[COMMITTEE PRINT]

PHASING DOWN ANTIRECESSION PROGRAMS: FISCAL YEAR 1979 BUDGET ISSUES

COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES

PREPARED BY THE STAFF

OF THE

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LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C., October 5, 1978.

To the Members of the Congress:

Transmitted herewith is "Phasing Down Antirecession Programs: Fiscal Year 1979 Budget Issues," a study prepared at my request by the Congressional Budget Office.

The Congress responded to the high unemployment levels of the past several years with a variety of measures: tax cuts, countercyclical assistance, expanded public service employment, accelerated public works, and extended unemployment compensation. Most of these programs contain funding triggers, so that appropriations are authorized only when national and/or local unemployment rates reach given levels. While most attention was focused on the "on" triggers, I became concerned about the potential impact on local programs and budgets of the "off" triggers, under which funding is reduced or terminated. This study attempts to examine the impact on localities as antirecession programs are phased down, particularly those localities suffering from significant structural problems. The study also provides various options for funding trigger and allocation mechanisms to smooth the phasedown, to reorient programs to meet structural problems, and to target funds on areas and groups most in need of them.

Although the study focuses on the fiscal year 1979 budget, I believe it will remain useful as we consider fiscal year 1980 authorizations and appropriations.

Sincerely yours,

ROBERT N. GIAIMO, *Chairman.*

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Preface

In fiscal year 1979 the Congress may phase down many anti-recession programs enacted in response to the 1974–75 recession. This paper analyzes the implications of these possible phasedowns. The paper was requested by Chairman Giaimo of the House Budget Committee.

The paper was written by Richard A. Hobbie of the Congressional Budget Office's Human Resources division under the supervision of Robert D. Reischauer and David S. Mundel. Computer assistance was provided by Roger Winsby of Data Resources, Inc. Valuable comments were provided by many of the CBO staff, including Charles Betsey, Peggy Cuciti, Carol DeSilvio, George Iden, Cy Karr, Terry Nelson, June O'Neill, and Charles Seagrave. Other helpful comments were provided by Alair Townsend, Bob Cook, and Marc Freiman.

Patricia H. Johnston edited the manuscript. Norma Leake provided outstanding secretarial assistance during the entire project.

In accordance with the CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

ALICE M. RIVLIN, *Director.*

August 1978.

Summary

The Congress responded to the 1974–75 recession with new programs to stimulate the economy and alleviate hardship. These programs include public service employment, public works, antirecession fiscal assistance to State and local governments, extended unemployment insurance, and a jobs tax credit. They often designated State and local governments to administer the funds and used complex national, State, and local triggers, geographic allocation mechanisms, and individual eligibility criteria.

As the economy continues its recovery, antirecession programs are projected by CBO to decline. The administration, however, has proposed a redirection of some programs from temporary antirecession to longrun structural programs. These proposals and others may, in effect, phase down some programs by redesigning their program components. Therefore, the phasedown of antirecession programs may occur by the redesign of existing programs in addition to gradual decreases or terminations.

The Congress faces several antirecession program decisions:

- Public service employment under the Comprehensive Employment and Training Act (CETA) expires at the end of fiscal year 1978.
- Public works outlays decline as the projects funded with fiscal year 1977 appropriations are completed. The Job Opportunities Program has already triggered-off.
- Antirecession fiscal assistance expires at the end of fiscal year 1978.
- The jobs tax credit expires at the end of calendar year 1978.

Any phasedown of antirecession programs must take into account two factors. First, antirecession program outlays are quite large; about $9 billion is estimated to be spent in fiscal year 1979 by State and local governments in public service employment, public works, and antirecession fiscal assistance programs.[1] Second, although unemployment may have declined in many areas, serious problems persist in some jurisdictions. Consequently, phasing down antirecession programs could cause serious difficulties for some State and local governments.

Although the estimated fiscal year 1979 outlays in public service employment, public works, and antirecession fiscal assistance will probably be less than 4 percent of State and local government purchases of goods and services, some jurisdictions have become dependent on these funds. For example, a recent Treasury Department study indicated that, in 24 of the Nation's largest 48 cities, allocations from these programs amounted to at least 16 percent of revenues from their own sources.

[1] In fiscal year 1979, the jobs tax credit is assumed to expire, but CETA and antirecession fiscal assistance are assumed to be reauthorized.

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Dependence was partially fostered by the antirecession program funding formulas, which did not clearly distinguish between structural and recession-induced problems (see Summary Table 1). Structural problems persist in some areas, regardless of changes in the national unemployment rate; recession-induced problems change with the national unemployment rate. The antirecession program formulas, however, targeted funds on areas with high unemployment rates, instead of areas with substantial changes in unemployment rates. When antirecession programs are phased down, funds will be withdrawn from high unemployment rate areas whose unemployment rates may not have declined with the national unemployment rate.

SUMMARY TABLE 1.—SELECTED ANTIRECESSION PROGRAM FUNDING FORMULAS

Programs dimensions	CETA–II[1]	CETA–VI[1]	JOP[1]	PWEA–I[1]	PWEA–II[1]
Description	Public service employment	Public service employment	Labor-intensive public works projects.	Local public works, capital development, and investment.	Intergovernmental antirecession fiscal assistance.
National trigger	None	None	National unemployment rate must be at least 7 percent in most recent quarter.	None	National unemployment rate must be more than 6 percent in most recent quarter and most recent month.
State-local trigger	Unemployment rate must be at least 6.5 percent for 3 consecutive months in areas with at least 10,000 persons in residence.	None	CETA title II areas with unemployment rates of at least 7 percent.	An annual unemployment rate of at least 6.5 percent for 3 consecutive months in a governmental jurisdiction for 35 percent of the total funds.	Unemployment rate more than 4.5 percent in a governmental jurisdiction.
Geographic allocation mechanism.	An area's share of substantial unemployment as a percent of unemployment in areas of substantial unemployment.[2]	An area's share of: (1) total unemployment; (2) substantial unemployment; (3) unemployment in areas with unemployment rates above 4.5 percent.[2]	Areas with unemployment rates above the national average in the most recent calendar quarter receive 70 percent of the funds. Other criteria also considered.	An area's share in total unemployment is the basis for 65 percent of the total funds.	States get one-third and general purpose local governments get two-thirds of funds. A government's share of unemployment above 4.5 percent plus General Revenue Sharing formula is used.

[1] CETA—Comprehensive Employment and Training Act. JOP—Job opportunities program. PWEA—Public Works Employment Act. Roman numerals refer to the authorizing title in the relevant laws.

[2] An area of substantial unemployment is an area within a prime sponsor's jurisdiction: (1) which has a population of at least 10,000 persons; (2) which qualifies for a minimum allocation of $25,000 under CETA title I; (3) which has a rate of unemployment of at least 6.5 percent for a period of 3 consecutive months, as determined by the Secretary of Labor at least once each fiscal year; and (4) where such units comprising the area (census tracts, census divisions, cities, counties, etc.) are contiguous.

Some jurisdictions may cut services or increase taxes when they lose Federal funds from antirecession programs. Those jurisdictions that have the fiscal capacity to replace the withdrawn funds may not be affected adversely. Others, however, may be fiscally strained because of structural changes in their local economies. Some jurisdictions are suffering population declines, relative decreases in per capita income compared to the national average, and low growth in property values, while increasing tax burdens on their remaining residents. An antirecession program phasedown would exacerbate these trends.

