Less Paperwork, Higher Wages: Replacing the Work Opportunity Tax Credit with an Employment Subsidy

Benjamin Priday, Ph.D. | March 2022 | NiskanenCenter.org

Key Takeaways

- The Work Opportunity Tax Credit (WOTC) allows businesses that employ “difficult-to-employ” groups (such as TANF and SNAP recipients, ex-felons, qualified veterans, and the long-term unemployed) to receive a tax credit.

- Credits can be as high as $9,600. The federal government spends over $1 billion on the Work Opportunity Tax Credit program annually.

- Sparse evaluations of the effectiveness of the Work Opportunity Tax Credit program reveal mixed results. A key limitation of the program is the low take-up rate, which is due to a lack of awareness, the difficulty of identifying eligible workers, the complexity of the program, and weak financial incentives.

- A compelling alternative to the Work Opportunity Tax Credit is subsidized employment, in which the government directly subsidizes the wages or training of an eligible employee for a limited period of time.

- Because it is directly tied to hiring and paying workers (instead of going through the tax system indirectly) a subsidized employment program is simpler and more transparent. Consequently, it is more likely to be used by employers and employees.
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About the Author

Benjamin Priday, Ph.D., received his bachelor’s from Rhodes College and doctorate from Texas A&M University, both in economics. His research spans topics including tax policy, workforce development, social safety net reform, charitable giving, and behavioral economics. His work has been published in journals including the National Tax Journal (forthcoming) and Tax Policy & the Economy, and he has written for media outlets such as The Hill, The Conversation, and EconoFact. Dr. Priday resides in Washington, D.C.
Long-term unemployment in the United States has grown sharply as a result of the recession caused by the COVID-19 pandemic. The proportion of the unemployed who have been out of work for at least 27 weeks rose from 4.4 percent in April 2020 to 39.3 percent in July 2021, eliminating the gains made since the last recession. This has serious consequences for people’s lives and for the economic recovery. A healthy labor market is a requirement for a market-based economy to thrive.

There are challenges to overcoming chronic unemployment, and the longer someone stays out of work, the harder it is to reenter. Moreover, certain groups of people in the United States experience higher rates of persistent unemployment or job turnover. These “difficult-to-employ” categories include people with disabilities, veterans, long-term social welfare program recipients, and former criminal offenders. People in these groups are traditionally thought to be riskier or more expensive hires compared with other types of applicants, which makes them less attractive to potential employers, notwithstanding laws that ban job discrimination against people with disabilities and veterans.

When economists talk about the labor market, they say that the “supply” of labor comes from current or potential employees (i.e., labor market participants) and the “demand” for labor comes from employers. In the standard framework, when the number of people willing to work (quantity of labor supplied) exceeds the number of jobs available (quantity of labor demanded) at a given wage, we have unemployment (a shortage). A positive unemployment rate at any given time is inevitable: Workers who are transitioning to different jobs or starting their own business can be temporarily unemployed. However, long-term unemployment or a decreasing labor force participation rate - meaning fewer people are actively working or looking for work - is often indicative of a market inefficiency or market failure. It suggests that the labor market is not fully functioning due to frictions, such as those created by geography, need for training, discrimination, and more.

The United States currently uses both supply-side and demand-side subsidies to address the labor market inefficiencies that can lead to long-term unemployment. The Earned Income Tax Credit subsidizes the labor supply of low-income workers by lowering their tax bill or increasing their refund. First implemented in 1975, it has consistently grown - with bipartisan support - to be one of the largest anti-poverty expenditures in the United States.
At the same time, there are a number of state and federal programs aimed at stimulating demand for labor. One such program is the Work Opportunity Tax Credit (WOTC), which allows businesses to apply credits against their taxable income. Unfortunately, take-up of the WOTC is very low. Many firms and individuals that would benefit from using it fail to do so. This is partly due to a lack of knowledge of the program, but it is also due to the administrative burdens involved in accessing the program: Employers must identify workers who are eligible for the WOTC and navigate a complex web of IRS forms to receive the credit. Moreover, a tax credit applied at the company level may not be worthwhile for a specific hiring manager to pursue. An alternative to the WOTC would be direct subsidies to companies that hire individuals from targeted groups. For example, the government could cover all or a portion of wages for a limited time period. A direct subsidy continues to work as a demand-side incentive to hire targeted workers but has the potential to be simpler and more transparent, resulting in a more effective program.

