

STRATEGIES FOR ASSISTING THE UNEMPLOYED

December 8, 1982

Prepared by the Staff of the
Human Resources and Community Development Division
Congressional Budget Office

This analysis was prepared by the staff of the Human Resources and Community Development Division of the Congressional Budget Office, under the supervision of Nancy M. Gordon (226-2669). Questions regarding the analysis may be addressed to Martin Levine (226-2659).

CONTENTS

	<u>PAGE</u>
SUMMARY	iv
I. INTRODUCTION	1
II. THE UNEMPLOYMENT SITUATION	3
The Current Situation	3
The Outlook	6
III. THE ECONOMIC CONTEXT OF EMPLOYMENT POLICY OPTIONS	9
The Economic and Policy Context	9
Broad Policy Choices	12
IV. OPTIONS FOR ADDRESSING CYCLICAL EMPLOYMENT PROBLEMS	14
Infrastructure Improvement Programs	17
Other Public Employment Programs	25
Countercyclical Revenue Sharing	30
Countercyclical Housing Subsidies	34
Countercyclical Wage Subsidies	39
Unemployment Insurance	42
V. OPTIONS FOR ADDRESSING STRUCTURAL EMPLOYMENT PROBLEMS	47
Aiding Disadvantaged Persons	48
Aiding Dislocated Workers	57

TABLES

	<u>PAGE</u>
TABLE 1. SELECTED UNEMPLOYMENT RATES BY DEMOGRAPHIC AND OCCUPATIONAL GROUPS	5
TABLE 2. ESTIMATED NUMBER OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS	60

FIGURES

FIGURE 1. UNEMPLOYMENT RATES BY STATE, SEPTEMBER 1982	7
FIGURE 2. DISTRIBUTION OF LOCAL PUBLIC WORKS OUTLAYS IN RELATIONSHIP TO NATIONAL UNEMPLOYMENT RATES	20

SUMMARY

With unemployment currently at its highest level since World War II and likely to continue high for some time to come, concern in the Congress has been directed toward creating more jobs. Today's high unemployment is the result of both cyclical and structural causes: the slowdown in economic activity; the persistent job difficulties of disadvantaged low-income groups; and the long-term declines of some manufacturing industries. Because the reasons for the joblessness of different groups of unemployed persons are not the same, options for helping them differ.

Substantial long-term improvement in the overall unemployment picture will not occur without sustained economic growth. A strong economic recovery would directly expand opportunities for persons unemployed because of the recession. Renewed growth is also necessary for the success of programs designed to assist disadvantaged and dislocated workers. But the difficulty of identifying any general economic policy that might lead rapidly to this renewed growth without eventually rekindling inflation, and the perception that some government action is needed quickly, has focused attention on proposals to create jobs directly for a limited number of the unemployed.

FACTORS AFFECTING THE POLICY RESPONSE

The recent rise in unemployment has occurred during an extended period of weakness in the economy that is largely the result of restrictive monetary policy (designed to reduce inflation) interacting with expansionary fiscal policy—that is, government spending far in excess of revenues. Although nominal interest rates have declined recently, real interest rates—after taking account of inflation—remain high. In addition, federal deficits are likely to increase, running in excess of \$150 billion in each of the next several years unless further action is taken to increase revenues or hold down spending. These deficits could create enough pressure on credit markets to keep real interest rates relatively high.

Traditional methods of stimulating the economy by increasing federal spending or cutting taxes may have adverse effects at a time when credit is tight. Such measures would require an increase in the deficit, increases in other taxes, or reductions in other federal spending. Further increases in the federal deficit would place additional pressure on interest rates, which might choke off economic recovery unless the monetary authorities took action to offset the rise in interest rates. Increases in the deficit might entail some risk of higher inflation in the future. On the other hand, increases in taxes to finance spending would shift productive activity from the private sector to the public sector, with little effect on overall

employment. Shifting federal spending away from other federal programs might do little to increase overall employment, and would reduce the resources going to areas that the Congress deemed important in the past.

