

# EFFECTS OF ELIMINATING PUBLIC SERVICE EMPLOYMENT

*Staff Working Paper*

June 1981



**CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, D.C.**

EFFECTS OF ELIMINATING  
PUBLIC SERVICE EMPLOYMENT

The Congress of the United States  
Congressional Budget Office

---

NOTE

Unless otherwise indicated, all years referred to in this report are fiscal years.

---

---

PREFACE

---

The Administration's proposal to eliminate all federal funding for public service employment (PSE) by the end of 1981 has focused Congressional attention on the effects of implementing this proposal. On June 25 and 26, the Senate and House passed reconciliation bills that adopted the Administration's proposal; however, this paper was written before these bills passed. Prepared at the request of the Senate Budget Committee, the paper analyzes the effects of eliminating PSE on persons holding the jobs and thus on revenues and expenditures in other federal programs. The paper also examines how well the Congressional effort to target more PSE jobs on the economically disadvantaged has succeeded, since this in part determines the overall effects of eliminating PSE on the federal budget. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analysis, the paper offers no recommendations.

Effects of Eliminating Public Service Employment was written by Maureen A. McLaughlin of the CBO's Human Resources and Community Development Division under the supervision of David A. Longanecker, G. William Hoagland, and Nancy M. Gordon. Many persons within the CBO, including George Iden, Charles Seagrave, and Patricia Ruggles, contributed by reviewing the manuscript. John Engberg provided computer assistance. In addition many persons outside the CBO provided helpful comments and information, including Richard Hobbie and Kevin Hollenbeck. Francis Pierce edited the manuscript. Jill Bury and Ann McDonald-Houck typed several drafts of the paper. Jill Bury also prepared the paper for publication.

June 1981

Alice M. Rivlin  
Director



---

CONTENTS

---

	<u>Page</u>
SUMMARY . . . . .	ix
CHAPTER I. INTRODUCTION . . . . .	1
CHAPTER II. EFFECTS OF ELIMINATING PSE ON PARTICIPANTS AND ON THE FEDERAL BUDGET . . . . .	3
Effects of Eliminating PSE on Current and Potential PSE Participants . . . . .	4
Effects of Eliminating PSE on the Federal Budget . . . . .	6
Other Factors . . . . .	10
CHAPTER III. THE EFFECTIVENESS OF LEGISLATED CHANGES IN ELIGIBILITY FOR PSE JOBS . . . . .	13
How PSE Programs Have Evolved . . . . .	13
Changes Before the 1978 CETA Reauthorization . . . . .	14
Changes in the 1978 CETA Reauthorization . . . . .	18
Differences Between Participants and Persons Eligible for PSE Jobs . . . . .	21
-----	
APPENDIX A. ESTIMATION PROCEDURES . . . . .	27
Selecting and Enriching the Data Base . . . . .	27
Simulating PSE Eligibility and Participation . . . . .	29
Estimating the Effects of Eliminating PSE in 1980 . . . . .	30
Estimating the Effects of Eliminating PSE in 1981 and 1982 . . . . .	30
APPENDIX B. CETA PSE PROGRAMS AND ELIGIBILITY CRITERIA: BEFORE AND AFTER THE 1978 REAUTHORIZATION . . . . .	31
APPENDIX C. THE 1978 CETA REAUTHORIZATION CHANGES IN THE PSE PROGRAMS . . . . .	35



---

TABLES

---

	<u>Page</u>
TABLE 1. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, IN 1981 . . .	7
TABLE 2. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, IN 1982 . . .	8
TABLE 3. PERCENT DISTRIBUTION OF CHARACTERISTICS OF PERSONS ELIGIBLE FOR CETA PSE PROGRAMS UNDER THE ELIGIBILITY CRITERIA BEFORE THE 1978 CETA REAUTHORIZATION . . . . .	17
TABLE 4. PERCENT DISTRIBUTION OF CHARACTERISTICS OF ALL PERSONS ELIGIBLE FOR CETA PSE PROGRAMS UNDER THE ELIGIBILITY CRITERIA BEFORE AND AFTER THE 1978 CETA REAUTHORIZATION . . . . .	20
TABLE 5. PERCENT DISTRIBUTION OF CHARACTERISTICS OF NEW ENROLLEES IN CETA PSE PROGRAMS BEFORE AND AFTER THE 1978 CETA REAUTHORIZATION . . . . .	22
TABLE 6. PERCENT DISTRIBUTION OF CHARACTERISTICS OF THOSE ELIGIBLE FOR PSE JOBS, EMPLOYMENT SERVICE APPLICANTS, AND PARTICIPANTS IN PSE PROGRAMS . . .	24
-----	
TABLE A-1. MAJOR ECONOMIC INDICATORS FOR 1980 . . . . .	28
TABLE B-1. SUMMARY OF CETA PSE PROGRAMS, 1973-1978 . . . . .	32
TABLE B-2. ELIGIBILITY DEFINITIONS FOR CETA PSE PROGRAMS . . .	33



