extent that employers fire workers ineligible for the subsidy and replace them with eligible ones, or when employers fill a larger proportion of vacancies with eligible workers than they otherwise would; in this instance, employment demand for the target group increases at the expense of ineligible workers.

Employment subsidies could, in principle, take the form of either direct federal expenditures or tax subsidies. Existing federal employment subsidies--provided via the Targeted Jobs Tax Credit (TJTC)--are nonrefundable tax credits based on annual wages paid to targeted employees up to specified maximum allowable amounts.[4]

The Targeted Jobs Tax Credit

The Targeted Jobs Tax Credit--enacted in 1978 and implemented in 1979--currently is the only federal employment subsidy program. It provides a 50 percent reduction in after-tax costs of the first $6,000 of wages paid to target group employees in the first year of employment, regardless of the employer's tax bracket, so long as the employer has sufficient taxable income to use the credit. In the second year of employment, the credit provides a 25 percent reduction in after-tax costs of the first $6,000 of qualified wages.[5] Credits may be carried back three years and forward seven years.

The groups eligible for the TJTC have changed over time. Initially seven groups were targeted: vocational rehabilitation

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4. A nonrefundable tax credit is one that can be used to reduce tax liability, but which is of no value to employers without tax liability. A refundable tax credit would provide a payment to employers with insufficient tax liability to use the credit fully.

5. Joint Tax Committee staff pamphlet, "Background on Tax Incentives for Employment." In the first year, for example, an employer receives a tax credit equal to $3,000 for an eligible employee earning $6,000. With the credit, however, only $3,000 of the employee's wage may be deducted as a business expense. Hence, at a 35 percent tax rate, the employee's after-tax cost to the employer is $1,950 ($3,000 times [1-tax rate]). An ineligible employee earning the same $6,000, however, costs the employer $3,900 ($6,000 times [1-tax rate]).

referrals; economically disadvantaged youths (aged 18-24); economically disadvantaged Vietnam veterans; recipients of Supplemental Security Income; general assistance recipients; economically disadvantaged ex-convicts; and cooperative education students (aged 16-19). In 1981, however, the targeted groups were changed by adding recipients of Aid to Families with Dependent Children (AFDC), registrants under the Work Incentive (WIN) program, and PSE workers whose jobs had been terminated by recent budget cuts; and by restricting the eligibility of cooperative education students to those who are economically disadvantaged.[6] Until 1981, retroactive certification of existing employees was permitted and about two-thirds of employees (excluding cooperative education students) claimed under the credit were certified retroactively.[7]

It is estimated that the TJTC will cost $243 million in tax revenue losses during fiscal year 1982.[8] In addition to this, $20 million has been appropriated for administrative expenses.

The findings of a number of reports on the TJTC--as it was before the 1981 amendments--indicate that the hiring patterns of most employers were not altered by the availability of the credit. Of all economically disadvantaged youths between 18 and 24 who obtained employment during fiscal year 1980, only 2.3 percent led to employer claims under the TJTC.[9] Among many employers who did use it, the TJTC was apparently a windfall--a reward for hiring decisions they would have made anyway. About half of all employees certified for the credit from the program's inception through 1980 were cooperative education students, a group for which the credit is generally thought unnecessary to obtain place-

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6. Economic Recovery Tax Act of 1981 (P.L. 97-215). A separate tax credit program for WIN program participants continued in effect through December 1981, when WIN participants became eligible for the TJTC.

7. U.S. Employment Service, Office of Program Review, TJTC Program, period ending March 31, 1981. Retroactive certification occurs when the employer hires an employee first, and only later determines his eligibility for the tax credit.

8. Estimated by the Joint Tax Committee. The accuracy of TJTC estimates is, however, highly uncertain.

9. Letter, Martin A. Meyers, Director, Program Analysis Division, General Accounting Office, to Senator John Heinz, June 5, 1981.

ments.[10] Of the remaining employees certified for the credit, about two-thirds were certified retroactively. Results of a study conducted for the Department of Labor indicate that at most 18 percent of hirings (excluding cooperative education) under the TJTC program through fiscal year 1980 represented new job demand, with windfalls occurring in the remaining hirings.[11] The 1981 amendments eliminating retroactive certification and eligibility for cooperative education students who are not economically disadvantaged will probably reduce the potential for windfall gains from the credit, but they may also further reduce use by employers.

It is unlikely that the TJTC as amended will significantly increase employment demand for severely disadvantaged youths. Employers seem reluctant to hire youths lacking basic skills at any price, as evidenced by the CETA experiments involving 100 percent wage subsidies for disadvantaged youths in the Youth Incentive Entitlement Pilot Projects (YIEPP). Even where they would have paid none of the wages themselves, only 18 percent of private employers contacted were willing to hire YIEPP participants. On the other hand, the proportion of employers contacted who were willing to hire disadvantaged youths increased over the course of the recruitment period, which lasted only four months. This suggests that participation by employers might be higher in a permanent program.[12]

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10. See Mary Fitzpatrick, "Putting the Targeted Jobs Tax Credit Back to Work" (Northeast-Midwest Institute, Washington, D.C., September 1980), p. 21; and the Mershon Center, <u>The Implementation of the Targeted Jobs Tax Credit, Report No. 2</u> (Ohio State University, January 1981), p. vi. These studies, however, have been criticized. Personnel involved in administering cooperative education programs believe that the TJTC has, in fact, significantly improved their ability to place students.

