
V. OPTIONS FOR ADDRESSING STRUCTURAL EMPLOYMENT PROBLEMS

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons and dislocated workers. Disadvantaged persons include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings. Dislocated workers consist of skilled persons who had previously worked but who have been displaced by structural economic changes.

The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than merely to expand immediate job opportunities. However, without broad economic recovery, targeted assistance designed to increase the employability of these groups would have little effect on their job prospects.

Several federal policy tools to aid these persons are now in place. Consequently, the principal question in addressing structural unemployment is more one of how available discretion in present programs might be exercised and what changes might be made in those programs, rather than what new forms of assistance are needed.

The Job Training Partnership Act (JTPA)--which was enacted in October 1982 as a replacement for the expiring Comprehensive Employment and Training Act (CETA)--provides for state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. The JTPA also authorizes federally-administered aid to selected groups, including the Job Corps program for disadvantaged youth. During fiscal year 1983, training programs will begin shifting from CETA to the JTPA, which becomes fully operational in 1984. In addition to JTPA, the Targeted Jobs Tax Credit (TJTC)--which is now in place and fully operational--provides wage subsidies to employers hiring members of seven groups of disadvantaged youth and adults.

AIDING DISADVANTAGED PERSONS

Low-income persons who have never worked or have not worked for a long time, and persons who have been employed but with chronically low earnings, may suffer long-term employment problems. This group--referred to here as disadvantaged persons--is quite large. In fiscal year 1980, for example, at least 16 million persons were eligible for CETA comprehensive training programs--a group that included members of families receiving public assistance and other low-income persons. Of that total, about 35 percent were young persons between the ages of 14 and 21.

In the past, disadvantaged persons have been assisted both through training and job search assistance efforts and through targeted wage subsidies.

Training Programs and Job Search Assistance

Since 1974, the CETA program has provided classroom training, on-the-job training, and work experience to disadvantaged adults and youth, while also offering them such job-related services as counseling, education, and placement activities. In 1982, the federal government provided \$4.4 billion through training and job-search programs to assist about two million disadvantaged persons. ^{1/}

Past Experience. A joint CBO-National Commission for Employment Policy study indicates that, for adults, CETA training programs appreciably increased the average earnings of women--principally by increasing their labor force participation and hours worked--but did not seem to increase the average earnings of men, who had stronger initial labor force attachments but were likely to have chronically low earnings. ^{2/} Similar results were

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1. Funding figure includes CETA employment and training programs and the Work Incentive program. Placement services provided through the Employment Service are not included.
 2. See CBO and NCEP, CETA Training Programs--Do They Work for Adults? (July 1982).

found for CETA training provided in a classroom setting, on-the-job, or through subsidized work experience. All these programs increased women's average annual earnings by between \$800 and \$1,300, at a federal cost of about \$2,400 per participant, in 1980 dollars.

Training programs for youth can also be effective at increasing employability under certain circumstances. On the one hand, most CETA programs for youth--which are administered by local governments or non-profit organizations and provide primarily work experience--do not appear to increase employability appreciably. On the other hand, the federally-administered Job Corps program--which provides an intensive program of remedial education and vocational training at a much higher average annual federal cost--apparently is effective at enhancing the long-term employment prospects for some youth. ^{3/} No nationwide evidence is available on the effectiveness for youth of locally-administered CETA classroom or on-the-job training programs, which are generally less intensive than Job Corps programs.

For those among the disadvantaged population who are job-ready--that is, who have entry-level skills--job search assistance alone might be beneficial. Such assistance can take the form of job referrals--locating

3. Congressional Budget Office, **Improving Youth Employment Prospects: Issues and Options** (February 1982).

and developing job openings and matching job seekers with openings; or job search instruction, which involves teaching people how to look for jobs on their own.

Available evidence suggests that job search instruction can be an effective addition to referral services, by enabling jobseekers to be more active and effective participants in the placement process. Job search instruction programs have resulted in significantly higher placement rates for disadvantaged workers, including welfare mothers and low-income youth, compared to similar workers who did not receive instruction. The gains from job search instruction programs are due primarily to reductions in the time jobseekers take to find a job, however, rather than increases in the probability of ultimately finding a job. Over the long term, the employment rate among groups who receive job search instruction may not be very different from the employment rate among similar groups of persons who do not receive job search instruction. ^{4/}

4. See Elise Bruml and John Cheston, "Placement Assistance in the ES, WIN and CETA" (paper funded in part from U.S. Department of Labor, March 1982), and Elise Bruml, "Self-Directed Group Job Search: The Results" (unpublished paper, U.S. Department of Labor, July 13, 1981).

Policy Implications and Options. Evidence from past programs suggests that different approaches might be used in aiding different groups of disadvantaged persons.