When antirecession programs are phased down, those most targeted on fiscally strained jurisdictions will cause proportionately more damage. There are no well-accepted measures of State and local government fiscal strain, however. Unemployment rates are often used as rough proxies. The fiscal problems of State governments are related to changes in unemployment rates because their budgets are relatively sensitive to economic fluctuations. Local government fiscal problems are related more to levels of unemployment rates, because their budgets are relatively less sensitive to economic fluctuations and more sensitive to declines in population and economic activity.

The programs most directed at areas with high unemployment rates contain the least funds. Antirecession fiscal assistance is more targeted on areas with high unemployment rates than public works, which is followed by public service employment. The magnitudes of fiscal year 1979 outlays are in the reverse order, however, with about $6.2 billion in public service employment, $1.9 billion in public works, and $740 million in antirecession fiscal assistance. Thus, a phasedown of public service employment, for example, could damage fiscally strained jurisdictions because of the large amount of funds involved, despite the program's relatively smaller emphasis on high unemployment rates.

OPTIONS

Not phasing down antirecession programs would avoid damaging fiscally strained jurisdictions. However, antirecession programs are not well-designed to alleviate this longer run structural problem. Options emphasizing high local unemployment rates could lessen fiscal strain while simultaneously permitting a phasedown of antirecession programs in economically healthy areas.

Current policy phasedown options.—CBO's current policy outlay estimates assume no change in current tax law or expenditure policy and an economy in which the national unemployment rate declines from 6.0 percent to 4.6 percent during fiscal years 1979 through 1983. A continuation of current policy would result in a decrease of antirecession program outlays of $2.3 billion between fiscal years 1978 and 1979 (see Summary Table 2). The $1.6 billion decrease in extended unemployment insurance and the jobs tax credit would mainly affect areas with low unemployment rates. However, the $1.5 billion decrease in public works and antirecession fiscal assistance would disproportionately hurt areas with high unemployment rates, but this would be somewhat offset by an $0.8 billion public service employment increase that would be relatively less targeted on areas with high unemployment rates.

SUMMARY TABLE 2.—CURRENT POLICY PHASEDOWN IN FISCAL YEAR 1979 AND FISCAL YEAR 1980

(In millions of dollars)

Program	CBO current policy estimates, fiscal years		
	1978	1979	1980
Public service employment	5,429	6,203	5,323
Public works	2,813	1,920	620
Antirecession fiscal assistance	1,374	740	0
Extended unemployment insurance	1,447	465	350
Jobs tax credit	2,500	1,900	0
Total	13,563	11,228	6,293

Notes: Public service employment includes CETA titles II and VI.
Public works includes title I of the Public Works Employment Act and title X of the Public Works and Economic Development Act (Job opportunities program).
Antirecession fiscal assistance is authorized under title II of the Public Works Employment Act, as amended.
Extended unemployment insurance includes the extended benefits, special unemployment assistance, and Federal supplemental benefits programs.
See Congressional Budget Office, "Five-Year Budget Projections: Fiscal Years 1979-83," Technical Background (Washington: GPO, January 1978), pp. 61, 63-68, 87, and 103-105 for detailed program assumptions.

Phasedown with hold-harmless option.—A second option would be to proceed with a phasedown with "hold-harmless" funds available to lessen adverse effects on State and local government budgets. Hold-harmless funds could be provided to jurisdictions still experiencing economic or fiscal problems. These funds could be distributed on either a discretionary or formula basis. A formula could emphasize areas with high unemployment rates or declining population, employment, and relative per capita income. A precise amount of funds could not be estimated, but less than $1 billion would probably be needed in fiscal year 1979.

Redesign and reallocate option.—A third option would be to redesign existing programs to allocate funds toward longer run structural problems. This option would involve changes in the various program formulas that target funds on areas with high unemployment rates and declining population, employment, and relative per capita income. This approach would require no funds in addition to the $11.2 billion estimated in fiscal year 1979 under current policy and would probably not substantially hurt economically and fiscally distressed jurisdictions. The jurisdictions losing funds would probably have the fiscal capacities to replace Federal funds with their own revenues.

Administration's proposals.—The administration's proposals are a mixture of the current policy, hold-harmless, and redesign options. The administration proposes to:

- Maintain the existing 725,000 public service jobs (CETA titles II and VI), but distinguish structural from antirecession jobs beginning in fiscal year 1980 and link antirecession jobs to changes in the national unemployment rate;
- Create a new "soft public works" (short-term and labor-intensive) program of $1 billion in budget authority for each of three years beginning in fiscal year 1979, which would supplant the Job Opportunities Program and the local public works projects;
- Replace the current jobs tax credit with a $1.5 billion tax credit targeted on economically disadvantaged youth from 18 to 24 years old;
- Replace antirecession fiscal assistance with a $1 billion fiscal adjustment assistance program for local governments in distressed areas.

These proposals would phasedown, terminate, or redesign anti-recession programs in public service employment, public works, fiscal assistance, tax credits, and unemployment insurance. Because they would provide additional budget authority of $1 billion in fiscal year 1979 for "soft public works" and retarget funds on areas with high unemployment rates or declining population, employment, and relative per capita income, they probably would not adversely affect economically or fiscally distressed jurisdictions. Moreover, the fiscal adjustment assistance, soft public works, and jobs tax credit programs alone add $3.1 billion, which is more than 60 percent of the estimated current policy expenditure decrease in fiscal year 1980.

Chapter I

Introduction

In response to the 1974–75 recession, the Congress initiated various programs to alleviate economic hardship and stimulate the economy. In addition to general tax cuts, the following antirecession programs were enacted: Extended unemployment insurance, public service employment, public works, antirecession fiscal assistance to State and local governments, and a jobs tax credit. As the economy continues to recover through fiscal year 1978, the Congress will again face policy decisions on antirecession programs. Unlike the earlier decisions, however, the focus will be on the amendment, phasedown, or termination of previously enacted programs.

The current antirecession programs have several unique characteristics that distinguish them from many previous Federal programs to aid State and local governments: [1]

- State and local governments were often designated to administer the programs, instead of the Federal Government;
- "Triggers" were used to adjust funding levels automatically to national, State, and local unemployment rates and funds were distributed based on State and local area unemployment shares; and
- Individual eligibility criteria were used in some programs.

Although the new programs were used for antirecession purposes, their funding formulas had structural components. That is, many programs were targeted on areas with high unemployment rates and chronic problems, instead of areas with substantial changes in unemployment rates and problems exclusively attributable to the recession. This has created a future phasedown problem because many areas will continue to have high unemployment rates and persistent problems after the funds are withdrawn.

The problems created by a phasedown plan will affect State and local governments, the recipients of public services, and taxpayers. Although the economy has recovered substantially, some of these groups have become dependent upon antirecession programs for financial assistance and will argue for increased—or at least sustained—Federal spending. Some State and local governments will contend that they will be forced to increase taxes or cut services if a phasedown plan is adopted. Local property taxpayers will complain that they are overburdened and the recipients of the program benefits will fear the loss of their jobs or needed services in the community. Alternatively, others will argue that the economic recovery will eliminate any real burden that these groups may face during a phasedown.

The general phasedown problem will be faced in several specific decisions that the Congress must make regarding the future of antirecession programs. These include:

[1] Antirecession options were analyzed in two previous Congressional Budget Office reports: *Temporary Measures to Stimulate Employment* (September 1975) and *Short-Run Measures to Stimulate the Economy* (March 1977).

- The Comprehensive Employment and Training Act (CETA), which provides antirecession public service employment, expires at the end of fiscal year 1978. The administration has proposed a bill that would substantially change public service employment (H.R. 11086).
- The Job Opportunities Program (JOP) is not authorized below a quarterly national unemployment rate of 7 percent, but more funds could be appropriated for local public works projects under title I of the Public Works Employment Act (PWEA).
- Antirecession fiscal assistance (ARFA) expires at the end of fiscal year 1978. It is not authorized below a quarterly national unemployment rate of 6 percent, but the administration has proposed to change this provision under its new urban policy.
- The jobs tax credit expires at the end of calendar year 1978. The administration has proposed a new jobs tax credit that would be targeted on economically disadvantaged youth from 18 to 24 years old.