11. The Mershon Center, <u>The Implementation of the Targeted Jobs Tax Credit, Report No. 3</u> (Ohio State University, May 1981), p. v.

12. Joseph Ball and Carl Wolfhagen, <u>The Participation of Private Businesses as Work Sponsors in the Youth Entitlement Demonstration</u> (Manpower Demonstration Research Corporation, March 1981), p. xvi.

Although employment demand might be increased for those among the target groups who are more job-ready, this might be at the expense of other youths or unskilled adults who are ineligible for the subsidy.

Options for Altering the TJTC Program

An employment subsidy cannot be effective at increasing employment demand for disadvantaged youths if employers will not use it. These options focus on ways to increase use by employers but, to the extent that they were successful, costs of the employment subsidy would increase as well.

The options discussed here would:

- Provide blanket vouchering of eligible applicants;
- Increase the value of the credit;
- Change the tax credit to a direct expenditure; or
- Subsidize low-wage jobs instead of selected population groups.

Provide Blanket Vouchering of Eligible Applicants. The Employment Service could issue vouchers to all jobseekers eligible for the TJTC and instruct them on how to use the vouchers as a self-marketing aid.

Proponents argue that blanket vouchering would increase employers' use of the TJTC, by essentially eliminating employers' concern that the screening questions necessary to identify eligible job applicants might violate fair hiring laws and by mitigating their fear of involvement with government. Employers who desired could tilt their hiring toward eligible applicants without the need to ask questions about age and income. The Employment Service would be better able to respond to employer requests for eligible applicants. For employees who were not hired through the Employment Service, the employers' only necessary contact with the administering agencies would be to return to the Employment Service the vouchers of eligible applicants hired in order to obtain certification for the tax credit. Currently, vouchers are typically issued only after an eligible applicant has already found employment.

On the other hand, blanket vouchering and self-marketing instruction would increase the administrative costs of the program, with perhaps little increased use of the credit. Employment Service offices that have experimented with blanket vouchering and self-marketing frequently find that voucher recipients discard them.[13]

Increase the Value of the Credit. Greater use by employers might be induced by a legislated increase in the value of the TJTC or by making the tax credit refundable.[14]

It is argued that low use occurs, in part, because the subsidy provided by the TJTC is not large enough to induce employers to alter their usual hiring practices. There are two bases on which this argument can be made. First, the 50 percent reduction in after-tax wage costs provided by the TJTC may be too small, per employee, to compensate employers for the lower productivity they may anticipate from eligible employees, relative to others they might have hired. Second, the dollar value of tax savings provided by the TJTC may be too small to compensate for the expense of implementing new recruiting practices designed to identify eligible applicants. Before the recent tax changes, savings could range from $900 for an employer in the 70 percent tax bracket to $2,580 for one in the 14 percent bracket for each eligible employee paid $6,000 or more during the first year of employment.[15]

Further, the TJTC does not affect nonprofit corporations or other employers with no tax liability, although many such employers are new or expanding businesses that might be expected to provide good job opportunities for TJTC target groups. The tax

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13. The Mershon Center, Report No. 3, p. 58.

14. Refundable tax credits are paid directly or "refunded" to recipients if their tax liability is less than the amount of the credit.

15. The savings vary by tax bracket because the employer's tax deduction for wages paid is reduced by the amount of the credit. Starting in 1982 the maximum tax rate drops from 70 to 50 percent. The rate of subsidy for wage costs, however, is 50 percent in the first year of employment and 25 percent in the second year regardless of the employer's tax bracket.

revisions related to depreciation enacted in 1981 will result in a substantial reduction over time in taxes on business income, making nonrefundable tax credits like the TJTC of value to fewer employers. Employers without tax liability could benefit from the TJTC if the tax credit was made refundable.

On the other hand, although results from the YIEPP demonstration indicate that higher rates of subsidy can induce more employers to participate in a program for hiring disadvantaged youths, participation rates were still relatively low--18 percent--even with a 100 percent subsidy. Further, the dollar value of the credit to taxable employers will increase in 1982 even without further legislation since the reduction in tax rates contained in the Economic Recovery Tax Act of 1981 will reduce the offset from nondeductibility of a portion of wages. Minimum savings to taxable employers for each eligible employee earning $6,000 or more will increase from $900 yearly to $1,500. Finally, there is little evidence that the nonrefundable nature of the TJTC is an important factor inhibiting employer use. Employers surveyed do not often mention limited tax liabilities as a barrier to participation, perhaps because of the carry-back and carry-forward provisions.[16]

Change the Tax Credit to a Direct Expenditure. The employment subsidy could take the form of a direct expenditure--a bonus paid to employers to reimburse them for some portion of the wages paid to employees in selected groups. If the bonus was set at 50 percent of wages up to $6,000 for the first year of employment, and 25 percent of wages up to $6,000 for the second year, this would have the same effect as making the current TJTC refundable. It would differ only in that it would be a direct expenditure program instead of a tax expenditure. As such, its costs would be more visible and more readily subject to control through the budget process. Further, administration of the program could be consolidated in the Department of Labor, thereby eliminating the role of the Internal Revenue Service and the attendant problems of shared responsibility. Administration of an expenditure program, however, might be more costly than a program of tax credits.