For adults with little previous work experience, it appears that the sort of training provided through CETA--short-term, entry-level training--can increase future earnings, principally by increasing hours worked. What is less clear is whether job search assistance alone--which could be provided at a much lower cost--would be just as effective. If the effect of training programs is primarily to facilitate entry or reentry into the labor market, job search assistance alone might be as helpful. If, on the other hand, training is essential to that entry or reentry process, job search assistance alone would not achieve as good results as past training programs.

For adults with more extensive previous work histories but with chronically low earnings, findings from the CETA evaluation suggest that more extensive, and thus more expensive, training would probably be required to increase their future wages. In other words, in order to keep expenditures constant, resources might have to be concentrated on fewer people. While the potential benefit of more extensive training is uncertain, results from a CETA demonstration project--the Skill Training Improvement

Program—suggest that training for more highly skilled jobs might yield positive results, but at an appreciably higher cost. ^{5/}

Finally, for disadvantaged youth, the problem appears to be a lack of previous work experience and—for many—a lack of marketable skills as well. For those youth who possess at least minimal marketable skills, job search assistance alone may be sufficient to ease the transition to the world of work. For the least prepared youth, however, remedial education coupled with vocational training would be necessary.

Most of the above services are currently provided under CETA could be provided under the new JTPA. Title II of JTPA can finance state and local training programs for disadvantaged adults and youth, with increased private-sector involvement. Title IV of JTPA provides for federally-administered aid for selected groups, including continuing the Job Corps program for youth. JTPA differs somewhat from current CETA programs by requiring that those welfare recipients who must register for employment and training services be served in proportion to their share of the eligible population. The new act also limits the use of work experience programs and restricts the payment of allowances to trainees. The effects of these

5. See Abt Associates, Inc., **STIP: CETA and the Private Sector** (prepared for U.S. Department of Labor, September 1979).

changes on future training programs will depend largely on state and local decision making. The number of persons served will depend both on program-design decisions and on the level of federal funding.

Targeted Wage Subsidies

Providing targeted wage subsidies through tax credits for employers who hire disadvantaged persons is another approach to expanding their employment opportunities. Such tax credits are designed to increase the demand for selected workers by reducing their costs to employers, rather than increasing their job skills or facilitating the job-search process. Because tax credits do not improve workers' skills, their success depends on the workers being at least minimally attractive to employers, however.

Past Experience. Employment tax credits are now available for some disadvantaged groups through the Targeted Jobs Tax Credit (TJTC). The TJTC--enacted in 1978--provides a 50 percent credit for the first \$6,000 of wages paid to target group employees in their first year of employment, and a 25 percent credit for the first \$6,000 of wages paid in their second year. Since the credit reduces the business deduction for wages paid, however, the maximum net credit is \$2,580 in the first year and \$1,290 in the second year of employment. The groups currently eligible for the TJTC include economically disadvantaged youth (aged 18-24); economically disadvantaged

cooperative education students (aged 16-19); persons referred from vocational rehabilitation programs; economically disadvantaged Vietnam veterans; economically disadvantaged ex-convicts; public assistance recipients; and employees who were involuntarily terminated from CETA jobs. In addition, a credit of 85 percent of the first \$3,000 in wages paid to economically disadvantaged youth (aged 16-17) for summer employment will be available beginning in May 1983.

In fiscal year 1981, more than 400,000 employees were certified under the TJTC. About half of those certified in 1981 were cooperative education students who are no longer eligible for the credit unless they are economically disadvantaged. Of the remaining employees claimed under the credit--mostly disadvantaged youth--about two-thirds were certified retroactively, that is, after they had already been hired. This practice is no longer permitted. Less than 5 percent of the eligible disadvantaged youth hired in 1981 were claimed under the TJTC.

It is estimated that, before the elimination of retroactive certification, only about 18 percent of the employees claimed under the TJTC (excluding cooperative education students) represented new job demand for targeted groups; the remaining claims represented windfall gains for the employers. Without retroactive certification, the potential for windfall

gains from the credit is probably reduced, but this may also further reduce the already low rate of use by employers. ^{6/} Further, any new job demand for targeted groups may come at the expense of ineligible workers, since the reduction in overall labor costs resulting from the TJTC is probably too small to have any appreciable effect on total employment demand.

Policy Implications and Options. Employment tax credits have both advantages and drawbacks as devices for aiding disadvantaged persons. On the one hand, tax credits are fairly easy to administer and, unlike appropriated training and job-search programs, are available to all members of selected groups. On the other hand, evidence from the TJTC suggests that a substantial proportion of the employees claimed under the credit would have been hired in the absence of the subsidy. Also, because tax credits are generally entitlements, the eventual cost to the federal government cannot be known in advance--nor can the cost be controlled without further changes to the authorizing legislation once the target groups have been identified.