This paper analyzes the phasedown of antirecession programs. Chapter II reviews current antirecession program policy. Chapter III examines the regional economic context in which phasedown problems may occur. Chapter IV delineates several types of phasedown problems and Chapter V presents some options to alleviate these problems.

Chapter II

Current Antirecession Program Policy

The Response to the Recession

The 1974–75 recession began in the third quarter of calendar year 1974.[1] Real gross national product (GNP) declined from the first quarter of calendar year 1974 through the first quarter of 1975, while the unemployment rate jumped from 5.0 to 8.1 percent. Real GNP began to grow in the second quarter of calendar year 1975, but the unemployment rate persisted at levels above 6 percent.

While the economy was declining, the Federal budget automatically responded with decreases in tax collections from falling incomes and increases in outlays for various entitlement programs, such as the regular unemployment insurance (UI) program. In addition, there were pieces of antirecession legislation enacted by the Congress before the 1974–75 recession (Public Law 91–373, Public Law 92–54, and Public Law 92–224) (see table 1). This legislation, which was a response to the 1969–70 recession, extended the maximum duration of eligibility for regular UI recipients from 26 to 52 weeks and authorized the Public Employment Program (PEP) under the Emergency Employment Act. Ironically, PEP was being phased down in fiscal years 1975 and 1976, when the economy needed stimulation.

TABLE 1.—KEY LEGISLATION ENACTED IN RESPONSE TO THE TWO MOST RECENT RECESSIONS: 1969–70 AND 1974–75

Date enacted	Public Law	Title of program affected
Aug. 5, 1970	91–373	Federal-State Extended Unemployment Compensation Act (EB).
July 12, 1971	92–54	Emergency Employment Act (PEP).
Dec. 29, 1971	92–224	Emergency Unemployment Compensation Act (FSB).
Dec. 28, 1973	93–203	Comprehensive Employment and Training Act (CETA II).
Dec. 31, 1974	93–567	Emergency Jobs and Unemployment Assistance Act (CETA VI, JOP, and SUA).
Do	93–572	Emergency Unemployment Compensation Act (FSB).
June 30, 1976	94–45	Emergency Compensation and Special Unemployment Assistance Act (FSB and SUA).
July 22, 1976	94–369	Public Works Employment Act (PWEA I).
Oct. 1, 1976	94–444	Emergency Jobs Programs Extensions Act (CETA VI).
Oct. 12, 1976	94–487	Public Works and Economic Development Act Amendments (JOP).
Oct. 20, 1976	94–566	Unemployment Compensation Amendments (EB and SUA).
Apr. 12, 1977	95–19	Emergency Unemployment Compensation Extension Act (FSB).
May 13, 1977	95–28	Local Public Works and Capital Development and Investment Act (PWEA I).
Do	95–29	Economic Stimulus Appropriations Act (CETA II and VI; PWEA I and II).
May 23, 1977	95–30	Tax Reduction and Simplification Act of 1977 (JTC and PWEA II).

The New Antirecession Programs

The new programs enacted in response to the 1974–75 recession include public service employment (CETA titles II and VI), public works (JOP and PWEA title I), antirecession fiscal assistance (PWEA title II), unemployment insurance extended benefits program (UI–EB), and a jobs tax credit (JTC). They share a number of characteristics, which are listed in table 2. Three of the programs have national

[1] A recession is commonly identified after two consecutive quarters of negative percentage changes in real GNP.

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triggers, and six have State and/or local triggers. All of the programs have geographic allocation mechanisms, three of which are specifically targeted on the unemployed.

TABLE 2.—A COMPARISION OF ANTIRECESSION EXPENDITURE PROGRAMS

Programs dimensions	CETA–II	CETA–VI	JOP
Description	Public service employment.	Public service employment.	Labor-intensive public works projects.
Primary objective	To provide jobs to persons residing in areas of high unemployment.	To provide temporary jobs to persons during high unemployment.	To increase temporary or maintain employment in high unemployment areas.
National trigger	None	None	National unemployment rate must be at least 7 percent in most recent quarter.
State-local trigger	Unemployment rate must be at least 6.5 percent for 3 consecutive months in areas with at least 10,000 persons in residence.	None	CETA title II areas with unemployment rates of at least 7 percent.
Geographic allocation mechanism.	An area's share of substantial unemployment as a percent of unemployment in areas of substantial unemployment.[1]	An area's share of: (1) total unemployment; (2) substantial unemployment; (3) unemployment in areas with unemployment rates above 4.5 percent.[1]	Areas with unemployment rates above the national average in the most recent calendar quarter receive 70 percent of the funds. Other criteria also considered.
Individual eligibility criteria	Unemployed or underemployed.	Low-income, long-term unemployed and AFDC recipients.	None.

TABLE 2.—A COMPARISON OF ANTIRECESSION EXPENDITURE PROGRAMS—Continued

PWEA–I	PWEA–II	UI–EB	Jobs tax credit
Local public works, capital development, and investment programs.	Intergovernmental antirecession fiscal assistance.	Extended unemployment insurance benefits.	Marginal employment tax credit benefits.
To increase temporary local public works construction during high unemployment.	To provide funds to State-local governments to lessen procyclical budget changes.	To provide at most 13 additional weeks of unemployment compensation during high unemployment.	To provide a temporary tax reduction to firms that increase their payrolls during high unemployment.
None	National unemployment rate must be more than 6 percent in most recent quarter and most recent month.	National insured unemployment rate must be at least 4.5 percent in most recent 13-week period.	None.
An annual unemployment rate of at least 6.5 percent for 3 consecutive months in a governmental jurisdiction for 35 percent of the total funds.	Unemployment rate of more than 4.5 percent in a governmental jurisdiction.	An insured unemployment rate (UIR) the most recent 13-week period of either: (a) at least 5 percent; or (2) at least 4 percent plus 120 percent of the mos t recent 2-yr average IUR.[2]	An employer's UI-taxable wages must be more than 102 percent of the previous UI-taxable wages.
An area's share in total unemployment is the basis for 65 percent of the total funds.	States get one-third and general purpose local governments get two-thirds of funds. A government's share of unemployment above 4.5 percent plus general revenue-sharing formula is used.	Depends on the distribution of relatively high IUR's.	Depends on the distribution of employers who increased their UI-taxable wages by more than 102 percent.
None	None	Exhaustees of regular UI	Workers in UI-covered employment.

[1] See footnote 2 in text for a definition of "areas of substantial unemployment."
[2] The 2-yr average is calculated for the corresponding 13-week periods in the previous 2 yr.

Despite these broad similarities, the details of each program are quite different. Every trigger (national, State, and local) geographic allocation mechanism, and individual eligibility criterion is different. This diversity is not necessarily irrational or inefficient. Each program has several objectives and the program designs reflect tradeoffs made among them. For example, while CETA title VI was originally designed as an antirecession program, its individual eligibility criteria have a structural focus. It is targeted on low income, long-term unem-

ployed persons and Aid to Families with Dependent Children (AFDC) recipients. This excluded some cyclically unemployed persons with relatively high family incomes, and acts to ration the limited number of jobs (600,000) to persons suffering relatively more economic hardship.