**Background on the Work Opportunity Tax Credit**

The Work Opportunity Tax Credit was first introduced in 1996 to incentivize employers to hire workers from the above-mentioned “difficult-to-employ” groups. These groups have traditionally faced persistent and significant barriers to employment. In the context of economic theory, it is a targeted labor-demand subsidy aimed at reducing the cost of hiring specific types of applicants. Over time, the target groups covered by the WOTC have grown to include social assistance recipients, ex-felons, and certain summer youth employees. The appendix of Collins and Donovan contains a legislative history of the program.

The WOTC is a nonrefundable credit applied directly against a business's taxable income. The credit amount varies by target group and duration of employment. Table 1 displays the maximum per-person credit amount for each target group. Tax-exempt organizations under section 501(c)3 of the tax code can only claim a credit for hiring “qualified veterans,” but they can also deduct it from their Social Security taxes owed.

Employers can claim a credit equal to 25 percent of qualifying wages for an employee who works between 120 and 399 hours a year and 40 percent for an employee who works 400 hours or more, up to a group-specific limit. There is no credit available if the employee works less than 120 hours. Only wages paid in the first year of employment (from the date of hire) qualify, and there is a limit on the amount of wages paid that can be used to calculate the credit amount. For example, if a shop owner hired a qualified TANF (Temporary Assistance for Needy Families) recipient and paid her a total of $10,000 for 350 hours of work in the first year, only the first $6,000 could be used to calculate

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3 For example, the Welfare-to-Work (WtW) Credit was introduced a year after the WOTC to cover long-term social assistance recipients. These programs were ultimately combined under the WOTC.

4 For a detailed explanation of the eligibility requirements for each target group, see guidance by the DOLETA (https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/WOTC_EligibilityDeskAid.pdf) and the IRS (https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit).


6 Employers can claim the credit for qualifying first- and second-year wages for Long-Term Family Assistance recipients, with a qualifying wage limit of $10,000 each year.
the WOTC amount: the shop owner could claim a $1,500 credit on her tax returns. As shown in Table 1, the credit amount varies widely by target group and hours worked. The largest potential credit ($9,600) comes from hiring a qualified veteran who was disabled from service, has experienced six months of unemployment in the past year, and is paid at least $24,000 in wages in their first year with the employer.

**Table 1: WOTC Credits by Eligibility Group**

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Qualifying Wage Limit</th>
<th>Maximum credit amount if the employee worked:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>120–399 hours</td>
</tr>
<tr>
<td>Qualified TANF (IV-A) Recipient</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Received SNAP for 3+ months in the 15-month period prior to hire</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Unemployed for a total of between 4 weeks and 6 months in 1-year period prior to hire</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Has a service-connected disability and hired less than 1 year after leaving</td>
<td>$12,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Unemployed for 6+ months in the 1-year period prior to hire</td>
<td>$14,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>Has a service-connected disability and was unemployed 6+ months in the 1-year period prior to hire</td>
<td>$24,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>Qualified Ex-Felon</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Designated Community Resident</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Vocational Rehabilitation Referral</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Summer Youth Employee</td>
<td>$3,000</td>
<td>$750</td>
</tr>
<tr>
<td>Supplemental Nutrition Assistance Program (SNAP) Recipient</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Supplemental Security Income (SSI) Recipient</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Long-Term Family Assistance Recipient</td>
<td>$10,000</td>
<td>$2,500</td>
</tr>
<tr>
<td>Qualified Long-Term Unemployment Recipient</td>
<td>$6,000</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

The WOTC program is jointly run by the U.S. Department of Labor’s Employment and Training Administration (ETA) and the Internal Revenue Service. The ETA sets eligibility requirements and provides grant funding - to cover administrative costs - to State Workforce Agencies (SWAs), which are responsible for certifying eligibility of employers’ new hires. The credit is distributed by the IRS through federal tax returns and is subject to normal carry-back and carry-forward rules.7

Figure 1 outlines the process employers go through to claim the credit. Employers must request certification of the employee’s eligibility from their SWA within 28 days of the start date, and they cannot claim the WOTC with the IRS prior to certification. Documentation needed to certify eligibility varies by target group and, in some cases, by SWA.