Subsidize Low-Wage Jobs Instead of Selected Population Groups. Employers could be given a bonus for all low-wage workers hired, regardless of their socioeconomic characteristics. The bonus--called a wage-bill subsidy--could be a fixed amount per

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16. The Mershon Center, Report No. 3, p. 64.

hour for each worker hired below a certain target wage, or it could equal some percentage of all wages paid to workers whose hourly rate was below the target wage.

Employer responses to a survey conducted in 1980 by the General Accounting Office (GAO) indicate that use of the TJTC would have been higher if the subsidy had been targeted on low-wage jobs rather than on certain socioeconomic population groups.[17] This may reflect employers' reluctance to ask the questions necessary to determine eligibility, or it may be that employers have very negative expectations about the productivity of the population groups eligible under the TJTC. In either case, a subsidy for low-wage employees regardless of socioeconomic status would reduce employers' reluctance to participate, while tending to increase the ratio of low-skill to high-skill jobs in the workplace. The increased demand for low-skill employees would improve employment prospects for those who were job-ready among the disadvantaged population groups currently eligible under the TJTC.

Such a wage-subsidy program would be poorly targeted and expensive, however. Data for 1978, for example, show that only 11 percent of minimum wage workers were from families with poverty-level incomes; about 60 percent of minimum wage workers had annual family incomes of $10,000 or more.[18] The GAO has estimated that a wage-bill subsidy of $1,500 per eligible employee--75 cents per hour for full-time full-year employees--for all new hires at the minimum wage would have cost $8.2 billion if fully operational in 1980. The estimated cost per job created would have been $7,272.[19] Further, a wage-bill subsidy could impede efforts to upgrade the jobs held by workers at the lower end of the wage distribution.[20]

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17. Letter, Martin A. Meyers to Senator John Heinz.

18. Curtis L. Gilroy, "A Demographic Profile of Minimum Wage Workers," in Report of the Minimum Wage Study Commission, vol. II (June 1981), pp. 178, 181.

19. Letter, Martin A. Meyers to Senator John Heinz. If the wage-bill subsidy applied only to incremental hires at the minimum wage, the estimated cost would have been $1.4 billion, or $1,272 per job created. There are, however, serious problems of measurement and implementation for a subsidy limited to incremental hires.

20. Frank C. Pierson, The Minimum Level of Unemployment and Public Policy (Upjohn Institute, 1980), pp. 185-86.

ECONOMIC DEVELOPMENT SUBSIDIES

One of the factors that may have contributed to rising rates of unemployment, especially among minority youths, has been the relative decline in business activity in the central cities, particularly in the older cities of the Northeast and Midwest. One way of increasing employment demand for disadvantaged youths is to stimulate the growth of low-skill job opportunities in these areas, where much of this population is concentrated. This has been one of the goals of federal economic development programs in recent years, on the grounds that some people wish to remain where they currently live and also that there are social costs to abandoning existing fixed capital.

Current Economic Development Programs

The major existing federal programs for urban economic development are the grant and loan programs provided through the Economic Development Administration (EDA) in the Department of Commerce; and the Urban Development Action Grants (UDAG) and the Community Development Block Grants (CDBG) programs provided through the Department of Housing and Urban Development.[21] These programs provide place-oriented incentives for private-sector investment in areas of high unemployment or low income. Some of the incentives provided are direct, such as loans or loan guarantees for firms that invest in target areas; others affect private capital indirectly, such as grants to public bodies for the development of infrastructure that makes the area more attractive to business. A total of $1.0 billion has been appropriated for economic development activities under EDA and HUD programs for fiscal year 1982.

Current economic development programs have other goals in addition to the creation of job opportunities, including the improvement of the physical environment and the fiscal capacity of the targeted areas. The focus here, however, is on the value of these programs in dealing with the youth employment problem.

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21. See Congressional Budget Office, Local Economic Development: Current Programs and Alternative Strategies (June 1981), p. 27.