---

## SUMMARY

---

This paper addresses two interrelated issues. The first concerns the extent to which eliminating public service employment (PSE) authorized under the Comprehensive Employment and Training Act (CETA) would reduce participants' incomes and, consequently, decrease federal tax revenues and increase spending for other federal benefit programs. The second focuses on how well a major Congressional objective--increasing the proportion of PSE jobs held by the economically disadvantaged--has been achieved. The two issues are integrally related since the extent to which the Congress has been able to target the PSE programs on specific segments of the population directly affects the impact on the federal budget of eliminating them. The principal findings are:

- o Persons losing their PSE jobs would experience income losses of between 35 and 50 percent of the cost of the PSE jobs in 1982.
- o The secondary effects on the federal budget--decreased tax revenues and increased spending on other assistance programs--could initially be as high as 29 percent of the federal cost of providing PSE jobs, but in the long run they could be as low as 7 percent.
- o Congressional changes in eligibility criteria designed to target PSE jobs toward the economically disadvantaged have increased the proportion of disadvantaged participants, although the most disadvantaged groups generally do not obtain PSE jobs in proportion to their numbers in the eligible population.
- o If participants were representative of the total eligible population, the increased spending on public assistance and food stamp programs resulting from eliminating PSE jobs would be twice as large as currently estimated.

EFFECTS OF ELIMINATING PSE ON PARTICIPANTS  
AND ON THE FEDERAL BUDGET

The Administration has proposed eliminating all PSE jobs by the end of 1981--approximately 120,000 jobs in 1981, and 310,000 jobs in 1982 compared with policies in the December 1980 resolution for continuing appropriations. In addition both the Senate and House recently passed reconciliation bills that would eliminate all federal funding for PSE jobs in 1982. Eliminating PSE would reduce total earnings of PSE participants and some would become eligible for other forms of federal assistance. Consequently, the reductions in direct spending for PSE would be partly offset by decreased tax revenues and increased spending for benefits such as public assistance, food stamps, and Unemployment Insurance (UI).

Effects on Participants

Eliminating PSE jobs would reduce employment for current and potential future participants, but the associated loss in their income would be less than the savings in program costs. The net loss in their incomes in 1982 would be between 35 and 50 percent of the federal cost of providing PSE jobs--between \$1.2 billion and \$1.8 billion. Several factors, more than one of which may affect the same PSE job loser, would contribute to this result:

- o Wages for participants make up only 70 percent of the total cost of the PSE programs. The remaining 30 percent represents fringe benefits, and administrative and training costs.
- o Some persons would obtain other jobs, about one-third soon after leaving PSE jobs and another one-third within a year.
- o Up to 50 percent of those losing PSE jobs would receive UI benefits to replace part of their lost wages.
- o Increased benefits from public assistance programs--Aid to Families with Dependent Children (AFDC) and state general assistance (GA)--would partially replace lost wages for 15 percent of the job losers.
- o Increased food stamp benefits would partially offset lost wages for almost 30 percent of the job losers.

- o About 10 percent of all persons would obtain neither other employment nor other benefits.

### Effects on the Federal Budget

Eliminating all PSE jobs would reduce federal spending on PSE by \$1.2 billion in 1981, and \$3.6 billion in 1982 compared with policies in the December 1980 resolution for continuing appropriations. In 1981, the savings in direct federal spending would be reduced by 16 to 29 percent because of decreased tax revenues and increased spending for other programs, resulting in a net federal savings of between about \$0.9 billion and \$1.0 billion (see Summary Table 1). In 1982 and beyond, these secondary budget effects would decline to between 7 and 14 percent of the federal cost of the PSE programs, resulting in a net federal savings of between about \$3.1 billion and \$3.3 billion. The range in estimates is caused by the uncertainty surrounding the future of the PSE participants--how many would remain employed in essentially the same jobs but with their wages paid by state and local governments, how many would find other jobs, and how many would receive UI benefits.