**Figure 1: WOTC Certification Process**

1. Target group member obtains a conditional certification from a relevant state or local agency (ETA Form 9062).
2. Applicant presents ETA Form 9062 to employer when applying and is hired.
3. Is the employee qualifying as a Long-Term Unemployment Recipient?
   - No
   - Yes
   - Employee signs ETA Form 9175.
4. Employer sends the following to their SWA within 28 days of the start date:
   - IRS Form 8850
   - ETA Form 9062
   - ETA Form 9175 (if applicable)
5. State Workforce Agency (SWA) certifies that employee is eligible for the WOTC, and notifies employer.
6. Employer can claim the credit for certified employees on federal tax returns, subject to IRS rules and limitations, by filing IRS Forms 5884 and 3800.

Note: Documentary evidence of eligibility varies by target group and, sometimes, State Workforce Agency. Tax-exempt organizations claim the tax credit using IRS Form 5884-C. The certification request process is outlined by the DOL at [https://www.dol.gov/agencies/eta/wotc/how-to-file](https://www.dol.gov/agencies/eta/wotc/how-to-file), along with links to each of the required forms.

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8 For a detailed description of what documentation is needed for each target group, see the DOLETA guide at [https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/WOTC_EligibilityDeskAid.pdf](https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/WOTC_EligibilityDeskAid.pdf).
As noted before, the WOTC was created in 1996 and has been renewed over 10 times since, with major expansions over time (e.g., encompassing the Welfare-to-Work Credit). Despite this, there is little robust, systematic evidence on the program’s usage, effectiveness, or efficiency in accomplishing its labor market and poverty-reduction goals.

This is first and foremost because “definitive data on the usage and costs of the WOTC are not available.”9 Program administration is disaggregated across three entities by design: the Internal Revenue Service, the Employment and Training Administration, and State Workforce Agencies. Connecting data across these entities for all states each year is exceedingly difficult. Tax rules allow businesses to carry credit backwards (one year) and forwards (up to 20 years), making it even more difficult to connect changes in target group employment to businesses’ tax incentives. Further, the most effective analysis should include data on historical welfare program participation as well as veteran and disability status, which are collected by other state and federal agencies. Data combining all these components would be extremely burdensome to assemble, especially since integrated data recording is not a program requirement. As a result, systematic program analysis is not possible, and the existing research on the WOTC is inherently limited.

Despite having limited evidence on its efficacy or efficiency, the federal government spends over $1 billion on the Work Opportunity Tax Credit program each year (Table 2). There are two sources of spending for this program. Congress appropriates funding to SWAs (through the ETA) to cover the programmatic costs associated with certifying employees; between fiscal years 2016 and 2020, this constituted roughly 1.3–1.8 percent of the total program cost. The primary cost is the tax expenditure (i.e., foregone tax revenue) of businesses claiming the credit. Because credits are not necessarily claimed in the year they are “earned” (when the eligible employee works), it is difficult to estimate the tax expenditure on WOTC for a given year. Estimates from previous years are frequently updated as new claims data are made available.

### Table 2: WOTC Costs, 2016-2020

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Cost, in millions</th>
<th>Appropriations, in millions (Percent of Total Cost)</th>
<th>Expenditures, in millions (Percent of Total Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$1,179.8</td>
<td>$19.8 (1.7%)</td>
<td>$1,160 (98.3%)</td>
</tr>
<tr>
<td>2017</td>
<td>$1,339.8</td>
<td>$19.8 (1.5%)</td>
<td>$1,320 (98.5%)</td>
</tr>
<tr>
<td>2018</td>
<td>$1,469.8</td>
<td>$19.8 (1.4%)</td>
<td>$1,450 (98.7%)</td>
</tr>
<tr>
<td>2019</td>
<td>$1,539.7</td>
<td>$19.7 (1.3%)</td>
<td>$1,520 (98.7%)</td>
</tr>
<tr>
<td>2020</td>
<td>$1,119.8</td>
<td>$19.8 (1.8%)</td>
<td>$1,100 (98.23%)</td>
</tr>
</tbody>
</table>

Notes: Documentary evidence of eligibility varies by target group and, sometimes, State Workforce Agency. Tax-exempt organizations claim the tax credit using IRS Form 5884-C. The certification request process is outlined by the DOL at [https://www.dol.gov/agencies/eta/wotc/how-to-file](https://www.dol.gov/agencies/eta/wotc/how-to-file), along with links to each of the required forms.