Although evidence is fragmentary, it seems unlikely that current federal economic development programs have been very successful at generating increased employment for disadvantaged groups, either youths or adults, for two reasons. First, these programs may not have much influence on business location decisions. To the extent that such financial incentives are considered, state and local programs--especially differential tax rates--probably dominate federal efforts. Since much of the nation qualifies under one or another federal program, some firms seeking a new site apparently first settle on the location, and then determine the programs for which they are eligible. Although some downtown areas have been revitalized with the use of EDA or UDAG funds, it appears that federal development funds have frequently been used as an "incentive" to private-sector projects that would have been undertaken in any case.[22]

Second, the employment generated by businesses that have located in distressed areas does not appear to benefit the chronically unemployed in those areas. No surveys of the net employment effects of UDAG and CDBG projects are available.[23] A study of EDA's business development program, however, reports that most of the permanent employees hired by assisted firms had been previously employed--only 11 percent of the new jobs and the positions vacated by those previously employed went to unemployed workers. A recent review of the hiring practices of Philadelphia-area firms that received publicly financed assistance, including EDA funds, found that few low-income, unemployed persons were hired. Most of the firms receiving help were weak financially and concerned about avoiding the extra labor costs they thought would come with hiring the unemployed or unskilled.[24]

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22. See Everett Crawford and Carol Jusenius, "Economic Development Policies to Reduce Structural Unemployment," in National Commission for Employment Policy, Sixth Annual Report (December 1980), pp. 174-75. For a more positive assessment of current federal economic development programs, see Local Economic Development.

23. Net employment effects are jobs created by the program net of windfalls to assisted firms and net of jobs lost elsewhere.

24. Local Economic Development, pp. 47-48.

Options for Altering Current Programs

Although current programs have probably had little impact on employment, there are some options that might enhance the effectiveness of economic development programs in increasing employment in distressed areas. The options discussed here would:

- Concentrate program funds on low-skill labor-intensive industries; or

- Link the program to hiring requirements or hiring subsidies.

Concentrate Program Funds on Low-Skill Labor-Intensive Industries. So long as business location decisions are at all affected by economic development programs, the demand for unskilled labor could be more efficently increased in targeted areas by aiding only firms whose production processes require heavy use of low-skill labor. The allocation of UDAG funds for commercial projects provides an example of this--such grants have frequently been used for the construction of hotels that make heavy use of low-skill labor for housekeeping and food services.[25]

By awarding grants only for labor-intensive activities, the possibility of adverse employment effects from the capital subsidies provided by economic development programs could be reduced. Without such selection among applicants, it is argued that there is little reason to believe that employment opportunities for unskilled workers would be improved, because the subsidies cheapen capital relative to labor, and hence favor businesses that are relatively capital-intensive. Because capital and low-skill labor tend to be substitutes in production, the result is that the demand for low-skill labor falls.[26]

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25. See Susan S. Jacobs and Elizabeth A. Roistacher, "The Urban Impact of HUD's Urban Development Action Grant Program" (paper presented at a conference on The Urban Impact of Federal Policies, sponsored by the Department of Housing and Urban Development, February 1979), p. 27.

26. See Daniel S. Hamermesh, "Econometric Studies of Labor Demand and Their Application to Policy Analysis," Journal of Human Resources, vol. 11 (Fall 1976); and William H. Oakland, Yutaka Horiba, and Allan Zelenitz, "Effectiveness of Alternative Demand Policies in Reducing Structural Unemployment" (paper prepared for the National Commission on Employment Policy, October 1980), p. 18.

On the other hand, this approach could encourage the growth of industries that may not be viable in the United States without continuing subsidies. This result might be avoided by targeting grants on service activities instead of goods-producing industries that must compete in international markets.[27]

Link the Program to Hiring Requirements or Hiring Subsidies. Firms receiving program benefits could be required to hire some proportion of their work force from economically disadvantaged residents of the targeted area.[28] To be effective at generating increased demand for these residents, the requirement must exceed what the firm would have hired anyway, and yet not be so high as to eliminate the program's benefit to the firm. Hence, considerable knowledge of each industry's production processes might be necessary to set appropriate requirements, since these would probably differ among firms. Administrative complications could arise from changes in income and residential status of employees who are initially eligible.

Wage subsidies or tax credits for hiring disadvantaged residents could be used as an alternative to the imposition of hiring requirements on firms receiving program benefits. This would eliminate the need for knowledge of industry production processes, but complications arising from changes in income and residence among employees would remain. Such a coupling of employment subsidies with place-oriented capital investment subsidies is contained in several of the enterprise-zone proposals currently before the Congress.[29] A variant would be to combine hiring requirements with an employment subsidy in the form of training assistance to firms locating in distressed areas. With this policy, assisted firms could be required to hire a substantial

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27. National Commission for Employment Policy, Sixth Annual Report, p. 181.

28. A requirement of this sort is currently imposed for a small proportion of UDAG grants--those targeted on "pockets of poverty" in otherwise healthy jurisdictions.

29. See H.R. 2950, H.R. 2965, H.R. 3824, and S. 1240. H.R. 3824, for example, eliminates capital gains taxation on equipment and property and provides employers and CETA-eligible employees with a 5 percent refundable credit based on the worker's wage.

proportion of their work force from among disadvantaged residents, since training subsidies would enable the firms to teach the necessary work skills. Although the firms could be expected to select the best of the eligible population for training, even the most disadvantaged in the target area might ultimately benefit as vacancies for low-skill workers were created in firms that the newly trained workers had left.

