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# Government Incentives to Change Employer Behavior

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## **Government Incentives to Change Employer Behavior**

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Through various incentive mechanisms, the U.S. government has sought to shape and change the ways in which American businesses operate in a wide range of industries. Below we discuss a few examples of the ways the government can incentivize employer behavior through recognition and awards programs, and through government financing.

### **Awards**

#### *The Malcolm Baldrige Awards*

The Baldrige Award is given by the President of the United States to businesses—manufacturing and service, small and large—and to education, health care and nonprofit organizations. Winners are judged to be outstanding in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results. The U.S. Commerce Department’s National Institute of Standards and Technology (NIST) manages the Baldrige National Quality Program in close cooperation with the private sector.

The award was conceived in the early and mid-1980s, in response to industry and government leaders’ realization that a renewed emphasis on quality was a necessity for doing business in an ever expanding, and more demanding, competitive world market. But government leaders also perceived that many American businesses either did not believe quality mattered for them or did not know where to begin. The Baldrige Award was envisioned as a standard of excellence that would help U.S. organizations achieve world-class quality.<sup>i</sup>

The Baldrige program highlights Criteria for Performance Excellence, using these criteria as the basis for granting awards and giving feedback to applicants, and also “providing a tool for understanding organizations’ strengths and opportunities for improvement.” The criteria are described as: “a set of expectations or requirements that define the critical factors that drive organizational success.”<sup>ii</sup> Applicants are required to answer approximately 100 questions from seven different categories which are then used to judge how well they meet these criteria.<sup>iii</sup>

#### *Blue Ribbon Schools*

Started in 1982, the Blue Ribbon Schools Program honors public and private K-12 schools that are either academically superior in their states or that demonstrate dramatic gains in student achievement. To be named a Blue Ribbon school, schools must meet either of two assessment criteria. Either 40 percent of a school’s students must be from disadvantaged backgrounds and must show dramatic improvement in student performance in accordance with state assessment systems; or the school must score in the top 10 percent on state assessments.

Of the schools submitted by each state, at least one-third must meet the first criterion of having 40 percent of the students from disadvantaged backgrounds. The program allows both elementary and secondary schools to be recognized in the same year.”<sup>iv</sup>

The program provides a nomination form that has a comprehensive framework of research-based criteria that schools can use to conduct a self-assessment and plan changes.

For both the Baldrige Award and Blue Ribbon Schools, there is little empirical evidence to demonstrate whether or not these programs are effective “carrots” for changing business behavior. Program administrators from both award programs claim that the awards programs are successful.

- The Baldrige award has been touted by awards administrators “as a major factor in helping U.S. businesses and other organizations become more competitive and higher performers.” Further, “Barry Rogstad, president of the American Business Conference and a former chairman of the board of overseers for the Baldrige Award, said ‘The Baldrige public/private partnership has accomplished more than any other program in revitalizing the American economy.’”<sup>v</sup>
- Program administrators for Blue Ribbon Schools assert that “recognition is a powerful energizer for recognized schools to make further improvements, and it stimulates other schools to continue their efforts to strive for national recognition [and] by publicly validating school improvement efforts, confidence in recognized schools increases. This often results in higher local funding for schools, greater parent and community involvement in education, and success in the search for outside funds and other resources.”<sup>vi</sup>

## **Government Financing to Encourage Business Behavior**

### ***Tax Credits***

#### *The Work Opportunity Tax Credit.*

The Work Opportunity Tax Credit (WOTC) provides a federal tax subsidy to businesses to hire disadvantaged workers from one of nine target groups, including certain recipients of Temporary Assistance to Needy Families (TANF) and/or food stamps, ex-offenders, high-risk youth, and disabled individuals. The amount of the credit that can be claimed is 25 – 40 percent of qualified wages for the employee, depending on the number of hours worked. The maximum credit per employee is generally \$2,400. However, recent changes to the WOTC folded in the existing welfare-to-work tax credit and expanded its provisions. For employees with long-term family assistance receipt, the WOTC now provides employers with a 40 percent credit on \$10,000 of the first year of wages and a 50% credit on qualified second year wages up to \$10,000 (a total of up to \$9,000 over two years per employee).

In 2009, the government estimates that corporations will claim \$510 million in tax credits for the Work Opportunity Tax Credit.<sup>vii</sup> Notably, only a small proportion of businesses have taken up this tax credit. Researchers have several theories about why businesses do not claim this, and similar credits, that encourage employment of certain target groups. These include the following:

- Companies may not be aware of the program.
- Companies may be concerned about the paperwork involved.
- Companies may not want to ask workers to reveal their WOTC status out of concern that it may be stigmatizing.
- Companies may fear that claiming the credit could increase employers' visibility in the "tax audit process."
- Companies may believe that the benefits of the subsidy (given the number of workers they think are eligible) are outweighed by the fixed costs of administering the programs.