Most of these programs are designed primarily to aid people in need, but fiscal relief to State and local governments is a side effect. Only antirecession fiscal assistance is specifically provided for fiscal relief, but public service employment and public works can also be used for this purpose. In contrast, extended unemployment insurance and the jobs tax credit do not provide funds to State and local governments.

Public Service Employment

Public service employment programs have provided Federal funds to subsidize temporary jobs in State and local governments. They have no national triggers, but are targeted partially on areas with high unemployment rates by State and local triggers and geographic allocation mechanisms.

The existing public service employment programs were initially authorized by title II of the Comprehensive Employment and Training Act of 1973 (CETA; Public Law 93–203). It was then considered to be a structural program for unemployed and underemployed persons residing in "areas of substantial unemployment." [2] It was structural in the sense that funds were targeted on areas with high rates of unemployment. A local unemployment trigger rate of at least 6.5 percent was necessary to qualify small areas for funds. Although the national annual average unemployment rate exceeded 6.5 percent in only 2 of the 20 years preceding CETA, it was expected that some areas would qualify regardless of the national unemployment rate. Presumably, the persons suffering the most severe labor market problems resided in these areas.

CETA title VI was created as an antirecession program by the Emergency Jobs and Unemployment Assistance Act of 1974 (Public Law 93–567). It was later amended by the Emergency Jobs Programs Extension Act of 1976 (Public Law 94–444). Eligibility was originally limited to unemployed and underemployed persons, but the amendments revised these criteria to include low-income persons who were unemployed at least 15 weeks or AFDC recipients or had exhausted their unemployment insurance. Although the more structurally oriented individual eligibility criteria were used, the original title VI allocation formula remained. This formula distributes funds geographically based on the following allocation factors:

- Fifty percent of available funds on the area's share of total unemployment;
- Twenty-five percent of available funds on the area's share of substantial unemployment; [3] and

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[2] An area of substantial unemployment is an area within a prime sponsor's jurisdiction: (1) which has a population of at least 10,000 persons; (2) which qualifies for a minimum allocation of $25,000 under CETA title I; (3) which has a rate of unemployment of at least 6.5 percent for a period of 3 consecutive months, as determined by the Secretary of Labor at least once each fiscal year; and (4) where such units comprising the area (census tracts, census divisions, cities, counties, etc.) are contiguous.

A prime sponsor is a unit of Government, combinations of units of Government, or a rural Concentrated Employment Program grantee, which has entered into a grant with the Department of Labor to provide services under CETA title I. In general, prime sponsors are either States or units of general purpose local government with populations of at least 100,000.

[3] Substantial unemployment is the sum of the unemployment in all areas of substantial unemployment as defined in the previous footnote.

- Twenty-five percent of available funds on the area's share of unemployment in areas with unemployment above 4.5 percent.

Public Works

Antirecession public works projects were funded under the following programs: (1) The Job Opportunities Program (JOP) under title X of the Public Works and Economic Development Act of 1965 (PWEDA, Public Law 89–136, Public Law 93–572, and Public Law 94–487); and (2) the local public works programs under title I of the Public Works Employment Act of 1976, as amended (PWEA, Public Law 94–369 and Public Law 95–28). Their objectives include increasing employment in high unemployment areas and building capital facilities.

The Job Opportunities Program is one of the antirecession programs with a national trigger. Amendments to PWEDA in 1976 authorized $81.25 million for each one-quarter fiscal year in which the national average unemployment rate is at least 7 percent. No funds are authorized for a quarter in which the most recent quarter's national unemployment rate was less than 7 percent.

The Job Opportunities Program also has a local trigger, which designates as eligible only CETA title II "areas of substantial unemployment" with unemployment rates of at least 7 percent. Funds are further targeted by a provision that allocates 70 percent of the funds to areas with unemployment rates above the national average unemployment rate. The severity of unemployment (the level of the unemployment rate) and the "appropriateness" of the proposed project for an area are also considered in the allocation of funds.

Title I of PWEA has no national trigger. The geographic distribution is, however, a complex mixture of the State trigger and allocation mechanisms. After certain amounts are set aside and minimum and maximum requirements are satisfied, 65 percent is divided among the States according to each State's share of national unemployment. The remaining 35 percent is allocated to States with an average unemployment rate in excess of 6.5 percent for the most recent 12-month period. The distribution within States is based on the same mechanism.

The initial $2 billion appropriation for title I of PWEA was based on an administrative formula that weighted unemployment rates relatively more than numbers of unemployed persons. This resulted in small areas with high-unemployment rates receiving disproportionate shares of the allocation, when compared with their shares of total unemployment. This problem, however, was corrected by the formula established by Public Law 95–28.

Antirecession Fiscal Assistance

Antirecession fiscal assistance to State and local governments attempts to lessen recession-induced, contractionary State and local fiscal policies, such as decreases in expenditures or increases in tax receipts during a period in which the Federal Government aims to stimulate and expand the economy. The program has national and State and local triggers and a geographic allocation mechanism.

The national unemployment rate must be more than 6 percent before the program is activated. For the quarter during which the national unemployment rate exceeds 6 percent, $125 million plus $30 million for each one-tenth of a percentage point that the quarterly national unemployment rate exceeds 6 percent is authorized. A maximum total authorization of $2.25 billion was set for the period of July 1, 1977, to September 30, 1978.

The State and local trigger is 4.5 percent. One-third of the funds are distributed to eligible States and two-thirds to eligible general purpose local governments. These funds are allocated on the basis of an area's unemployment rate exceeding 4.5 percent and its share of the national general revenue sharing allocation. Use of an area's general revenue sharing allocation means that such factors as tax effort, income, and population are considered indirectly.[4]

Unemployment Insurance

Extended benefits.—The extended benefits program (EB) was authorized as a permanent part of the Federal-State unemployment insurance program by the Federal-State Extended Unemployment Compensation Act of 1970 (Public Law 91–373). It provides 13 additional weeks of benefits beyond the maximum number of weeks under the regular program (26 weeks) during periods of high unemployment. The funding is shared equally between the Federal Government and the State unemployment insurance system.

The national and State triggers, which are more complex than those in the other programs, are summarized in table 3. Either national or State trigger can authorize benefits, but both must meet certain conditions before the benefits are terminated. For the program to be activated nationally, the seasonally adjusted national insured unemployment rate (IUR) must be at least 4.5 percent during the most recent 13-week period.[5] When the national trigger dips below 4.5 percent, however, the EB program does not terminate in all States. This depends on two possible State triggers:

- The seasonally unadjusted State insured unemployment rate must be at least 4 percent for the most recent 13-week period and at least 120 percent of the average for the same 13-week period for the past 2 years; or
- The seasonally unadjusted State insured unemployment rate must be at least 5 percent for the most recent 13-week period.

TABLE 3.—NATIONAL AND STATE TRIGGERS FOR THE UNEMPLOYMENT INSURANCE EXTENDED BENEFITS PROGRAM

Program level	Triggers	
	Authorized	Terminated
National	Seasonally adjusted national insured unemployment rate (IUR) must be at least 4.5 percent for the most recent 13-week	Seasonally adjusted national IUR must be less than 4.5 percent for the most recent 13-week period.
State	(1) Seasonally unadjusted State IUR must be at least 4 percent for the most recent 13-week period and at least 120 percent of the previous 2-yr average for the same 13-week period; or (2) seasonally unadjusted IUR must be at least 5 percent for the most recent 13-week period.[1]	(1) Seasonally unadjusted State IUR must be less than 4 percent for the most recent 13-week period and less than 120 percent average for the same 13-week period; and (2) Seasonally unadjusted State IUR must be less than 5 percent for the most recent 13-week period.[2]
National and/or State	National or State	National and State.