MINIMUM WAGE PROVISIONS

The federal minimum wage was established in 1938 by the Fair Labor Standards Act (FLSA). It initially covered only workers directly engaged in interstate commerce or in the production of goods for interstate commerce. The minimum wage set by this initial legislation was $0.25 an hour. Since 1938, there have been numerous increases in the legislated minimum, as well as amendments extending coverage to a larger proportion of the work force. The last change scheduled under existing legislation was implemented in January 1981, when the federal minimum wage was increased from $3.10 to $3.35 an hour.

Although the nominal value of the minimum wage has steadily increased since its inception, the value of the minimum wage relative to the price level or to average hourly earnings in the economy has not changed appreciably since the 1960s. By contrast, minimum wage coverage has increased significantly in recent years. Amendments in 1961 extended coverage to many workers in retail trade. Amendments in 1967 extended coverage to more workers in the service sector, as well as to many agricultural workers. In 1974 coverage was extended to domestic servants. Currently, about 90 percent of private-sector nonsupervisory employees are covered by minimum wage legislation.

The consensus of current research is that increases in the level and coverage of the federal minimum wage have reduced employment opportunities for youths in recent years. The staff of the Minimum Wage Study Commission has estimated that each 10 percent increase in the minimum wage relative to the average wage in the economy reduces the number of teenagers employed by about 1 percent. Further, some jobs that were full-time are reduced to part-time jobs in response to minimum wage increases. The Commission has estimated that each 10 percent increase in the minimum wage reduces full-time equivalent teenage employment by about 1.5

percent.[30] Although less work has been done on the effects of the minimum wage on the employment of young adults aged 20 to 24, indications are that their employment losses are also significant but smaller in magnitude than those observed for teenagers. The Commission has estimated that a 10 percent increase in the minimum wage might reduce the employment of young adults by 0.25 percent.[31] The adverse employment effects of the minimum wage appear to be more severe for nonwhite youths than for whites.[32]

Minimum Wage Options

The options discussed here are intended to lessen the adverse effects of the minimum wage on youth employment. They include:

- o Implement a youth subminimum wage; or
- o Leave the minimum wage unchanged.

Implement a Youth Subminimum Wage. Several bills are currently pending in the Congress that would allow employers to pay youths 75 or 85 percent of the otherwise applicable federal minimum wage.[33] A youth is defined as a person less than 19 or 20 years of age. Additional provisions sometimes include an

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30. Report of the Minimum Wage Study Commission, vol. I (May 1981), pp. 38-39. The Congress created the Commission in 1977 (P.L. 95-151) and directed it to study and report on the social, political, and economic ramifications of the minimum wage, overtime, and other requirements of the Fair Labor Standards Act of 1938.

31. Report of the Minimum Wage Study Commission, vol. I, p. 41.

32. Finis Welch, Minimum Wages: Issues and Evidence (American Enterprise Institute, 1978), pp. 34, 35; George Iden, "The Labor Force Experience of Black Youth: A Review," Monthly Labor Review, vol. 103 (August 1980), p. 13; and Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy, vol. 84 (1976), p. S104.

33. S. 348, S. 430, H.R. 157, H.R. 1068, H.R. 2001, and H.R. 5039. See Proposals for a Subminimum Wage for Youth (American Enterprise Institute, 1981), pp. 32-33, for a description of these bills.

extension of the subminimum wage to full-time students regardless of age, as well as prohibitions against displacing older workers in favor of youths eligible for the subminimum wage. Further, the proposals limit the period of time that the subminimum wage would apply for a new employee, with a prohibition against terminating the employee at the end of that period in order to take continual advantage of the subminimum wage. The usual time limitation proposed is six months.

The Minimum Wage Study Commission tentatively estimates that if there was no time limitation a 75 percent subminimum wage for teenagers would increase teenage employment by perhaps as much as 5 percent--an increase of about 400,000 jobs in 1981 on a teenage employment base of 8 million.[34] If an employer could pay the subminimum wage to an employee only for a limited period of time, it would likely reduce the employment gains, but no estimates of magnitude are available.

The beneficial effects of a youth subminimum wage could be targeted on any desired age segment of the population simply by appropriate specification in the legislation, but targeting on the most disadvantaged among that population would be more difficult to ensure. The fact that employers have not made much use of the more generous employment subsidies for hiring disadvantaged youths under the TJTC and the Youth Incentive Entitlement demonstration projects suggests that disadvantaged teenagers may not be the primary beneficiaries of teenage employment increases brought about by a youth subminimum wage. On the other hand, because youths enrolled in school and employed in the retail, service, or education sectors are currently eligible for a subminimum wage through special Department of Labor certification, a universal youth subminimum would eliminate this advantage for enrolled youths. This would tend to increase the employment of nonenrolled teenagers--who are on average from less affluent families--at the expense of enrolled teenagers.[35]

A sizable portion of teenage employment gains, however, might come at the expense of low-wage adult workers. The Minimum Wage Study Commission suggests that perhaps one-third of new teenage jobs would be at the expense of displaced adults, primarily