In both 1981 and 1982, the effects of eliminating PSE jobs on tax revenues and on spending for public assistance and food stamps--measured as percents of the federal cost of providing PSE jobs--would be the same. In each year, the tax revenue effect would comprise approximately 70 percent of these effects on the federal budget. Specifically, federal tax revenues would decline by between 7 and 10 percent of the federal cost of PSE, whereas federal spending for public assistance and food stamps would increase by 3 to 4 percent. In addition, state and local spending for public assistance would increase by 2 percent of the federal cost of providing PSE jobs.

The major difference between the 1981 and 1982 secondary budget effects of eliminating PSE jobs is a result of spending for UI benefits. In 1981, up to 50 percent of all persons losing their jobs would initially receive UI benefits. This would increase spending for UI benefits by between 6 and 14 percent of the federal cost of PSE. Many of these people will be eligible for UI solely as the result of having held PSE jobs. By 1982, therefore, eliminating PSE jobs would have the reverse effect. Since no one would be able to gain eligibility for UI by having PSE jobs, federal spending for UI benefits in 1982 would decline by between 0.5 and 3 percent of the federal cost of PSE jobs.

SUMMARY TABLE 1. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, AS A PERCENT OF DIRECT FEDERAL SAVINGS, 1981 AND 1982

	Secondary Budget Effect			
	1981		1982	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Public Assistance	1.1	1.7	1.1	1.7
Food Stamps	1.7	2.7	1.7	2.7
Unemployment Insurance	6.4	14.4	-2.8	-0.5
Payroll Taxes	3.7	5.8	3.7	5.8
Income Taxes	<u>2.9</u>	<u>4.6</u>	<u>2.9</u>	<u>4.6</u>
Total, Secondary Budget Effect (As a percent of direct federal savings)	15.8	29.2	6.6	14.3
-----				
Direct Federal Savings (In millions of dollars)	1,227		3,567	
Net Federal Savings (In millions of dollars)	1,033	869	3,332	3,057

SOURCE: See Tables 1 and 2.

EFFECTS OF LEGISLATIVE CHANGES IN PSE

Because the PSE programs provide enough jobs to serve less than 5 percent of the eligible population, participants may not represent exactly the group that the Congress intended to aid. Although the Congress can restrict eligibility for PSE jobs to economically disadvantaged groups, it cannot control who will apply for PSE jobs or who will be hired.

The Congress has attempted twice--in 1976 and 1978--to focus the CETA PSE programs more heavily on economically disadvantaged groups, largely by changing the eligibility criteria. The 1976 effort was not particularly successful because the more restrictive eligibility requirements applied only to a portion of the jobs. Even though newly-eligible persons were more disadvantaged, on average, than those who had previously been eligible, there was little change in the overall characteristics of the total eligible population or the participants. The recent efforts in the 1978 CETA reauthorization were more successful, however, because they

SUMMARY TABLE 2. CHARACTERISTICS OF ALL PERSONS ELIGIBLE FOR CETA PSE PROGRAMS BEFORE AND AFTER THE 1978 CETA REAUTHORIZATION

	Before	After
Total (in thousands)	24,529	13,402
-----		
Percent Distribution		
Members of Families Receiving Transfer Payments		
Public Assistance	32.9	86.2
Public Assistance or Food Stamps	42.4	90.9
Receiving Unemployment Insurance Benefits	35.2	16.4
Sex		
Male	45.2	35.8
Female	54.8	64.2
Race		
White	69.7	58.0
Nonwhite	30.3	42.0
-----		
Average Family Income (In 1980 dollars)	\$16,828	\$9,114

SOURCE: See Tables 3 and 4.

substantially decreased the size of the eligible population and required that all PSE jobs be filled by persons meeting more restrictive eligibility criteria (see Summary Table 2). As a result, the proportion of disadvantaged participants increased significantly (see Summary Table 3).