The WOTC tax credit has shown limited effectiveness in expanding employment overall, and has not demonstrated significant effects on labor market outcomes, such as job tenure or wages of the employees for whom employers claim the credit over the long term. Some researchers point to some impact from encouraging businesses to hire certain types of workers over others -- but worry about a possible "substitution effect" on the overall labor market, meaning that workers who would have otherwise been hired are displaced because employers choose to hire the employees for whom they can claim the WOTC credit. Other research indicates that there is actually little substitution effect. In fact, this research shows that the WOTC did little to change employers' recruitment and hiring practices, often indicating that while some employers recruit and hire to claim the credit, others are receiving credits for employees they would have hired anyway.<sup>viii</sup>

#### *Disabled Access Credit.*

The disabled access credit provides eligible small businesses with a credit to cover expenditures related to compliance with the Americans with Disabilities Act of 1990. The credit defines small businesses as having no more than \$1 million in gross receipts or 30 full-time employees. The credit is equal to 50 percent of eligible expenditures made during the year, not including the first \$250 and excluding costs over \$10,250. The maximum yearly credit is \$5,000.<sup>ix</sup>

This credit, like many other business tax incentives, is underutilized. In 2009, the government estimates that corporations will claim \$10 million in credits for these expenditures.<sup>x</sup>

There has been limited study on the disabled access credit's effectiveness in increasing employment access for people with disabilities. But, research tends to suggest that this credit is also limited in its impact. One national survey of human resource managers found that they viewed employer incentives as the least effective means for reducing barriers to employment for people with disabilities.<sup>xi</sup> Businesses cite a lack of knowledge about the program, the perceived administrative burden of filing for the credit, and the relatively small tax incentive amounts as factors that dissuade them from claiming the credit.<sup>xii</sup>

## *Other Tax Subsidies*

There is existing literature that discusses the impact of preferential tax treatment on the provision of employee benefits, particularly health insurance and pension benefits. Specifically, since health care benefits can be provided tax free, and pension benefits and the annual interest accrued on them are not taxed until the time of consumption, employers enjoy a tax subsidy on this portion of income they provide to their employees. Much of the research on the effects of these subsidy policies shows these policies have an influence on both a firm's decision to provide the benefit, and in a firm's overall spending for the benefit.<sup>xiii</sup>

Many of the external reasons why a firm would provide the benefit seem to translate to the discussion on flexible work arrangements—including a firm's desire to provide health care to increase productivity among its workforce and the desire to provide the benefit to help a worker stay attached to a certain firm. However, this policy option seems contingent on trying to reduce a firm's cost in providing a monetary benefit to the employee, given that the tax subsidy, in effect, reduces the employer's price of providing the benefit. Since the cost of providing flexible work arrangements is far more difficult to quantify than the costs of providing many other employee benefits, and the start-up costs associated with them are currently not "taxed" within the tax code, this strategy seems, at least on the surface, less applicable than the use of a tax credit.

*This fact sheet was produced through a non-exhaustive survey of selected websites, journal articles and research reports on government incentives for business. We welcome feedback on additional data and information that could be included here.*

*Prepared for Workplace Flexibility 2010 by Shelley Waters Boots and Anna Danziger on behalf of the Urban Institute. April 30, 2008.*

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<sup>i</sup> National Institute of Standards and Technology. Accessed via the Internet on April 30, 2008 at [http://www.nist.gov/public\\_affairs/factsheet/baldfaqs.htm](http://www.nist.gov/public_affairs/factsheet/baldfaqs.htm).

<sup>ii</sup> National Institute of Standards and Technology. Accessed via the Internet on April 30, 2008 at: [http://baldrige.nist.gov/PDF\\_files/Why\\_Baldrige.pdf](http://baldrige.nist.gov/PDF_files/Why_Baldrige.pdf).

<sup>iii</sup> *Id.*

<sup>iv</sup> Department of Education. Accessed via the Internet on April 30, 2008 at: <http://www.ed.gov/programs/nclbbrs/index.html>.

<sup>v</sup> National Institute of Standards and Technology. Accessed via the Internet on April 30, 2008 at: [http://www.nist.gov/public\\_affairs/guide/baldrige.htm](http://www.nist.gov/public_affairs/guide/baldrige.htm).

<sup>vi</sup> Temple University. Accessed via the Internet on April 30, 2008 at: <http://www.temple.edu/lss/bluerib.htm>

<sup>vii</sup> *Analytical Perspectives. Budget of the United States Government, Fiscal Year 2009.* Accessed via the Internet on April 30, 2008 at: <http://www.gpoaccess.gov/usbudget/fy09/pdf/spec.pdf>.

<sup>viii</sup> See: Hamersma, Sarah. *The Effects of an Employer Subsidy on Employment Outcomes: A Study of the Work Opportunity and Welfare-to-Work Tax Credits.* University of Florida, July 2005; Hamersma, Sarah. "The Work Opportunity and Welfare-to-Work Tax Credits." The Urban Institute. Washington, DC; October 2005; United States General Accounting Office. *Business Tax Incentives: Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact* GAO-03-39. December 2002.

<sup>ix</sup> United States General Accounting Office. *Business Tax Incentives: Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact* GAO-03-39. December 2002.

<sup>x</sup> *Analytical Perspectives. Budget of the United States Government, Fiscal Year 2009.* Accessed via the internet on April 30, 2008 at: <http://www.gpoaccess.gov/usbudget/fy09/pdf/spec.pdf>.

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<sup>xi</sup> As cited in United States General Accounting Office. *Business Tax Incentives: Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact* GAO-03-39. December 2002.

<sup>xii</sup> United States General Accounting Office. *Business Tax Incentives: Incentives to Employ Workers with Disabilities Receive Limited Use and Have an Uncertain Impact* GAO-03-39. December 2002.

<sup>xiii</sup> See: Woodbury, S. "Employee Benefits and Tax Reform." The Upjohn Institute. July, 1996. Accessed via the Internet on April 30, 2008 at: <http://www.upjohninst.org/publications/wp/96-45.pdf>. See also Gruber, Jonathan. "Taxes and Health Insurance" in *Tax Policy and the Economy*. National Bureau of Economic Research. MIT Press, 2002.