34. Report of the Minimum Wage Study Commission, vol. I, p. 48. Some of the employment gain would be for part-time jobs.

35. Ibid., vol. V., p. 398.

low-wage women.[36] Although subminimum wage legislation could attempt to minimize displacement by imposing penalties on employers who release higher-wage workers in order to take advantage of the youth differential, it is unlikely that penalties could prevent the substitution of youths for adults in the case of new jobs or replacements for voluntary quits. As a result, jobs might be switched from a population of adults with typically lower family income and more financial responsibilities to a population of teenagers typically from families with higher income.[37]

Leave the Minimum Wage Unchanged. A gradual reduction in the real value of the minimum wage could be accomplished by leaving its current value unchanged. If no new minimum wage legislation was introduced, the current minimum wage of $3.35 would continue in effect. Under current CBO assumptions, by 1985 inflation would reduce the real value of the minimum wage by almost 25 percent.[38]

Over time, this option would increase employment demand for youths without displacement of adults. In fact, employment for low-wage adults would increase as well. A fall of 25 percent in the real value of the minimum wage might increase the number of teenagers employed by about 2.5 percent--a gain of about 200,000 jobs in 1981. One estimate indicates that the gains in adult employment arising from a 25 percent fall in the real value of the minimum wage would be about twice the number of new teenage jobs created, yielding total employment gains equal to 600,000 jobs in 1980.[39]

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36. Ibid., vol. I, p. 47.

37. See Carolyn Shaw Bell, "Minimum Wages and Personal Income," Table 9, in Simon Rottenberg, ed., The Economics of Legal Minimum Wages (American Enterprise Institute, 1981).

38. As of January 1982.

39. Calculated from estimates by Mincer, "Unemployment Effects of Minimum Wages," p. S104. These predictions of increased employment assume that the supply of workers at any given wage is no constraint. This is reasonable for the teenage work force, but supply constraints may be more important for the adult work force.

A much larger number of workers already earning the minimum wage would experience a decline in real earnings, however, if their wages failed to rise because of the unchanged minimum wage. In 1980, there were about 5.3 million workers earning the minimum wage. If their wages were unchanged, by 1985 the reduction in their real annual earnings would be about three times the aggregate earnings of those gaining minimum wage employment.

CHAPTER V. INCREASING EMPLOYABILITY

The development of basic academic and work skills depends heavily on public education and training programs. Private-sector employers do not generally undertake such activity because the skills developed would be readily transferable to other employers, making it uncertain that employers who paid for the training would recoup their investments.[1] Employers usually confine themselves to the kinds of on-the-job training that are necessary for their own specific needs. Consequently, the more basic training discussed in this section is typically funded by the government, although ways to encourage private-sector participation are under discussion. The programs analyzed below, with options for altering them, are:

- Employment and training programs; and

- Vocational education.

EMPLOYMENT AND TRAINING PROGRAMS

The Comprehensive Employment and Training Act (CETA)--enacted in 1973--authorizes a full range of training and employment-related services, including classroom and on-the-job training, work experience, basic and remedial education, counseling, job search assistance, and payment of allowances. The purpose of the act was to consolidate federal programs and to decentralize the federal training effort by placing primary responsibility for planning and implementation at the local level, with funding from the federal budget. The administering agencies at the local level--called prime sponsors--are typically state, county, or city governments.

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1. Training in basic skills by private employers is not unheard of, though. See Ernst Stromsdorfer, "Training in Industry," in Peter Doeringer, ed., Workplace Perspectives on Education and Training (M. Nijhoff, 1981), p. 51.

Overall appropriations for CETA in fiscal year 1982 are about $3.0 billion. Of this, $1.4 billion is for programs under Title IV, providing employment and training for economically disadvantaged youths. Another $1.2 billion is for programs under Title II, for which both youths and adults are eligible. About $0.2 billion is authorized for private-sector initiatives under Title VII (see Table 8).

Because of the diversity of services provided by prime sponsors under CETA, it is difficult to assess the effectiveness of CETA overall. Except for the Job Corps and the national programs under Title III--which are federally administered--training provided under CETA is so decentralized that there is no national "system" of training. Prime sponsors at the local level are free to provide whatever mix of services they choose, within the constraints of an often-changing set of restrictions imposed by legislation and regulation.

Certain conclusions can be drawn, however, from analysis of particular employment and training programs for disadvantaged youths:[2]

- Success in the work place is closely related to basic writing, communication, and computational skills.

- Work experience alone does not appear to improve the employability of disadvantaged youths, even when the work experience is well supervised and highly supportive.[3]

- Substantial gains in employability are possible for disadvantaged youths when they are offered a combination of services including remedial education, well-structured work experience, and training. Gains in employability appear to be related only to the time spent in education and training activities, although work experience can be useful as motivation to continue.

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2. See Ernst W. Stromsdorfer, "The Effectiveness of Youth Programs: An Analysis of the Historical Antecedents of Current Youth Initiatives," in Anderson and Sawhill, Youth Employment and Public Policy, pp. 107-108; and Taggart, A Fisherman's Guide, pp. 9-11.