[1] Condition (2) is an optional condition. Montana, West Virginia, Arkansas, and Kentucky did not elect to participate in this condition.

[2] Condition (2) is redundant because it is already included in the first part of condition (1). It is shown to maintain symmetry with the State authorization trigger where it is not redundant.

[4] The general revenue sharing formula is contained in title I of the State and Local Fiscal Assistance Act of 1972 (Public Law 95–512) as amended by the State and Local Fiscal Assistance Amendments of 1976 (Public Law 94–488).

[5] The insured unemployment rate is defined as the number of insured unemployed divided by the number of persons in UI-covered employment. This rate has tended to be about 2 percentage points below the national unemployment rate for all workers. Although about 97 percent of the labor force is covered by UI, only about one-half of the unemployed have sufficient work experience to be eligible. Many unemployed persons are reentrants and new entrants to the labor force who are not eligible for UI.

If either State trigger is satisfied, a State EB program is authorized. The State EB programs do not terminate, however, until both State triggers are not satisfied. When the program trigger is off (national or State), the program must have operated for a minimum of 13 weeks for benefit payments to terminate immediately. Since UI–EB is an entitlement program, there is no explicit geographic allocation mechanism. The funds are, however, concentrated in States with relatively high insured unemployment rates.

Programs expiring during fiscal year 1978.—Two emergency unemployment insurance programs expired during fiscal year 1978. Special Unemployment Assistance (SUA) expired on December 31, 1977. It provided emergency coverage of as much as 39 weeks of benefits to workers not otherwise covered and eligible for unemployment benefits under any other laws. Federal Supplemental Benefits (FSB) expired on March 31, 1978. It provided two tiers of 13 additional weeks of unemployment insurance above the 39-week maximum available under the regular and Extended Benefits (EB) programs.

SUA was financed on a "such sums as may be necessary" basis through grants to States, which administered the program under the guidance of the Department of Labor. It had no national and State-local triggers or geographic allocation mechanism. Most of the extended coverage in SUA was incorporated into the permanent unemployment insurance system by the Unemployment Compensation Amendments of 1976 (Public Law 94–566).

FSB had national, State, and local triggers that were integrated with EB. The State authorization trigger was a seasonally unadjusted insured unemployment rate of at least 5 percent for the most recent 13 weeks. Also, Standard Metropolitan Statistical Areas (SMSA's) were automatically activated on a similar basis if EB was also authorized for the Nation or the appropriate State. If the EB program was not activated or the specific area triggers for FSB were not satisfied, the FSB program triggered off in SMSA's.

Jobs Tax Credit (JTC)

The Tax Reduction and Simplification Act of 1977 (Public Law 95–30) authorized a jobs tax credit for employers hiring additional workers in calendar years 1977 and 1978. This tax expenditure program expires at the end of calendar year 1978.

The jobs tax credit equals one-half of the difference between an employer's taxable wages under unemployment insurance (UI) in the current year and 102 percent of the employer's UI-taxable wages in the previous year. Each employer can claim a tax credit up to a maximum of $100,000 against its corporate income tax liability.

The JTC is not explicitly activated by national, State, or local employment figures. It will, however, increase with increases in employment up to each employer's $100,000 limit. Areas with declining employment probably will benefit proportionately less than growing areas. Hence, it is probably targeted on areas experiencing economic growth.

ACTUAL AND PROJECTED OUTLAYS

When the economy began to decline in fiscal year 1974, only $918 million was spent on antirecession programs (see table 4). About two-thirds of these outlays were in the PEP program (contained in

CETA title II) and only one-third in Extended Benefits (EB). As the full burden of the recession hit in fiscal year 1975, outlays increased threefold to over $3 billion. An additional 13 weeks of unemployment insurance eligibility (up to 65 under FSB) and expanded coverage (under SUA) were provided. Moreover, CETA title VI was enacted and the Job Opportunities Program (JOP) began to operate. Most of the outlay increases, however, were still in extended unemployment insurance.

TABLE 4.—ACTUAL AND PROJECTED OUTLAYS OF ANTIRECESSION EXPENDITURE PROGRAMS, FISCAL YEARS 1974 THROUGH 1983

[In millions of dollars]

Program	Actuals				CBO projections of current policy [1]					
	1974	1975	[2] 1976	[2] 1977	1978	1979	1980	1981	1982	1983
CETA–II	[3] 605	[3] 572	544	487	1,016	1,150	1,233	1,318	1,402	1,486
CETA–VI	0	318	1,872	2,340	4,413	5,053	4,090	2,254	671	49
JOP	0	22	269	98	13	0	0	0	0	0
PWEA–I	0	0	0	585	2,800	1,920	620	75	0	0
PWEA–II	0	0	0	1,730	1,374	740	0	0	0	0
UI–EB	313	1,298	2,980	2,400	950	400	350	300	200	200
UI–FSB and SUA	0	884	4,274	2,515	497	65	0	0	0	0
Jobs tax credit	0	0	0	[4] 690	2,500	1,900	0	0	0	0
Total	918	3,094	9,939	10,845	13,563	11,228	6,293	3,947	2,273	1,735

[1] Current policy is based on CBO economic assumptions, no change in the tax law, and estimated outlays in relation to the economic assumptions. See Congressional Budget Office, Five-Year Budget Projections, Fiscal Years 1979–83, Technical Background, pp. 61, 63–66, 87, and 103–105 for detailed program assumptions.
[2] The transition quarter (calendar year 1976:3) has been excluded to simplify the data presentation.
[3] Includes outlays for the Emergency Employment Act of 1971 of $605,000,000 and $53,000,000 in fiscal years 1974 and 1975, respectively.
[4] Estimates from President's budget, fiscal year 1979.

DEFINITIONS

CETA–II—Comprehensive Employment and Training Act of 1973, title II (as amended).
CETA–VI—Comprehensive Employment and Training Act of 1973, title VI (as amended).
JOP—Job opportunities program, Public Works and Economic Development Act of 1965, title X (as amended).
PWEA–I—Public Works Employment Act of 1976, title I (as amended).
PWEA–II—Public Works Employment Act of 1976, title II (as amended).
UI—Unemployment insurance.
FSB—Federal supplemental benefits.
EB—Extended benefits.
SUA—Special unemployment assistance.

In fiscal year 1976 the economy continued an uneven recovery, but the unemployment rate remained high. Antirecession expenditures again increased threefold to almost $10 billion. Extended unemployment insurance composed more than two-thirds of this increase.

In fiscal year 1977 there was only about a $1 billion increase in expenditures, but a significant shift in emphasis occurred. The share of total outlays in extended unemployment insurance dropped from about 73 to 45 percent. This shift resulted from increased outlays in CETA title VI, public works under PWEA title I, antirecession fiscal assistance to State and local governments under PWEA title II, and the jobs tax credit.

CBO current policy estimates assume no change in tax and expenditure policy and an economy in which the unemployment rate drops from 6.0 percent in fiscal year 1979 to 4.6 percent in fiscal year 1983.[5] Reflecting the increased spending funded under the Economic Stimulus Appropriations Act of May 13, 1977, CBO current policy outlay estimates are projected to peak in fiscal year 1978 at about $13.6

[5] In fiscal year 1979 the jobs tax credit is assumed to expire but CETA and antirecession fiscal assistance are assumed to be reauthorized.

billion. The relative shift away from extended UI is projected to continue, as its share of total outlays drops from 45 percent in fiscal year 1977 to 11 percent in fiscal year 1983. The largest annual decrease in the current policy estimates of about $5 billion occurs in fiscal year 1980. This results mainly from the expiration of the jobs tax credit, the triggering-off of antirecession fiscal assistance, and an assumed decline in public service employment as the unemployment rate drops.