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The DOL reports the total number of certifications made by SWAs each fiscal year (Figure 2). Program usage varies widely from year to year: in fiscal year 2016, approximately 2.5 million people from target groups were certified, compared to 1.6 million in FY20 (a 36 percent reduction over five fiscal years). This can be used to estimate the cost per certification.

**Figure 2: Total number of WOTC certifications**

There have been several attempts to measure the effectiveness of the WOTC, with mixed results. Hamersma\(^\text{10}\) uses data on welfare recipients from Wisconsin and finds that being eligible for the WOTC increased the likelihood of being employed in the first six months by 5.9 percentage points, compared to not being eligible. There were not significant differences in employment beyond six months (the long run), however, which she argues is due to limited participation in the program. If only a small proportion of eligible people take advantage of the program and get certified, the observed employment effects will be muted, so Hamersma also compares those eligible and not-certified to those certified. She finds mixed evidence of program success: Wages and labor force attachment increased for some but not all target-group members who were certified. She also estimates that, on average, approximately 38 percent of the tax credit was passed on to the employee as higher wages while the rest subsidized the employer.

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Heaton\textsuperscript{11} focuses on qualified veteran groups, especially those who are disabled and chronically unemployed. He finds that employment increased by 2 percentage points for disabled veterans in both 2007 and 2008 - approximately 32,000 people each year - compared to non-disabled, nonveterans who were ineligible for the credit. The same group also experienced a 40 percent increase in wages. One concern is that once an employer has maxed out the tax benefit from an employee, they can fire them and hire a new eligible employee instead to get additional tax benefits. GAO (2001) looked for evidence of such "churning" and found no evidence, arguing that it is not cost-effective for employers to do so. They estimated that the WOTC offset, on average, just 47 percent of the cost of recruiting, hiring, and training a new employee. Consistent with Hamersma,\textsuperscript{12} they also found that most certified employees did not stay employed long enough for the employer to generate much of a tax benefit: 67 percent separated from their employer after making less than $3,000. Another concern is that employers will hire fewer WOTC-ineligible workers as they substitute for subsidized employees. Ajilore\textsuperscript{13} argues that this did not happen - he found that employment increased for WOTC-eligible people without a corresponding decrease in employment among the ineligible.

Altogether there is at best mixed evidence that the WOTC has improved employment outcomes for hard-to-employ workers over time, though there appear to be minimal negative effects. But despite the limited evidence of cost-effectiveness, the program is renewed at over $1 billion annually.

**Problems with the WOTC**

There are several reasons the WOTC program has had limited effectiveness at improving employment outcomes for target-group members, most of which are directly related to the low participation rate among firms.\textsuperscript{14}

1) **There is low awareness of the tax credit.**

It is possible that most employers simply don’t know about the Work Opportunity Tax Credit. This would be the result of participating agencies (the U.S. Department of Labor and local workforce boards) failing to adequately promote the program. Participation has grown only slightly over the past 20 years.

Complicating this lack of awareness is uncertainty about whether the credit is available at any given point in time. For the most part, the WOTC has been regularly renewed by Congress, sometimes year-to-year; however, there have been periods where the program was not renewed, and WOTC hires in those gaps had to be retroactively covered.\textsuperscript{15} Tracking program renewal and updates in requirements adds to employers’ costs of participating.

\begin{footnotes}
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2) It is difficult to identify eligible workers in advance.

There are two ways an employer could determine if a job applicant is eligible to be certified and claimed under the WOTC: the employee voluntarily provides that information or the employer elicits the information in some way. The former of these requires that the applicant is aware of the program and their eligibility, bringing us back to the problems described in (1). The latter situation can also be problematic. Employers have legitimate reasons not to pry into the lives of employees, and it may be costly to accurately elicit the information needed to determine eligibility (see (3) and (4)). Similarly, applicants may not want to disclose personal information like criminal history, welfare use, or disability status for fear it will hurt their chance of getting a job.

3) The program is complex (costly) for employees and employers to navigate.

The process required for employers to benefit from the WOTC is outlined in Figure 1, but it is still more complicated than the figure suggests. Employers must become familiar with what are and are not qualifying wages; how target groups are defined and documented; and what the credit limits are for each target group. They must send multiple forms of documentation to their SWA and wait for a determination. Then they must fill out additional IRS forms to claim the credit on their tax returns. Firms must then decide how to strategically apply their credit: It could all be applied to one year or spread out over multiple filing years.