On the other hand, there are reasons why the Congress might wish to enact limited short-run stimulus programs--they could be targeted to particular areas and groups of jobless persons and they could be designed to meet longer-run objectives as well. In the short run, resources could be channeled toward labor-intensive projects in order to spur employment. In the long run, such projects could increase the efficiency of the economy through the skills that workers might acquire and the physical capital, such as improved infrastructure, that could result from them. Moreover, spending could be increased now but financed by tax increases that would take effect in later years. This would effectively move jobs from a future period to the current one--when unemployment is exceptionally high--provided the monetary authorities acted to prevent the rise in interest rates that might result from financing a higher deficit in the near term.

If the Congress chooses to provide some additional assistance to the unemployed, two general approaches are available. First, the Congress could choose to address cyclical unemployment problems by expanding job

opportunities for those unemployed persons who are most severely hurt by current conditions. Second, the Congress could focus on the structural unemployment problems responsible for the long-term joblessness of certain disadvantaged or dislocated workers--persons who are not only unemployed now, but who will remain ill-equipped to find work even after a recovery is well under way.

OPTIONS FOR REDUCING CYCLICAL UNEMPLOYMENT

Several approaches have been proposed for dealing with cyclical unemployment problems (see Summary Table). These approaches--all of which have been used in previous recessions--include:

- o Expanded infrastructure construction or repair programs;
- o Other public employment programs;
- o Countercyclical revenue sharing;
- o Countercyclical housing subsidies;
- o Wage subsidies for new private-sector employment; and
- o Expanded or redirected Unemployment Insurance.

Options for reducing cyclical unemployment may be assessed against several different criteria. The principal considerations include the number of new jobs that would be created, who would be helped by the program, and the value that society would place on the additional goods or services

SUMMARY TABLE. EFFECTS OF SELECTED OPTIONS TO STIMULATE EMPLOYMENT

POLICY OPTION	JOB CREATION ^a	TARGET GROUP	EXTENT OF INCOME SUPPORT	SPEED OF STIMULUS	EFFECT ON LONG-TERM EMPLOYABILITY
Options for Reducing Cyclical Unemployment					
Infrastructure Improvement Program	Less than other public employment due to high capital costs and high wages.	Construction and supplying-industry workers.	High wage rates; duration variable.	Depends on type of project.	Relatively little.
Other Public Employment	Could be large; depends on wage levels and job substitution.	Depends on eligibility criteria and wages; likely groups are low-income and long-term jobless.	Low wage rates; duration variable.	Relatively quick expansion once authorized and administrative structure set up.	Depends on whether jobs provide useful skill training.
Countercyclical Revenue Sharing	Depends on state and local spending decisions.	Depends on state and local decisions; generally untargeted.	Wage rates and duration variable.	Uncertain; past experience somewhat slow; current circumstances may differ.	Relatively little.
Countercyclical Housing Subsidies	Uncertain; depends on net induced construction.	Construction and supplying-industry workers.	High wage rates; relatively short duration.	Probably faster for single-family housing; slower for multifamily structures.	Relatively little.
Countercyclical Wage Subsidies	Uncertain; depends on use by employers in creating new jobs.	Relatively untargeted.	Uncertain.	Could be implemented quickly once authorized.	Depends on whether jobs provide useful skill training.
Extending Unemployment Insurance Benefits	Negligible.	Workers in cyclically sensitive industries.	Benefits vary; duration depends on program.	Could be implemented quickly once authorized.	Might extend length of unemployment.
Options for Reducing Structural Unemployment					
Training for Disadvantaged Persons	Relatively little directly; prepares participants for jobs when economy recovers.	Low-income persons.	Little; depends on stipend.	Already in place; funding could be increased.	Effective for persons with little previous work experience.
Job-Search, Training, and Relocation Assistance for Dislocated Workers	Relatively little directly; prepares participants for jobs when economy recovers.	Experienced workers from declining industries and occupations.	Little.	Requires program start-up; not yet funded.	Uncertain; could be significant.

a. Refers to direct job creation only; does not include possible offsetting effects of any tax increases to finance programs.

produced. The speed with which the jobs could be made available--often a major concern in employment stimulus programs--may be less critical now because high joblessness is expected to continue for some time.