THE ADMINISTRATION'S PROPOSALS

While the President's fiscal year 1979 budget for antirecession programs did not differ substantially from CBO current policy outlay estimates, there have been additional administration proposals. A bill to reauthorize CETA (H.R. 11086) has been proposed, which contains a complex trigger mechanism for public service employment. Also, the President has proposed an urban aid program, which alters several antirecession programs.

Title VI of the administration's CETA reauthorization bill provides a public service employment program through fiscal year 1982. It contains a national trigger effective in fiscal year 1980, which authorizes funds to be appropriated in relation to the level and change in the national unemployment rate. However, there is still no State-local trigger and the allocation mechanism is unchanged from the original CETA title VI program. Finally, an individual will be eligible, if the person has been unemployed for 5 weeks and is economically disadvantaged.[7]

The President's urban aid plan proposes several changes in antirecession programs in addition to other programs:

- The new jobs tax credit of $1.5 billion for economically disadvantaged youth from 18 to 24 years old can be viewed as a replacement for the existing jobs tax credit.
- A new "soft public works" (short-term and labor-intensive) program of $1 billion in budget authority for each of 3 years beginning in fiscal year 1979 would supplement the local public works program.
- A new fiscal assistance program of $1 billion replaces the antirecession fiscal assistance program. Only local governments would be eligible and the formula would be changed to include additional factors such as population and employment declines.

As a result of these changes, the administration estimated outlays to increase by $1.6 billion and $3.1 billion over current policy estimates in fiscal years 1979 and 1980, respectively.[8]

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[7] Section 126(16) provides a complex definition of "economically disadvantaged." Generally, it includes members of families receiving cash assistance payments or members of families whose family incomes 3 months before application to the program are less than either the poverty level or 70 percent of the lower living standard income level, whichever is higher. These incomes vary regionally, but the national poverty level is currently $5,850 and 70 percent of the lower living standard level is $7,029 for an urban family of four.

[8] Office of the White House Press Secretary, "New Partnership to Conserve America's Communities," March 27, 1978.

Chapter III

The Phasedown Context

The Dependence Problem

The successful phasedown of an antirecession program depends on several conditions. Favorable macroeconomic conditions are helpful. National economic conditions can improve substantially, however, while regional economic problems remain. The fiscal condition of State and local governments is also important because they may have grown dependent on antirecession program funds. If economic growth does not yield enough new State and local tax revenues to replace the phased down antirecession program funds, then certain State and local governments may be forced to raise taxes, cut services, or deplete surplus funds.

Dependence on antirecession program funds is not large in the aggregate, but some local governments may be dependent. Regional distinctions are important because unemployment rates and fiscal problems vary substantially. Local governments may be suffering more than States because they are more susceptible to population declines and their tax bases are less responsive to economic recovery.

Adequate fiscal data are not available to identify the specific governments that will suffer serious fiscal problems if antirecession programs are phased down. Some distinctions can be drawn, however, between national and regional economic conditions and State versus local government fiscal conditions. Because it is impossible to predict the fiscal decisions of over 39,000 governments in response to an antirecession program phasedown, the resulting number of workers laid off, tax increases, or service cuts cannot be estimated.

NATIONAL PATTERNS

Fiscal Situation of the State and Local Government Sector

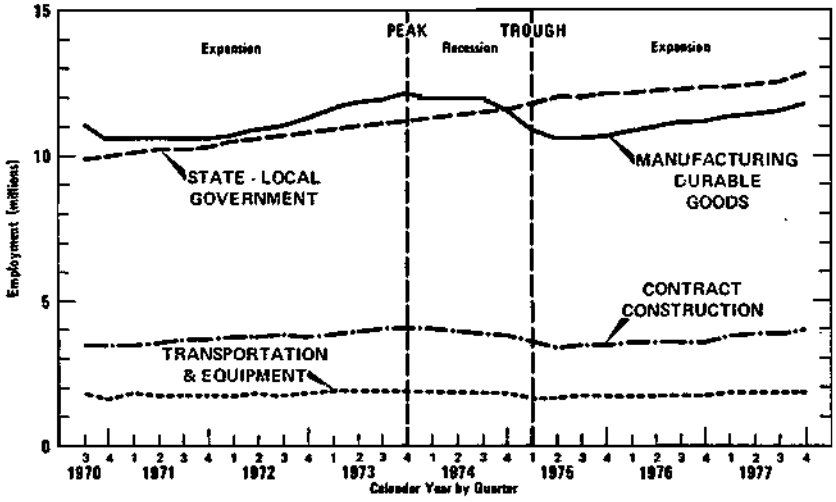
The fiscal situation of the State and local government sector has improved markedly since the recession. In calendar year 1977, it accumulated an operating surplus of more than $13 billion, which exceeds estimated antirecession program outlays in fiscal years 1978 or 1979. The estimated $9 billion antirecession program outlays allocated to State and local governments in fiscal year 1979 will probably represent less than 4 percent of total State and local government purchases of goods and services.

State and Local Government Sector Employment

Because the State and local government sector mainly produces labor-intensive services, an antirecession program phasedown could decrease employment levels or growth in this sector. However, the recent employment trends in this sector suggest that this may not occur.

The State and local government sector did not experience employment declines during the 1974–75 recession. Figure 1 shows that this sector's employment grew continuously throughout the 1970's. From the second quarter of 1975 to the fourth quarter of 1977 State and local government employment grew by 880,000, or 15 percent of the total increase in employment. In contrast, two sectors damaged by the recession, manufacturing durable goods and construction, had not fully recovered from the recession by the end of 1977.

Figure 1. Employment by Selected Industry, Third Quarter of 1970 to Fourth Quarter of 1977



A phasedown of a public service employment program could reduce the employment level or growth in the State and local government sector. By the end of calendar year 1977, public service employment accounted for about 5 percent of this sector's employment. Because public service employment was expanded from 42,000 jobs in the second quarter of 1974 to 601,000 by the fourth quarter of 1977, it may have been partially responsible for the sustained employment growth in the State and local government sector.

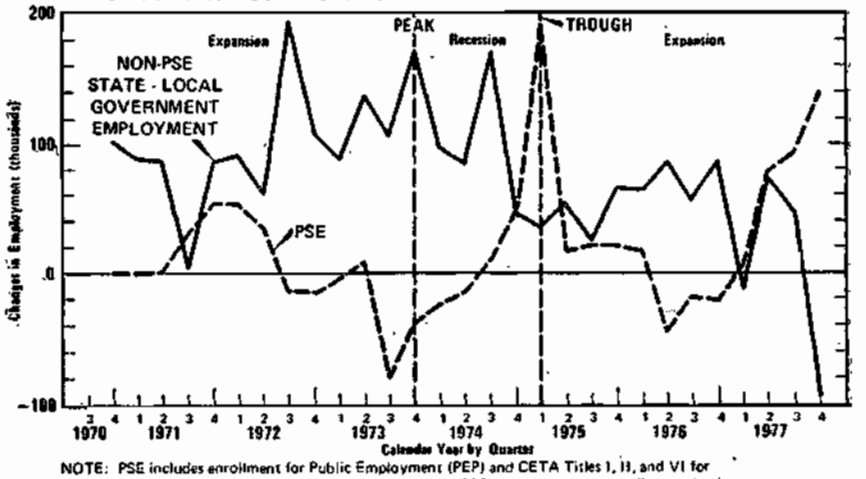
In figure 2 quarterly changes in public service employment (PSE) are compared to quarterly changes in non-PSE State and local government employment from the third quarter of 1970 to the fourth quarter of 1977. Several developments are illustrated in this figure:

- During the two quarters in which public service employment was expanded by at least 100,000 jobs (the first quarter of 1975 and the fourth quarter of 1977), there was a below average increase and a decline in non-PSE State and local employment.
- During the three periods when there were at least three consecutive quarters of decline in PSE enrollment, there were increases in non-PSE State and local employment of at least 50,000 per quarter. Most of the increases were well above the average for the period, but after the recession they were smaller than previously.