SUMMARY TABLE 3. PERCENT DISTRIBUTION OF CHARACTERISTICS OF PARTICIPANTS BEFORE AND AFTER THE CETA 1978 REAUTHORIZATION

	Before	After
Members of Families Receiving Transfer Payments		
Public Assistance	21.8	29.6
Food Stamps	25.1	35.5
Receiving Unemployment Insurance Benefits	24.2	20.5
Sex		
Male	62.9	51.7
Female	37.1	48.3
Race		
White	69.4	54.1
Nonwhite	30.6	45.9
-----		
Median Family Income (In 1980 dollars)	6,917	5,954

SOURCE: See Table 5.

Although the proportion of disadvantaged participants increased after the 1978 changes, the most disadvantaged groups generally remain underrepresented in the programs in comparison to the population eligible for PSE jobs. For example, although women in families receiving public assistance represent about 60 percent of all eligible persons, they account for only 20 percent of all PSE participants. This underrepresentation occurs for two reasons: this group appears less likely to apply for jobs--they are often single parents of young children--and, when they do apply, it seems that they are less likely to be hired.

Although this paper deals exclusively with the PSE programs, the analysis in it may be useful in examining proposals to modify other programs. The Administration has proposed dramatic changes for many federal programs--in education, health, and local economic development, for example--that would give substantially greater control over use of federal funds to state and local governments. It is difficult to assess the likely effects of adopting these proposals, since they would depend entirely on the state and local governments' responses. Some evidence may be gained, however, from a study of how these governments have exercised discretion in administering previous programs. Consequently, the analysis of participation in the PSE programs presented in this paper may help the Congress in its consideration of proposals in other areas.



---

CHAPTER I.           INTRODUCTION

---

The Administration has proposed eliminating all federal funding to state and local governments for public service employment (PSE) authorized under Titles II-D and VI of the Comprehensive Employment and Training Act (CETA). Both the Senate and House recently passed reconciliation bills that adopt the Administration's proposal. This action would eliminate approximately 310,000 PSE jobs in 1982 and reduce PSE spending by \$3.6 billion, compared with policies in the December 1980 resolution for continuing appropriations.

The PSE programs currently provide federal funds through block grants to state and local governments to pay most of the costs of jobs for low-income persons. Of all PSE jobs, about two-thirds are in state and local government agencies and one-third are in nonprofit organizations. The characteristics of these jobs have varied since the beginning of the programs, but now they are relatively low-paid since the legislated average wage in 1980 was about \$3.70 an hour. In addition to increasing the incomes of participants and providing additional public services, these jobs may facilitate participants' abilities to find private-sector jobs in the future.

This paper examines two aspects of the CETA PSE programs:

- o First, the paper estimates the net impact on the federal budget of terminating the PSE programs. This analysis describes who will be affected by termination of the PSE programs and answers the immediate question of what actual federal savings could be expected if the programs were eliminated.
- o Second, the paper examines how the Congress has changed eligibility for PSE jobs and how the state and local governments that administer the programs have exercised the discretion available to them in selecting employees. This analysis may help in understanding how state and local governments might exercise greater discretion in programs outside the employment area if it was provided to them.

Chapter II analyzes the net effect on the federal budget of eliminating all PSE jobs. Eliminating them would save the direct costs of the programs, but would also reduce employment opportunities and earnings for both current and potential future participants thereby decreasing tax revenues and increasing spending on other federal programs, such as public assistance, food stamps, and Unemployment Insurance. Chapter III examines the effectiveness of various legislative changes in the PSE eligibility criteria that were designed to focus the programs more heavily on the economically disadvantaged.

---

CHAPTER II. EFFECTS OF ELIMINATING PSE ON PARTICIPANTS AND ON THE  
FEDERAL BUDGET

---

Under the December 1980 resolution for continuing appropriations, funds were available to support approximately 310,000 public service employment (PSE) jobs in 1981. This number of jobs would employ approximately 535,000 persons, each for an average of about seven months, and would cost approximately \$3.2 billion in 1981. Maintaining this same number of jobs in 1982 would cost \$3.6 billion.

The Administration has proposed eliminating all federal funding for PSE authorized under the Comprehensive Employment and Training Act (CETA) by the end of 1981. Adopting this proposal, the Congress reduced 1981 PSE funding by approximately \$840 million.<sup>1</sup> In addition, both the House and Senate recently passed reconciliation bills that eliminate authorization for all PSE jobs in 1982.

To accomplish the proposed phase-out of the programs, the Administration instituted a hiring freeze for all PSE jobs in March 1981 and reduced funding allotments for existing PSE positions. By the end of May 1981, the number of people holding PSE jobs had declined from 307,000 to approximately 131,000 from a combination of natural attrition, layoffs, and firings.