Infrastructure Improvement Programs. Increasing federal funding to enable states and localities to pay for the construction or repair of roads, bridges, sanitation systems, and other public facilities has been suggested as a way of expanding employment opportunities. There is a real and urgent need for these infrastructure projects that, combined with the coincident need for jobs, has made this option attractive. If a public works program was used to address the nation's long-term public capital needs, the funds might be focused on large-scale construction projects that could improve the overall efficiency of the economy, but would take some time to get under way. Funding small-scale repairs could create jobs more rapidly but would generate benefits more local in nature, and might not be as effective a means for meeting long-term national needs. In either case, the additional employment would occur principally in high-wage, high-skill construction jobs, and in the industries that supply construction materials. If these projects were financed by simultaneous tax increases, however, the net gain in employment would be small.

Other Public Employment. Another approach would be to fund temporary jobs in government agencies, nonprofit organizations, or conservation projects. This option could create more direct employment

than public works projects, because public-service employment generally uses less capital and provides participants with lower wages. Since wages are usually lower, this program would be more likely to provide jobs to low-income persons or to the long-term unemployed who have depleted their financial resources. The value of the output generated by such jobs would depend on the types of services funded and participants' skills. Past public employment programs resulted in some substitution of federal for state and local funds--thereby creating fewer net new jobs in the short run. The extent to which this would occur now, given the present financial problems of state and local governments, is not known.

Countercyclical Revenue Sharing. A third approach to increasing employment would be to provide unrestricted cash grants to states and localities, allowing them to determine how the funds would be spent. The amount of additional employment gained would depend on the decisions made by recipient jurisdictions; in the past, state and local governments did not fund particularly labor-intensive activities with stimulus funds.

Countercyclical Housing Subsidies. A quite different approach to expanding employment opportunities would be to generate additional economic activity in the private sector through mortgage-interest subsidies for the construction or purchase of new homes. Such a program could help the depressed housing industry as well as increase employment in related

supplying industries. Recent declines in market mortgage interest rates, however, suggest that some increase in home purchases and construction might occur without federal aid. Under such circumstances, a large proportion of any financing subsidy might merely reduce housing costs for purchasers of new housing without generating additional construction.

Countercyclical Wage Subsidies. Still another approach to expanding job opportunities would be to provide wage subsidies--through tax credits or vouchers--to private-sector employers for hiring additional workers. This option could help to stimulate broad-based employment gains throughout the economy by reducing the cost of labor. On the one hand, such a subsidy could be implemented quickly and made applicable only for hiring during specified time periods. On the other hand, the net effect on job creation is uncertain, because many employers might receive the subsidy for new employment that would have occurred anyway.

Modified Unemployment Insurance. Although Unemployment Insurance (UI) is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Two options could be considered--providing lump-sum benefit payments to be used for relocation or training, or extending the duration of UI benefits to the long-term unemployed. Any changes that would increase UI outlays, however, would only worsen the already serious

financial position of the UI system, unless additional resources were provided from general revenues or tax increases.

OPTIONS FOR REDUCING STRUCTURAL UNEMPLOYMENT

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons, who include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings, and dislocated workers, who are persons displaced by long-term changes in the economy. The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than just to expand immediate job opportunities. None of these policies can succeed, however, without sustained real growth in the economy.

Authorizing legislation already exists that would help structurally unemployed persons. The Job Training Partnership Act (JTPA), which was enacted in October 1982, provides federally financed but state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. But, 1983 is a transition period from the current Comprehensive Employment and Training Act (CETA) to the new JTPA, and while assistance for disadvantaged persons is currently funded, aid for dislocated workers is not. In addition to the JTPA, the

federal government provides wage subsidies to certain disadvantaged persons (mainly youth) through the Targeted Jobs Tax Credit (TJTC).