- During the most recent PSE expansion, the non-PSE State and local employment had begun to increase along with PSE, which did not occur in the previous PSE expansion. In the fourth quarter of 1977, however, non-PSE State and local employment again dipped, which may signal the beginning of a pattern similar to the first PSE expansion.

This suggests that non-PSE State and local government employment may increase by at least an average number of jobs per quarter even if public service employment is phased down. This increase could absorb roughly 50,000 laid-off PSE enrollees per quarter. There is no guarantee, however, that the growth in non-PSE State and local government employment will occur in the same regions where PSE declines. It is possible that PSE will decline in some areas that experience no compensating growth in non-PSE employment.[1]

Figure 2. Comparison of Quarterly Changes in End-of-Quarter Non-PSE and PSE State and Local Government Employment, Fourth Quarter of 1970 to Fourth Quarter of 1977



NOTE: PSE includes enrollment for Public Employment (PEP) and CETA Titles I, II, and VI for the relevant periods. No adjustment was made for PSE enrollment in nonprofit organizations.

REGIONAL PATTERNS

Although dependence may not appear substantial in the aggregate, it could be a serious problem for some governments. Some areas may be experiencing declines in population and economic activity, which may result from the movement of labor and capital. Government tax bases may be eroding, while continued high unemployment strains budgets. In these areas, continued national economic growth is not likely to yield the revenue necessary to replace antirecession program funds.

States Versus Localities

A recession affects most State revenues more than most local revenues. Few data are available that permit clear distinctions to be

[1] This analysis is overstated by the extent that some PSE enrollees are not in State and local government. Some proportion of PSE enrollees should be deleted from the State and local government data, but this factor is unknown. See National Commission for Manpower Policy, *Job Creation Through Public Service Employment* (Washington: March 1978), vol II for a thorough discussion of this phenomenon.

drawn between the fiscal problems faced by State versus local governments. It is well known, however, that income and sales taxes are more sensitive to economic fluctuations than property taxes. Because 71 percent of State government and only 11 percent of local government general own-source revenues came from income and sales taxes in 1975–76, State government revenues are more sensitive to the business cycle than local governments.[2]

On the expenditure side State and local governments assist cyclically unemployed persons. The States provide unemployment insurance through State trust funds in the Federal budget, but the revenues and outlays are not included in the State budgets. Increased outlays for the Aid to Families with Dependent Children (AFDC), medicaid programs, and general assistance could create fiscal problems for some States and localities, but the extent is difficult to ascertain. Because States pay over 80 percent of the non-Federal costs of such programs, most of the recession-induced expenditure increases will be incurred by State governments. Moreover, almost 40 percent of the small local share is borne by New York City.[3]

The economic recovery has relieved much of the fiscal strain on the States. The aggregate general fund balance, which excludes social insurance funds, was about $4.9 billion at the end of fiscal year 1977, which was $0.8 billion higher than at the beginning of the year.[4] This conceals variations between States, however. The States that recovered more slowly from the recession tended to have proportionately fewer funds available at the end of the year and energy-producing States gained from increased energy tax revenue.[5]

Unemployment Rates and Fiscal Problems

Because adequate fiscal data for State and local governments are not available, unemployment rates are often used as proxies. While unemployment rates do not measure fiscal problems, there is some evidence that they are correlated in major cities.[6] Similar evidence, however, is unavailable for States or counties. Nevertheless, State budgets are relatively more responsive to economic fluctuations than local budgets. Hence, the fiscal problems of the States may be more related to changes in unemployment rates, while those of local governments may be more related to levels of unemployment rates.

A statistical analysis of State and labor market area unemployment patterns since 1970 revealed the following (see appendix):

- The New England, Middle Atlantic, and South Atlantic regions responded more than proportionately to the national unemployment rate, while the West North Central, West South Central, and Pacific regions responded less than proportionately.
- The South Atlantic and East South Central unemployment rates tended to lead the national unemployment rate, while the New England, Middle Atlantic, West North Central, and Pacific regions tended to lag
- The Middle Atlantic and South Atlantic regions conformed relatively well with the national unemployment rate, while the Pacific Region did not.

[2] U.S. Department of Commerce, *Governmental Finances in 1975–76*, p. 19.
[3] George E. Peterson, "Finance," in *The Urban Predicament*, William Gorham and Nathan Glazer, ed. (Washington: The Urban Institute, 1976) pp. 93–96.
[4] National Governor's Association, *Fiscal Survey of the States, Fall 1977*, p. 2. Data are for 40 States.
[5] Ibid., p. 4.
[6] George E. Peterson, *Statement at Hearings Before a House Subcommittee on Government Operations*, 95:1, on H.R. 3730 and Related Bills (March 1, 2, and 8, 1977), p. 14a.

These results suggest that the New England, Middle Atlantic, and South Atlantic regions probably experienced proportionately greater recession-caused problems than other regions. Moreover, it appears that the Pacific region may suffer from problems unrelated to the national unemployment rate.

At the local level the fiscal problems of local governments are often related to declines in population and economic activity On the revenue side, some local governments are suffering declines in their tax bases as industry and population leave. On the expenditure side, the pressure for spending does not decline with population or lost industry. The cost of maintaining existing physical capital does not decline proportionately with population; more must often be spent per capita on replacement of bridges, streets, and other facilities. The need for police and fire protection does not decline proportionately with population; and the remaining population often needs more public services per capita than those who left.[7]

The fiscal problem at the local level is more likely to be a structural problem resulting from longrun changes in economic activity and population movements rather than economic cycles. Antirecession approaches are not well designed to alleviate this problem, since the focus is on only shortrun unemployment and fiscal distress. When antirecession programs are phased down, these problems will still persist. Long-term economic adjustment assistance or redevelopment funds targeted on areas with high unemployment rates or employment and population decline would better alleviate these problems.

[7] Ibid., p. 27.

Chapter IV

Potential Phasedown Problems

Local Government Problems

The extent of any phasedown problems will be determined by fiscal capacity and fiscal decisions made by local governments. Because adequate data are not available, these problems are difficult to predict. Under current policy, outlays in fiscal year 1979 are estimated to decrease in the programs that are most targeted on fiscally distressed communities (PWEA titles I and II), while funding for the least targeted programs (CETA titles II and VI) increase.

The key to anticipating and identifying phasedown problems is fiscal strain. While there is no well-accepted measure of fiscal strain, it is commonly associated with declines in population, employment, relative per capita income, and property values.

A recent Treasury Department study analyzed the fiscal effects of withdrawing the $15.8 billion allocated under the antirecession fiscal assistance ($3.2 billion), local public works ($6.0 billion), and public service employment ($6.6 billion) programs between January 1977 and September 1978. It examined 48 major cities that received about 20 percent, or $3.2 billion, of the total allocation. The funds provided by these programs amounted to 2.9 percent of the cities' operating expenditures, 6.3 percent of their own source revenues, and 21 percent of their total Federal aid.[1]

This study classified cities according to high, medium, and low fiscal strain. High fiscal strain was related to large declines in population, relative per capita income, property values, and increases in per capita own-source revenue and long-term debt. The study reached the following general conclusions:

- In the aggregate, the funds from these programs were targeted on cities suffering high fiscal distress. According to the study's classification, high strain cities received per capita allocations of $107, while moderate- and low-strain cities received $74 and $51, respectively.
- The level of dependence on these funds was substantial. Twenty-four of the cities received total Federal funds of at least 16 percent of their own-source revenues. If these funds are withdrawn, other sources of funds will be needed or expenditures will be cut.
- If these total funds were withdrawn, high-strain cities would be affected most adversely. If funds are not available from other sources, they would have to raise property taxes by an average of $65 per $10,000 of full market value, while moderate- and low-strain cities would need to impose $40 and $24 per $10,000 of full market value, respectively.