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6. If only 18 percent of hiring under the TJTC resulted in new job demand for targeted groups, it is estimated that the average cost (in terms of federal revenue losses) of creating a full-year full-time job was about \$10,800. If the proportion of employees claimed that represents new job demand has increased, say to 36 percent, as the result of the elimination of retroactive certification, the average federal cost per job slot has fallen to \$5,400. See CBO, *Improving Youth Employment Prospects: Issues and Options* (February 1982).

Several changes could be made in the TJTC that might increase its use--and, thus, net job creation--but all the changes would increase the revenue loss to the federal government as well. The federal government could, for example, make the tax credit refundable, so that even employers who expect to have no tax liability for the year would benefit from it. In addition, the size of the credit could be increased. The effect of such changes on the total demand for labor is uncertain.

Another approach would be to increase the value of the tax credit to employers on the condition that they help finance training for disadvantaged workers. Such a credit might have to be quite large--and therefore costly--to provide a sufficient incentive for employers to participate. To the extent that employers did participate, however, such a program might help enhance the long-term employability of disadvantaged persons, rather than only marginally increasing their immediate job prospects.

AIDING DISLOCATED WORKERS

Dislocated workers--those who have been displaced by structural changes in the economy and are unlikely to return to their former jobs--constitute another group of structurally unemployed persons. For these workers, the problem is a reduction in the demand for their skills, rather than a lack of previous labor force attachment.

The Sources and Magnitude of Dislocation

Disparities in growth rates among major sectors of the economy and the modernization of production through labor-saving technology will both contribute to worker dislocation in the 1980s. Industries such as automobiles, steel, rubber, textiles, and wearing apparel—which together employed one-third of all manufacturing workers in 1979—have grown slowly or actually declined in recent years and are expected to continue to lag through this decade. Modernization of basic manufacturing industries, mainly through technology that requires a reduced labor input, will further contribute to displacement. Although such modernization could improve the competitive position of these industries and ultimately lead to some additional employment opportunities, displacement is still likely to occur because the new plant and equipment will require less labor for production. Some analysts, for example, have estimated that automation could eliminate 200,000 jobs in the automobile industry by 1985. In addition, recent studies estimate that microelectronic technology—robots, in particular—could replace 3 million to 7 million manufacturing jobs by the year 2000.

According to most studies of plant shutdowns and automation, dislocated workers tend to be older blue-collar workers with substantial job experience and less formal education. A number of factors make adjustment difficult for many of these workers. Much of their earnings and

benefits are attributable to firm-specific skills and seniority that are not readily transferrable to other jobs. These workers also tend to have been insulated from the labor market and to know little about job openings, skills in demand, and institutions to aid unemployed workers. These factors often lead to difficulty in accepting their new circumstances and to unrealistic aspirations for new jobs. Moreover, job search skills often erode with time on the job--particularly for blue-collar workers who usually do not search for work while employed. Finally, many financial and nonfinancial factors inhibit these workers from relocating to geographic areas where jobs exist.

The number of workers likely to be dislocated in the near future depends on the definition of dislocation used and on future economic conditions. CBO has estimated the likely number of dislocated workers in January 1983 under a variety of definitions related to dislocation--age, job tenure, industry, occupation, and length of unemployment--and different assumptions regarding economic trends. Applying several definitions, the number of dislocated workers in 1983 could range from 185,000 to 2.2 million--or from nearly 2 percent to 20 percent of all unemployed workers (see Table 2).

TABLE 2. ESTIMATED NUMBER OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS (In thousands)

Eligibility Criteria	Number of Workers a/
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SINGLE CRITERIA

Declining Industry	1,240 - 1,590
Declining Occupation	1,700 - 2,200
Ten Years or More of Job Tenure	840 - 1,200
More than 45 Years of Age	1,120 - 1,370
More than 26 Weeks of Unemployment	840 - 1,200

MULTIPLE CRITERIA

Declining Industry and:	
Ten years' job tenure	270 - 330
45 or more years of age	270 - 340
26 weeks of unemployment	185 - 240
Declining Occupation and:	
Ten years' job tenure	300 - 390
45 or more years of age	390 - 520
26 weeks of unemployment	310 - 490
Mass Layoff and Plant Closing	1,090 - 1,400

SOURCES: Congressional Budget Office estimates based on tabulations from the March 1982 Current Population Survey.

- a. The range reflects a variety of assumptions related to general economic conditions and to patterns of growth among different sectors of the economy.

Options for Assisting Dislocated Workers

Three general approaches are available for aiding dislocated workers--providing services directly to the workers to help them find new employment; subsidizing their wages to encourage employers to hire and, if necessary, retrain them; and providing additional income to support them while they adjust to their new circumstances.

Adjustment Services. Several different services might be provided to aid dislocated workers in finding jobs. Job search assistance--including labor market information, job-search training, and counseling--might help dislocated 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 geographic areas in which there are job openings.