Assisting Disadvantaged Persons

Two approaches are available for aiding disadvantaged persons--training and job-search assistance; and targeted wage subsidies.

Training and Job-Search Assistance. Different approaches might be used to aid different groups of disadvantaged persons. For adults with little previous work experience, training and job-search assistance such as that provided under CETA has been shown to be successful in the past, primarily by increasing the number of hours worked by participants. For adults with more work experience but chronically low earnings, more extensive--and, therefore, more expensive--training would probably be required to increase future wages. For disadvantaged youth, whose problems are often a lack of any work experience and, for many, of marketable skills as well, some combination of remedial education, work training, and job-search assistance might be required. Most of these services are currently provided by CETA and could be provided under the new JTPA.

Targeted Wage Subsidies. Another approach to aiding disadvantaged workers is to provide a wage subsidy for employers who hire such persons--increasing the demand for selected workers by reducing their costs

to employers, rather than by increasing their job skills or facilitating the job-search process. Because wage subsidies--such as that provided through the TJTC--do not improve workers' skills, however, their success depends on the workers being at least minimally attractive to employers. Experience with the TJTC indicates that such a credit induces few employers to hire the disadvantaged.

Assisting Dislocated Workers

Several different services could be provided to aid dislocated workers in obtaining new jobs. Job-search assistance--including labor market information, job-search instruction, and counseling--might help some of these workers accept their new circumstances and find new employment. For some workers, training could help them acquire new skills that are in demand. Finally, relocation assistance--in the form of subsidized expenses and inter-area labor market information--might encourage workers to relocate to geographical areas in which there are job openings. These services are authorized under the JTPA, although no funds have yet been appropriated.

L INTRODUCTION

The rise in unemployment over the last year to a 40-year high has prompted a number of proposals for dealing with the current increase in joblessness as well as with the structural causes of longer-term unemployment.

This analysis is intended to aid the Congress in assessing approaches to both kinds of unemployment problems.^{1/} Section II examines current unemployment and the outlook for the near future. Section III describes the economic context in which any employment policy would operate, and outlines broad policy choices. Section IV analyzes several approaches to

-
1. This study was prepared quickly in order to be available during the post-election session of the 97th Congress. Given more time—and as the details of specific proposals become known—more complete analyses of particular options can be provided. Persons interested in specific issues and policy options may also refer to other Congressional Budget Office reports. Issues involved in the use of federal grants to counter economic downturns are discussed in **The Countercyclical Uses of Federal Grant Programs** (November 1978). Options for addressing the infrastructure needs of the highway system are included in **The Interstate Highway System: Issues and Options** (June 1982) and **Financial Options for the Highway Trust Fund** (December 1982). The experience with past public service employment programs is detailed in **Effects of Eliminating Public Service Employment** (June 1981). Options for dealing with the employment problems of youth—a group that experiences persistently high joblessness—are discussed in **Improving Youth Employment Prospects: Issues and Options** (February 1982). Recent experience

cyclical unemployment—that is, unemployment caused principally by the current recession. The final section considers options for dealing with structural unemployment--joblessness that would be expected to persist even in a buoyant economy, either because of a long-term decline in the demand for labor in certain sectors of the economy, or because certain workers lack the basic skills necessary for employment.

1. (Continued)

with federal training programs designed to aid disadvantaged adults is evaluated in a joint CBO-National Commission for Employment Policy study, **CETA Training Programs—Do They Work for Adults?** (July 1982). The often unique problems of workers displaced from long-time employment with little prospect of being rehired are examined in **Dislocated Workers: Issues and Federal Options** (July 1982). The work-related problems of older persons as they near retirement are analyzed in **Work and Retirement: Options for Continued Employment of Older Workers** (July 1982).

II. THE UNEMPLOYMENT SITUATION

In recent months unemployment has reached its highest point since World War II, and is expected to remain high for several years. This section describes the current situation and the outlook for the near future.