Eliminating PSE jobs reduces employment for persons currently holding jobs and removes employment opportunities that future participants would have had. This chapter examines what would happen to these persons and provides estimates of the resulting impact on the federal budget--through reduced tax receipts and increased spending on other programs--in 1981 and 1982. The last section discusses various factors--such as changing economic conditions and modifications of other federal programs--that would affect these estimates.

- 
1. These reductions include a \$607 million deferral of Title II-D funds and a \$234 million rescission of Title VI funds. The deferred Title II-D funds are to be used in 1982 for employment and training programs funded under Title II-B,C of CETA. The Administration has also set aside \$245 million of PSE funds for Unemployment Insurance (UI) payments for persons losing their jobs.

EFFECTS OF ELIMINATING PSE ON CURRENT AND POTENTIAL  
PSE PARTICIPANTS

Eliminating PSE would result in a net loss of income for current PSE participants and potential future participants of between about 35 and 50 percent of the federal cost of the PSE programs in 1982.<sup>2</sup> This income loss would amount to between \$1.2 and \$1.8 billion, or between \$2,300 and \$3,300 per participant.

Three main factors account for the fact that participants' losses would be less than the cost of the PSE jobs:

- o Participants' wages represent only a portion of federal funding for PSE;
- o In the absence of PSE, some participants would find other jobs or remain in essentially the same jobs with funding from state and local governments; and
- o Some of the loss in PSE wages would be replaced by increased benefits from other programs.

Approximately 70 percent of all PSE funds represent wages for participants. The remaining 30 percent consist of 10 percent for fringe benefits and 20 percent for administrative and training costs. The loss of fringe benefits--for example, health insurance--might affect participants, but data limitations precluded incorporating their value in the analysis.

One-third of all persons leaving PSE jobs would find other employment immediately, and by the end of the first year another one-third would probably find jobs.<sup>3</sup> Some of these jobs would be

- 
2. The income measure used here includes food stamp benefits since they increase families' available resources even though they are not money payments.
  3. These estimates are based on data concerning previous PSE participants who left the programs. The fractions could increase if additional efforts were made to find jobs for persons leaving PSE jobs. On the other hand, however, they could decrease since large numbers of persons would be losing their jobs simultaneously at a time when unemployment is already relatively high.

in the private sector. In other cases, state and local governments would substitute their own funds and continue essentially the same jobs. The extent to which state and local governments would continue to employ people now holding PSE jobs--often called fiscal substitution--accounts for much of the uncertainty associated with estimating the effects of eliminating PSE. Unfortunately, there are no firm estimates of fiscal substitution for the current programs. The range of estimates provided in this analysis is based on two levels of assumed fiscal substitution--20 and 50 percent.<sup>4</sup>

One of the federal programs from which those losing PSE jobs would receive benefits is Unemployment Insurance (UI). The Department of Labor estimates that up to 50 percent of PSE participants would receive UI benefits at the time of their termination. On average, each person would receive approximately \$1,600. Consequently, the Administration's proposal would increase the cost of the UI program in 1981. The effect in 1982, however, would be the reverse--the cost of the UI program could actually be less than if the PSE programs were continued. Two factors contribute to the reversal. First, many PSE job losers would have exhausted their UI benefits. Second, some persons employed in PSE jobs acquire eligibility to receive UI benefits in the future. To the extent that PSE jobs were eliminated in 1981, this means of gaining eligibility for UI benefits would no longer exist, and there would be fewer UI beneficiaries in 1982.

Of the 30 percent of the PSE participants who are members of families receiving public assistance--Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and state general assistance (GA)--about half would receive increased payments upon losing their jobs. Part of the reason that only half would receive more is that approximately one-third are not actually members of the filing unit whose income affects the

---

4. These estimates are based on levels of fiscal substitution during previous PSE programs with assumed reductions due to the 1978 changes in the PSE programs and current levels of state and local government funding. For the earlier programs, estimates varied widely, but the weight of evidence suggested a range of 50 to 60 percent. For a summary and critique of previous fiscal substitution estimates, see U.S. Department of Labor, The Implications for Fiscal Substitution and Occupational Displacement Under an Expanded CETA Title VI (March 1979).

benefit amounts, so that losing PSE wages would not affect the family's public assistance benefits.<sup>5</sup> In addition, some PSE participants would secure other jobs at similar wages; hence, their public assistance benefits would be unaffected.