This complexity raises the cost of participating in the program as time spent on bureaucratic compliance, filling out forms, and documentation is costly. Ultimately, this is counterproductive to the stated goal of the program: decreasing the cost of employing target-group members. GAO (2001) corroborates this critique — firms were more likely to use the program after investing in the infrastructure to navigate it, and they tended to be large companies with dedicated HR staff. This results in the WOTC acting as an implicit subsidy to larger firms.

4) The financial incentives at work in the tax credit are too weak.

A complex or costly bureaucratic process, while wasteful, may not be a significant barrier to firm participation if the financial incentives are strong enough. However, that is unlikely to be the case with the WOTC. As noted, GAO (2001) estimated that the WOTC offset less than 50 percent of the cost of recruiting, hiring, and training for participating firms. This does not incorporate the added cost of actually applying for the credit described in (3). It might be tempting for policymakers to think that we should simply increase the qualifying-wage limits, thereby increasing the credit amounts available and strengthening the financial incentive.

This ignores an arguably much larger problem with the WOTC’s financial incentive structure - the fact that the benefit is implemented through the tax system. Employers benefit from the program by applying a credit against taxable income, which is disconnected from the act of hiring and paying employees. For example, a specific hiring manager who chooses to use WOTC may not see any of the money go to their specific programs, only to the company as a whole. Similarly, the “payment” is delayed to an undetermined future point in time since the credit is not necessarily claimed in the year the employee is hired. Taking these factors together, firms may understandably find the benefit
difficult to quantify. Insights from behavioral science\textsuperscript{16} suggest that a program organized like this will dampen responses to any financial incentives at play.

Another problem with the financial incentive structure is the variation in credit amounts across target groups. For example, the maximum credit that can be claimed for a former criminal offender is $2,400 - just 25 percent of what can be claimed for hiring an unemployed veteran with a disability. If the purpose of the WOTC is to offset the perceived additional cost of hiring “hard-to-employ” applicants, the credit should be proportional to that additional cost. Instead, the existing incentives create a strict preference for certain groups over others, irrespective of the relative perceived additional cost to employ them. Suppose an employer receives two WOTC-eligible applicants, one with a felony record and the other a veteran who has been receiving SNAP benefits (implying that she has a low income) - the WOTC incentives are the same for these applicants and, all else equal, the employer will hire the veteran because the former offender is likely to be perceived as a “more costly” hire.

This list is not exhaustive by any means. It is also problematic that the program is structured across different state and federal agencies without comprehensive data requirements. As a result, evaluating the program for efficiency and effectiveness is extremely difficult, which precludes iterative improvements. Ultimately, the credit is inherently structured in such a way that it will be at best inefficient, or worse, ineffective, at improving employment among the “hard-to-employ.” Revision of the credit is possible, but a preferable alternative is to scrap this approach altogether for a simpler and bolder subsidy program.

**The Alternative: Subsidized Employment Programs**

Employment subsidies are a broad class of programs that leverage federal funding to support a robust, sustainable private labor market that includes displaced and disadvantaged workers. These programs are typically short-term, demand-side labor market subsidies, not supply-side wage subsidies like the Earned Income Tax Credit, though it is possible for a subsidy program to target both supply and demand. The subsidies directly cover a portion of wages paid by the employer or the costs of on-the-job training (OJT) for a pre-specified amount of time, both of which stimulate demand for labor by reducing the cost of employing an eligible worker.

Employment subsidies have received considerable attention over the past 40 years, including several rigorously tested pilot programs, though none have been converted into a permanent, robust federal program. The Georgetown Center on Poverty and Inequality produced an extensive report in 2016 that details different types of employment subsidies. Programs can vary along several dimensions, such as the type of subsidy (wages or OJT), subsidy length, target groups covered, and employer size. That variation notwithstanding, there are important differences between this class of subsidies and the Work Opportunity Tax Credit that make them more effective at strengthening labor markets.

1) State control, with federal grant funding, permits necessary programmatic flexibility while still being directed toward pre-defined employment objectives

Barriers to employment take different forms across time, geographies, and industries. For example, policies helping displaced coal miners from West Virginia reskill should look different from policies helping former offenders in Michigan find stable employment when reentering society. As such, the one-size-fits-all nature of federal programs inherently limits their effectiveness in addressing labor market challenges. On the other hand, the federal government can collect and allocate funds across broader geographic areas than states. Entities like State Workforce Agencies are more likely to possess the local knowledge and programmatic flexibility necessary to effectively address labor market challenges. An efficiently funded employment subsidy will not be a blank federal check, however - it is important that there are clearly defined, evaluable metrics that align state and federal employment goals while retaining the flexibility of state control.