THE CURRENT SITUATION

Unemployment stood at 10.8 percent in November 1982--up more than three and one-half percentage points since the most recent low point in July 1981. Almost 12 million persons were searching for work in November, and more than 1.5 million others who wished to work were not counted as unemployed because they said they had given up looking for jobs. In addition, over 2 million persons who usually work full time were on part-time schedules for economic reasons. Of those unemployed in November, almost 40 percent had been without work for 15 or more weeks, and over 60 percent were unemployed because they had lost their last job, as distinct from having quit or having newly joined or rejoined the work force.

The recent upsurge in unemployment must be seen in the context of longer-term increases in both employment and unemployment. Employ-

ment has grown considerably in recent decades, from 66 million workers in 1960 to nearly 100 million today. This is not only the result of an increase in population. The share of the population in the labor force has also increased somewhat during that time--a result of greater participation by women in the work force, only partially offset by decreased participation by men. Unemployment has also risen over this period, from an average of 4.6 percent in the 1950s and 1960s to 6.2 percent in the 1970s. Thus far in the 1980s--a period dominated by recession--unemployment has averaged 8.1 percent.

Unemployment has hit some groups in the work force especially hard (see Table 1). In November, joblessness was 20.2 percent among blacks, 15.7 percent among Hispanics, and 24.2 percent among teenagers. Over half of black teenagers in the labor market were without jobs. Unemployment has also increased significantly for adult men--from 5.8 percent in July 1981 to 10.1 percent in November, surpassing the 9.1 percent rate for adult women. The jobless rate for blue-collar workers exceeded that for white-collar workers by over 10 percentage points--16.5 percent compared to 5.6 percent--due in part to differences in the unemployment rates in the industries in which the two groups usually work.

TABLE 1. SELECTED UNEMPLOYMENT RATES BY DEMOGRAPHIC AND OCCUPATIONAL GROUPS (Seasonally adjusted, in percent)

Group	July 1981 ^a /	November 1982
All Workers	7.2	10.8
Adult Men	5.8	10.1
Adult Women	6.7	9.1
Teenagers	18.7	24.2
White	6.3	9.7
Black	13.8	20.2
White Collar Workers	4.0	5.6
Professional and Technical Managers and Administrators	2.8	3.8
Sales Workers	2.6	3.9
Clerical Workers	4.9	6.3
	5.7	7.9
Blue Collar Workers	9.5	16.5
Craft and Kindred Workers	6.9	12.2
Operatives, except Transport	11.1	21.2
Transport Equipment Operatives	7.3	14.1
Nonfarm Laborers	14.4	19.4
Service Workers	8.0	11.2
Farm Workers	4.8	7.7

SOURCE: Department of Labor, Bureau of Labor Statistics.

a. Month corresponding to the most recent low period of unemployment.

Unemployment has been concentrated in the goods-producing industries of the economy, with 21.9 percent of construction workers and 14.8 percent of manufacturing workers without jobs in November. Unemployment in the service sectors was generally less than 10 percent, and has increased less during the recession than in the more sensitive goods-producing industries. Since July 1981, employment has decreased by over 2.6 million persons in the goods-producing industries, but has decreased by less than 100,000 in the service industries.

Regional unemployment patterns are strongly related to the types of workers and industries concentrated in particular areas (see Figure 1). During September of this year, Michigan--with an economy heavily dependent on the automobile industry--had the highest state jobless rate, 14.5 percent. In the same month, Alabama, Illinois, Mississippi, Ohio, and West Virginia each had over 12 percent unemployment, while a number of states in the Far West also had rates in excess of 10 percent. The lowest state unemployment rates were in the Northern Plains and Rocky Mountain states and in New England--with North and South Dakota, Nebraska, Oklahoma, Vermont, and Wyoming all below 6 percent.

THE OUTLOOK

The employment outlook for the near future is not promising. Even if recovery begins early in 1983, joblessness may still rise somewhat from