3. Manpower Demonstration Research Corporation, Summary and Findings of the Supported Work Demonstration, p. 9. By contrast, work experience does appear to benefit adult women.

TABLE 8. COMPREHENSIVE EMPLOYMENT AND TRAINING ACT: AUTHORIZED FUNDING AND APPROPRIATIONS, FISCAL YEAR 1982 (In millions of dollars)

Program	Authorized Funding	Appropriations	Program Description	Service Year Costs
Title II-B,C	1,431	1,152	Training programs (61 percent of all participants) and work experience (33 percent) for persons of all ages. Title II-B participants must be economically disadvantaged and unemployed, underemployed, or in school.	N/A
Title III	219	179	Various programs to serve groups with special labor-market problems, including migrant farm workers, Native Americans, "displaced" homemakers newly joining or re-entering the job market, youth, and older workers.	N/A
Title IV-A (YETP)	576	192	Various projects, some developed cooperatively with local school districts, primarily for low-income youth aged 14 to 21. Participants are enrolled in career employment experience (42 percent), work experience (20 percent), training (13 percent), and transition services (24 percent).	4,700
Title IV-B (Job Corps)	628	586	Intensive training and rehabilitation for economically disadvantaged youth aged 14 to 21, mostly in residential centers.	14,100
Title IV-C (SYEP)	766	640	Nine-week summer work projects for economically disadvantaged youth aged 14 to 21.	980
Title VII (PSIP)	275	230	Provides for Private Industry Councils to work with prime sponsors to increase private-sector participation in CETA activities.	N/A
CETA Program Total	3,895	2,978		

N/A = Not available.

SOURCES: Funding authorization is from the Omnibus Reconciliation Act. Appropriations are from H.J. Resolution 370 (P.L. 97-92), as interpreted by the agency budget officer. Program description is from Congressional Budget Office, Youth Employment and Education: Possible Federal Approaches (July 1980), p. 11. Service year costs are estimates from the Department of Labor, Employment and Training Administration.

- Development and strict maintenance of minimum behavioral and program performance standards is important to program success. Failure to weed out noncooperative participants is self-defeating.

- Placement services and job-search training appear to be low-cost and effective ways to increase short-term employment rates for job-ready youths.

These findings suggest that many current youth programs under CETA are not likely to be effective at developing employability because they provide principally work experience with little enrichment via education or training. Further, resources are sometimes wasted on noncooperative participants who are attracted by the wages or training allowances and the lax performance standards for participants.[4]

The Job Corps, however, is one ongoing youth program that provides substantial education and training. Follow-up of Job Corps participants who complete the program indicates that their post-program earnings and employment rates are significantly higher--by at least 15 percent--than those of a comparable group of youths used as a control. Further, these benefits do not appear to decay over time. Although the intensive remedial education and training provided in the Job Corps is expensive--more than $14,000 per full-time full-year training slot in 1982--one study estimates that benefits from the Job Corps exceed costs by at least 39 percent.[5]

Although not effective at increasing long-term employability, CETA work experience programs have helped to increase immediate employment for disadvantaged youths. During 1978, at the peak of CETA activity, almost 8 percent of all youths between 14 and 21 participated in some government employment and training program. About 22 percent of all black teenagers employed in October 1978 were working in CETA programs. More than 40 percent of black

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4. Taggart, A Fisherman's Guide, p. 315.

5. See Charles Maller and others, The Lasting Impacts of Job Corps Participation (Mathematica Policy Research, May 1980), p. 153.

youths between 20 and 22 had participated in at least one government program at some time during their teenage years.[6]

Work experience programs can also be useful when used as an inducement to disadvantaged youths to persevere with their education. The Youth Incentive Entitlement Pilot Project (YIEPP)--funded under Title IV-A of CETA--showed that dropouts and potential dropouts could be induced to continue their high school education by the guarantee of a job while they did so. The estimated cost per service year of providing a part-time job during the school year and a full-time job during the summer months is $4,900 for 1982.

Options for Altering CETA Youth Programs

Considerable dissatisfaction has been expressed with CETA programs run by local prime sponsors, for several reasons.[7] There are doubts about the effectiveness of many current youth programs. There are concerns about duplication and lack of coordination with other programs, including vocational education and the Employment Service. And there is the belief that greater private-sector participation is desirable in the planning and implementation of programs.

The options discussed here are intended to address these issues. They would:

- Maintain the current delivery system, with modifications;
- Allocate CETA funds to a single state agent;
- Absorb all CETA programs into the vocational education system; or

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6. Employment and Training report of the President, 1980, p. 147; and Joan E. Crowley, "Government Sponsored Employment and Training," in Michael E. Borus, ed., Pathways to the Future, Vol. I, Ohio State University Center for Human Resource Research (May 1981), pp. 356, 425.

7. Dissatisfaction with CETA may be partly induced because it is decentralized, and public attention is often focused on the worst programs at the local level.

- o Offer a coordinated combination of services through secondary education and federal training programs.