Information on the success of adjustment services is limited. Preliminary evidence suggests that job search assistance alone may shorten unemployment, on average, by between two and three weeks--resulting in Unemployment Insurance savings that more than offset the average cost of less than \$100 for search assistance.^{7/} Although the effect of retraining is

7. See CBO, *Dislocated Workers: Issues and Federal Options* (July 1982).

unknown, recent studies of plant closings suggest that it will only be successful when it is customized for existing job openings that are identified beforehand. ^{8/} Finally, a U.S. Department of Labor demonstration project found that local employment offices that provided a combination of job search grants, financial assistance, and inter-area job information were successful at encouraging members of such typically less mobile groups as blue collar workers with less than a high school education to relocate for employment. ^{9/}

Most of these services are now authorized to begin in October 1983 under Title III of the Job Training Partnership Act, although no funds have yet been appropriated. Under that title, states--with the assistance of Private Industry Councils, if the state chooses to use them--will identify groups of dislocated workers and determine what, if any, job opportunities exist for which the individuals could be trained. Funds provided to states may be used to provide job search assistance (including job clubs), job development, training, pre-layoff assistance, relocation assistance, and early joint employer-labor intervention in the event of a plant closing. In order to qualify for assistance under Title III, states must expend an amount

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8. U.S. Department of Labor, **Plant Closings: What Can Be Learned from Best Practice** (November 1982).
 9. See Westat, Inc., **Job Search and Relocation Assistance Pilot Project (JSRA): Final Report**, prepared by the Office of Policy, Evaluation, and Research, Employment and Training Administration, U.S. Department of Labor (August 1981).

of their own resources equal to the federal funds made available. The nonfederal matching funds can include the direct cost of employment and training services provided by the state and local governments and private institutions. Funds spent on unemployment insurance for eligible individuals who are in a training program may be credited for up to 50 percent of the states' required expenditure.

The number of people who could be served under Title III will depend on the level of appropriations and on the mix of services provided locally. The CBO estimates that job search assistance would cost approximately \$90 per worker for traditional methods and \$500 per worker for job clubs. Relocation assistance is estimated to cost an average of \$1,200 per family, with retraining requiring \$2,500 per person. Assuming that all workers receive job search assistance, 5 percent receive relocation aid, and 50 percent receive training (based on the experiences of recent pilot projects), assistance under Title III of the JTPA would cost an average of approximately \$2,000 per eligible worker, including administrative costs. If half of that amount were paid from state matching funds, 100,000 workers could be aided per \$100 million in federal funds.

One specific option being considered by the Congress is to provide immediate appropriations for the dislocated worker program under Title III.

Such funding would allow the program to be implemented in fiscal year 1983 rather than delayed until 1984. Although accelerating program implementation might not secure employment for many dislocated workers in the short run because of the limited availability of jobs, early implementation might result in a somewhat quicker reduction in unemployment as the recovery begins, since dislocated workers could be ready to fill jobs as they became available.

To use whatever funds are provided most effectively, states might offer different services to different dislocated workers. One approach would be to sequence the services. Job search assistance--the least costly--could be provided to all program participants. Those still without new jobs could then be offered relocation aid. Finally, training--the mostly costly service--might be provided to those workers whose present skills are not in demand either where they now live or in other labor markets.

Wage Subsidies. A second general approach to aiding dislocated workers would be to subsidize their wages--perhaps through targeted employment tax credits. This approach would reduce employers' net costs for hiring dislocated workers, thereby presumably encouraging some employers to hire them even if their existing job skills did not precisely match their new employers' immediate needs.

If the Congress did choose to enact a tax credit for dislocated workers, it could do so fairly easily by amending the TJTC to include dislocated workers among the eligible groups, but the newly eligible group would have to be defined specifically in the statute. Once in place, such a credit would also be easy to administer and might lead some employers to retrain dislocated workers after they were hired. On the other hand, experience under the TJTC suggests that limited wage subsidies might do little to affect employers' hiring decisions if the prospective workers were not already attractive job candidates. To the extent that a tax credit targeted on dislocated workers was used to subsidize the wages of people who would have been hired in any event, it would merely represent a windfall to employers without generating new employment. Unless they were restricted from doing so, firms might even use such a credit to hire new employees rather than rehiring previous employees laid off during the recession.

Additional Income Replacement. A third approach to aiding dislocated workers would be simply to provide them with additional income support--beyond what is now available through Unemployment Insurance. Such an approach would provide greater support during readjustment but would do nothing to enhance workers' marketability for new employment. Indeed, extended income replacement might actually cause some workers to postpone the readjustment process.

One specific option that has been proposed would be to provide dislocated workers with federally financed supplemental UI benefits of perhaps 10 additional weeks. If this approach was adopted, receipt of the supplemental benefits might be made conditional on workers also accepting job search assistance, relocation aid, or retraining to ease their transition to new employment.