Of the PSE participants losing their jobs, almost 30 percent would have some of their loss in income made up by food stamp benefits. Specifically, 17 percent of all PSE job losers would start receiving food stamps and 12 percent (who had been receiving them while holding their PSE jobs) would receive increased benefits.

Finally, approximately 10 percent of PSE job losers are not expected to find other jobs or to receive any type of federal benefits to replace their lost wages during the following year. In other words, they would lose, on average, \$4,700 in PSE wages in 1981.<sup>6</sup>

#### EFFECTS OF ELIMINATING PSE ON THE FEDERAL BUDGET

Eliminating all PSE jobs would reduce federal funding for Titles II-D and VI by \$1.2 billion in 1981 and \$3.6 billion in 1982, but these savings would be offset by secondary budget effects--decreased tax revenues and increased spending on other federal benefit programs. In 1981, the secondary federal budget effects would amount to between 16 and 29 percent of the federal cost of providing PSE jobs--resulting in a net federal savings of between \$0.9 billion and \$1.0 billion (see Table 1). In 1982 and beyond, the federal PSE savings would be reduced to between 7 and 14 percent--resulting in net federal savings of between \$3.1 billion and \$3.3 billion (see Table 2). These secondary budget effects are calculated as a percent of the federal cost of the programs. If, instead, they were computed as a percent of federal PSE wages--thereby excluding fringe benefits and administrative costs--they would range from 23 to 42 percent in 1981 and from 9 to 20 percent in 1982.

- 
5. For example, children over 18 years of age could be part of a family receiving AFDC benefits, but they would not be included in the AFDC filing unit since they are over the maximum eligible age. Therefore, if one of the children over age 18 lost a PSE job, the family's AFDC benefit would be unaffected.
  6. This figure refers to average earnings for seven months of employment.

TABLE 1. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, IN 1981

	Secondary Budget Effect			
	Lower Bound <sup>a</sup>	As a Percent of Direct Federal Savings	Upper Bound <sup>b</sup>	As a Percent of Direct Federal Savings
	Millions of Dollars		Millions of Dollars	
Public Assistance	13	1.1	21	1.7
Food Stamps	21	1.7	33	2.7
Unemployment Insurance	79	6.4	177	14.4
Payroll Taxes <sup>c</sup>	45	3.7	71	5.8
Income Taxes <sup>c</sup>	<u>36</u>	<u>2.9</u>	<u>56</u>	<u>4.6</u>
Total, Secondary Budget Effect	194	15.8	358	29.2
Direct Federal Savings <sup>d</sup>	1,227		1,227	
Net Federal Savings <sup>e</sup>	1,033		869	

SOURCE: CBO estimates from the Census Bureau's March 1978 Current Population Survey, modified to represent 1980.

- a. Based on 50 percent substitution and 20 percent participation in the Unemployment Insurance (UI) program after leaving PSE.
- b. Based on 20 percent substitution and 50 percent participation in the UI program after leaving PSE.
- c. These figures represent a reduction in tax revenues.
- d. Direct federal savings are reductions in direct spending for PSE jobs. This estimate assumes that the phase-out implemented by the Administration--which had reduced the number of PSE jobs to 131,000 by the end of May 1981--will continue so that no jobs will remain at the end of 1981.
- e. Net federal savings are direct PSE savings adjusted for changes in other federal tax and transfer programs.

TABLE 2. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND TAX REVENUES, IN 1982

	Secondary Budget Effect			
	Lower Bound <sup>a</sup>		Upper Bound <sup>b</sup>	
	Millions of Dollars	As a Percent of Direct Federal Savings	Millions of Dollars	As a Percent of Direct Federal Savings
Public Assistance	39	1.1	61	1.7
Food Stamps	61	1.7	96	2.7
Unemployment Insurance <sup>c</sup>	-100	-2.8	-18	-0.5
Payroll Taxes <sup>d</sup>	132	3.7	207	5.8
Income Taxes <sup>d</sup>	<u>103</u>	<u>2.9</u>	<u>164</u>	<u>4.6</u>
Total, Secondary Budget Effect	235	6.6	510	14.3
Direct Federal Savings <sup>e</sup>	3,567		3,567	
Net Federal Savings <sup>f</sup>	3,332		3,057	

SOURCE: CBO estimates from the Census Bureau's March 1978 Current Population Survey, modified to represent 1980.

