Fund, which would provide grants for community colleges and businesses to form partnerships and increase the number of apprenticeships available.
- \$2 billion to encourage States to adopt Bridge to Work programs, which allows people to receive unemployment benefits while working temporarily.
- \$4 billion to promote partnerships between businesses, education, and training providers to train long-term unemployed workers for new jobs.