2) Direct funding to employers creates a more direct, transparent financial incentive.

One of the largest flaws of the WOTC is the disconnect between the incentive (tax credit) and the desired behavior - hiring a target-group member. Employment subsidies channeled through the state agencies that employers are working with can directly reduce wage or training costs, instead of going through the tax system or a separate (federal) agency. This process is much simpler and more transparent, which strengthens the financial incentive, decreases the cost of participating, and makes participating in the program much more appealing.

3) Extensive pilot testing and a commitment to future evaluations allow for iterative program improvements.

A wide array of employment subsidy programs have been extensively evaluated. Government resources should be withdrawn from unproven or inefficient programs like the WOTC and instead directed toward those with a track record of effectiveness. Moreover, ongoing evaluation is built into the infrastructure of employment subsidy programs to ensure they adapt over time and stay efficient. Labor markets are dynamic, and labor market challenges will change over time - iterative improvement is a necessity for long-term success.

Recent legislation has attempted to establish a federal employment subsidy program that would be implemented by states, as described above. In 2019, Senator Ron Wyden (D-OR) and Representative Danny Davis (D-IL) introduced the “Economic Ladders to End Volatility and Advance Training to Employment” (ELEVATE) Act to “boost job prospects for Americans struggling to find work and help them maintain employment” (U.S. Senate Committee on Finance, 2019). Among other provisions, the ELEVATE Act would have created funding streams for subsidized employment programs, implemented


“automatic stabilizers”\textsuperscript{19} against economic downturns, and ensured that states pursue low-overhead, evidence-based programming.\textsuperscript{20} To be sure, the ELEVATE Act was larger in scope than the WOTC - it included provisions not just to help disadvantaged workers but to address an array of labor market frictions, such as geographic relocation costs.

President Biden has also asked Congress to include a new job-subsidy program in his American Jobs Plan.\textsuperscript{21} While this initiative currently lacks specificity, it is placed in the broader context of improving "workforce development opportunities in underserved communities," alongside initiatives to fund job training for those formerly incarcerated. There are some existing congressional efforts toward this goal. In March, a group of senators sponsored the Jobs for Economic Recovery\textsuperscript{22} (JER) Act of 2021, which would create a subsidized employment program very similar to that proposed in the ELEVATE Act (U.S. Senator Tammy Baldwin, 2021). Unfortunately, this legislation not only retains the WOTC but expands some of its components, which could increase the price tag on the bill without a clear social benefit. Another effort is the Long-Term Unemployment Elimination (LTUE) Act by Senator Chris Van Hollen (D-MD), which would create another funding stream for subsidized employment that is run through local workforce boards. The goals of this bill are very similar to those of the JER, but the reliance on local workforce boards instead of state agencies (as in the JER) to implement the programs is a weakness. Local workforce boards are less equipped to analyze programs’ effectiveness, have too limited a scope to address broader labor market problems, and are more subject to capture by special interests. Implementing both the JER and LTUE would be duplicative; the JER creates a superior subsidized employment program and should be the focus of legislative efforts, though it should be modified to eliminate redundant and ineffective employment programs like the WOTC.

Conclusion

A healthy, market-based economy requires a robust labor market. Yet, at present, there are serious barriers to labor market efficiency in the United States. Long-term unemployment is a pressing threat in the wake of the COVID-19 pandemic and ensuing economic recession. We need a bold plan to jump-start the economy and get people back to work, particularly targeting those who have historically been detached from the labor market. Employment subsidy programs can lower the cost for businesses to hire the long-term unemployed and create healthier labor markets in the long run through components like automatic stabilizers and opportunities for retraining.

The Work Opportunity Tax Credit, along with a kaleidoscope of other programs, attempted to strengthen labor markets but ultimately fell short. The program’s complexity makes it costly to


navigate, inefficient to use, and difficult to evaluate for effectiveness. It should be eliminated (or allowed to expire), and their funding should be diverted to evidence-based employment subsidy programs like those proposed in the Jobs for Economic Recovery Act of 2021. The potential is clear: increased employment, better long-term employment prospects for people at the margins of the labor market, higher incomes, better health, stronger families, and decreased dependence on social assistance programs. This is an investment in American workers and the American economy.
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