No modification to the federally-administered Job Corps program is considered.

Maintain the Current Delivery System with Modifications. Implementation of employment and training programs could continue as the responsibility of state and local prime sponsors. Many would say that the current system has not been given a chance to work because CETA prime sponsors have had to devote major resources to coping with uncertain funding and frequent legislative changes. A period of stability might permit the existing system to deliver the benefits initially expected from decentralization--the implementation of effective programs suited to local needs. On the other hand, decentralization of responsibility among 475 prime sponsors can result in waste through administrative duplication and through lack of program coordination within labor market areas.

If the current delivery system was continued, useful modifications could include:

- o Forward funding;
- o Program consolidation;
- o Mandated requirements for education or training;
- o Greater incentives for training by private employers;
- o Less emphasis on income transfers; and
- o Targeting of funds on distressed areas.

Forward funding--appropriation of funds some or all of which may be spent in succeeding fiscal years--could improve implementation of CETA programs by giving prime sponsors more time for planning. In addition, forward funding would eliminate one of the current barriers to greater coordination between CETA prime sponsors and local education agencies. CETA programs run on a fiscal year basis--from October 1 to September 30--and have been subject to almost yearly uncertainty about the amount of funding that would be made available by the Congress. Most education programs, by contrast, are funded either on a calendar year basis or from July 1 to June 30, with programs beginning at the start of the school year in September. Unlike CETA, the federal contribution to education programs is forward-funded, so that ample time for planning is available for education programs before the funds are distributed. Educators have been reluctant to plan joint projects with CETA prime sponsors for the coming school year in the face of uncertainty about what CETA funds would be available.[8] Forward funding would, however, require a doubling-up of appropriations for the first year in which it was implemented. Although outlays would be less affected, the one-year increase in budget authority might be difficult to accomplish in a period of severe budgetary restraint. Forward funding would also further reduce federal control over current outlays.

Program consolidation would eliminate separate program mandates and differing eligibility requirements. In its reauthorization for 1982 of the youth programs under Title IV-A of CETA, the Congress permitted prime sponsors to consolidate some previously separate youth programs.[9] Further flexibility could be had by consolidating funds for Titles IV-A (YETP) and IV-C (SYEP) youth programs with Title II adult programs.[10] It is argued that this would free prime sponsors to develop programs best suited for their eligible populations. Arguments against this are that reducing the restrictions on grants to prime sponsors would also reduce the ability of Congress to ensure that certain national objectives are addressed. For example, youths may be underserved by prime sponsors if there is no youth setaside, especially if the performance standards used by the Department of Labor stress job placement rates. Consolidation of funding for youth and adult programs would require recognition in the performance standards

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8. CETA-Vocational Education Coordination (U.S. Conference of Mayors, January 1981), p. 7.

9. Funds previously allocated to separate programs under Title IV-A can now be used for either of the programs (YETP or YCCIP). Further, prime sponsors are permitted to use up to 20 percent of the funds allocated for Title IV-A programs for Title IV-C (SYEP) programs instead, and vice versa.

10. A number of different programs were initially authorized in 1977 under Title IV-A by the Youth Employment Demonstration Projects Act for the purposes of experimentation and knowledge development. The legislative language indicated that eventual consolidation was intended [P.L. 95-524, Title I, Section 127(c)].

that job placement is not always the only successful, or even the best immediate outcome for disadvantaged youths. Return to school, acceptance into a skill-training program, or measurable improvement in literacy might be equally appropriate measures of success.[11]

Mandated requirements for education or training may be necessary to offset other factors that lead prime sponsors to emphasize work experience programs over classroom and on-the-job training, even though the latter are ultimately more successful at increasing employability for youths. According to one study, the planning and monitoring systems in CETA are so structured that prime sponsors see only the immediate post-program results and not the long-term impact of employment and training assistance. For this reason, and also because of CETA's history of policy reversals and funding uncertainty, programs are geared to short-term palliative goals rather than to quality training. The greater gains in employability from classroom training are generally not apparent until several months after termination--and prime sponsors generally do not track participants for that long. The higher placement rate resulting from on-the-job training (OJT) is apparent immediately, but prime sponsors have difficulty in marketing OJT to employers--a difficulty that is compounded by federal regulations.[12] On the other hand, mandated requirements for education or training might mean that fewer program participants could be

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11. S. 2036, introduced by Senators Quayle, Kennedy, Hawkins, and Pell in the second session of the 97th Congress, would consolidate all locally administered training programs into a single grant to states. The proposal provides for a youth setaside and for separate performance standards for youth and adult participants. Under the proposal, stipends for program participants would be eliminated, except for modest sums offered as a reward to those who have successfully completed parts of the program. The proposal would allow trainees to be placed with private employers for a tryout period of fully subsidized employment. Funds would be allocated to the states in proportion to their share of long-term unemployed and economically disadvantaged persons; states would be required to distribute funds among service delivery areas in proportion to each area's share of economically disadvantaged persons.

12. See Taggart, A Fisherman's Guide, p. 299.