- a. Based on 50 percent substitution and 50 percent participation in the Unemployment Insurance (UI) program after leaving PSE.
- b. Based on 20 percent substitution and 20 percent participation in the UI program after leaving PSE.
- c. Previous estimates of the secondary budget effects associated with eliminating PSE jobs did not take into account the fact that holding a PSE job generates eligibility for future UI benefits. If this effect were excluded from the current estimates, increased expenditures for UI benefits would be between 1.4 and 2.2 percent of the cost of PSE jobs.
- d. See Table 1, footnote c.
- e. Direct federal savings are reductions in direct spending for PSE jobs. This estimate assumes that an annual average of 310,000 PSE jobs would be totally eliminated.
- f. See Table 1, footnote e.

Many policymakers have been surprised that the secondary budget effects--especially increased spending on other programs--are not larger. These effects are determined by what actually happens to the incomes of PSE job losers, rather than by the characteristics of persons eligible for PSE.<sup>7</sup> For example, persons holding PSE jobs are less likely to be eligible for AFDC than persons in the total population eligible for PSE. Had the group actually employed in PSE jobs been representative of the total eligible population, the estimated increases in federal spending for public assistance and food stamps resulting from eliminating PSE jobs would have been twice as large.

#### Effects in 1981

Eliminating all PSE jobs would reduce federal tax revenues in 1981 by between \$81 million and \$127 million, or between 7 and 10 percent of the federal cost of the PSE programs. Approximately 55 percent of this revenue loss would consist of forgone employee and employer Social Security contributions, and the remainder would be forgone income taxes.

Spending for UI benefits would increase by between \$79 and \$177 million, or between 6 and 14 percent of the federal cost of the PSE programs.<sup>8</sup> Approximately 20 percent of current PSE workers could have received UI benefits based on earlier employment and, for some of this group, eligibility would continue if they lost their PSE jobs. In addition, some participants would have become newly eligible for UI as a result of being employed in PSE jobs.

Federal spending for public assistance and food stamps would increase by between \$34 million and \$54 million, or between about 3 and 4 percent of the federal cost of the PSE programs.<sup>9</sup> State

- 
7. See Chapter III for a discussion of the differences between the eligible population and those who actually hold PSE jobs.
  8. Estimates of the effect of the Administration's proposal on UI spending in 1981 (and in 1982) include all UI benefits for people losing their jobs in that year, even though some of the benefit payments may occur in the following year.
  9. All estimates assume that appropriations will be sufficient for full funding of the food stamp program. However, since this program is subject to the appropriations process, the Congress could choose to appropriate less.

and local spending for public assistance would increase by about \$25 million, or approximately 2 percent of the program cost.

#### Effects in 1982

Eliminating all PSE jobs would have the same relative effects on tax revenues and on spending for public assistance and food stamps in 1982 as in 1981, but as noted earlier, spending for UI benefits would decline in 1982. Specifically, federal revenues would decrease by between \$235 and \$371 million and federal spending for public assistance and food stamps would increase by between \$100 and \$157 million. State and local expenditures for public assistance would increase by about \$70 million. Spending for UI benefits would decrease by between \$18 and \$100 million, between approximately 0.5 and 3 percent of the cost of the PSE jobs.

#### OTHER FACTORS

Several other factors affect the estimates provided in this analysis.<sup>10</sup> They include uncertainty associated with future economic conditions, possible long-term effects on participants' earnings, increased expenditures in federal programs that could not be considered in the analysis, and potential legislative changes to income assistance programs and the tax system.

Economic conditions influence the size of the decline in tax revenues and the increase in spending for other programs that would occur if PSE were eliminated. The estimates presented in this analysis could understate the secondary budgetary effects of eliminating PSE because the estimates are based on economic assumptions that may not totally reflect the situation now or in the future: both unemployment and inflation are currently higher than assumed in the analysis. On the other hand, if the economy improves substantially--as the Administration forecasts--then the estimates could overstate the secondary budgetary effects. On the revenue side, for example, both payroll and income tax receipts would be less than estimated above if PSE job losers were less able to obtain other jobs than expected--a likely event if

---

10. See Appendix A for a discussion of estimation methods and a comparison of the economic assumptions used in the analysis, the actual levels in 1980, and the current CBO projections for 1981 and 1982.