[1] U.S. Department of Treasury, Office of State and Local Finance, *Report on the Impact of the Economic Stimulus Package on 48 Large Urban Governments,* January 23, 1978 (processed).

The Treasury Department's analysis suggests that serious problems will be faced, particularly by the 6 of 10 high-strain jurisdictions whose antirecession funds are at least 16 percent of own-source revenues. These jurisdictions are not only dependent on antirecession funds, but also may not be able to replace them as they are phased down. The other 18 out of 24 cities in which antirecession funds are at least 16 percent of own-source revenues may appear to have fiscal problems, but they may have the fiscal capacity to replace the phased down antirecession funds.

The fiscal problems of the dependent, high fiscal strain jurisdictions can be lessened by not phasing down antirecession programs. This may not be a well-targeted fiscal adjustment assistance program, however, since many jurisdictions with high fiscal capacities would continue to receive funds that they may use to cut taxes or accumulate surpluses. A fiscal adjustment assistance program that is more targeted on areas with high unemployment rates and chronic structural difficulties would lessen these problems more effectively.

POTENTIAL PROGRAM PROBLEMS

The fiscal problems caused by an antirecession program phasedown will vary among programs. This variation depends on how well each program is targeted on distressed areas and the amount of funds withdrawn in each program.

The phasedown of extended benefits (EB) under unemployment insurance and the termination of the jobs tax credit (JTC) probably will not cause serious problems in economically distressed areas. The EB program amounts to less than $1 billion and has recently triggered-off nationally, dropping about 200,000 recipients in States with insured unemployment rates of less than 4 percent.[2] The JTC is implicitly targeted on areas already experiencing economic and employment growth. Hence, even though the JTC yields an estimated $1.9 billion tax expenditure in fiscal year 1979, its termination is not likely to affect distressed areas substantially.

Among antirecession programs administered by State and local governments, those least targeted on high-strain cities are estimated to yield the most outlays in fiscal year 1979. According to the Treasury report, the ratio of per capita allocations in high- versus low-strain cities was 4 to 1 in antirecession fiscal assistance, 2.7 to 1 in local public works, and 1.4 to 1 in CETA public service employment. CBO current policy outlay estimates range from $6.2 billion in CETA public service employment, $1.9 billion in local public works, and $740 million in antirecession fiscal assistance.

Because current policy outlays decrease in the programs most targeted on high-strain cities, the fiscal problems may be worsened for some jurisdictions. The decrease in outlays between fiscal years 1978 and 1979 of $1.5 billion in local public works and antirecession fiscal assistance is offset by the less fiscally targeted increase in public service employment of $0.8 billion. Hence, high-strain areas would probably lose proportionately more funds under CBO current policy estimates than they would if the outlay decrease were spread equally across the three programs.

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[2] The off-trigger must also be less than 120 percent of the previous 2-year average for the same 13-week period

Antirecession Fiscal Assistance (PWEA–II)

Antirecession fiscal assistance phases down from $1.4 billion to $0.7 billion between fiscal years 1978 and 1979. In fiscal year 1979 this program accounted for less than 0.3 percent of total State and local government purchases of goods and services. It triggers off at a national unemployment rate of 6 percent. Since the unemployment rate was 6.2 percent in July, termination in fiscal year 1978 or 1979 is possible if the program is reauthorized in its current form.

The administration has proposed to repeal the national trigger and drop State governments from eligibility. This would substantially lessen phasedown problems in high-strain localities. Since State tax structures generally respond at least proportionately to increases in personal income, their future own-source revenue can replace the terminated funds that amount to only about $250 million for fiscal year 1979.[3]

Local Public Works (PWEA–II)

The $6 billion appropriated for public works in fiscal year 1977 will continue to be spent in fiscal year 1979 at an estimated level of $1.9 billion, down from an estimated $2.8 billion in fiscal year 1978. This $1.9 billion will be less than 0.8 percent of total State and local government purchases of goods and services in fiscal year 1979, but roughly 5 percent of this sector's public construction expenditures.

One recent study estimated that there was very little increase in State and local government capital spending as a result of the $6 billion Federal public works program. It was argued that State and local governments may have postponed as much as $22 billion in construction outlays in anticipation of the initial $2 billion of the $6 billion total public works funds.[4] There are other possible explanations, however, such as the strain on the ability of State and local governments to borrow for capital spending after the fiscal crisis in New York City and the "taxpayer revolt" that led to 71 percent of the value of State and local bond issues being rejected in 1975.[5]

If the local public works program is phased down, it will probably not have substantial effects on State and local government operating budgets. The fiscally strong jurisdictions can replace the capital spending with their own-source funds. Some capital budget problems may be encountered, however, by fiscally strained jurisdictions. Since roughly 34 percent of the program funds was allocated to such activities as rehabilitation, repair, and demolition instead of new construction, some fiscally strained jurisdictions, which have depended on public works funds for such activities, may not maintain or repair their capital facilities at the same rate.[6]

Public Service Employment (CETA–II and VI)

Public service employment under CETA may be difficult to phase down because it is entrenched in State and local government operating budgets. An estimated $6.2 billion will be spent on public service employment in fiscal year 1979, amounting to less than 2.5 percent

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[3] Thirty-two States have tax structures that respond at least proportionally to changes in personal income. See Advisory Commission on Intergovernmental Relations. *Significant Features of Fiscal Federalism 1976–77 edition, vol. II—Revenue and Debt* (Washington: Government Printing Office, 1977) p. 50.

[4] Edward M. Gramlich, "State and Local Budgets the Day After It Rained: Why is the Surplus So High?" *Brookings Papers on Economic Activity*, 1978: 1, p. 209.

[5] Advisory Commission on Intergovernmental Relations. op. cit., p. 74.

[6] U.S. Department of Commerce, Economic Development Administration, *Local Public Works Program* (1978), p. 72.

of State and local government purchases of goods and services. The Treasury report indicated that the CETA allocations were not highly targeted on cities experiencing fiscal strain. They were 4.7 percent of own-source revenues in high-strain cities, but 8.0 percent in low-strain cities.[7]

Since public service employment expanded from 329,000 to 753,000 jobs between May 1977 and February 1978, it is unlikely that a rapid phasedown will be considered. The President has proposed to maintain 725,000 jobs through fiscal year 1979, accounting for about 5 percent of total State and local government employment. If a phasedown began, it probably would not damage fiscally strong jurisdictions. Because of the program's size, however, a phasedown could cause problems for fiscally strained jurisdictions.

In distressed areas, a CETA phasedown could lead to layoffs of enrollees. These enrollees would be eligible for unemployment insurance, which generally would be paid on a reimbursable basis by local governments. If these enrollees could not find jobs in these distressed areas, their unemployment benefits would further increase costs to local governments. Hence, it is important that a CETA phasedown does not adversely affect areas with high unemployment rates where enrollees may have few options. Some fiscal adjustment assistance may be necessary, particularly to offset increased local government costs for unemployment insurance.

Phasedown problems could be lessened by distinguishing antirecession from structural programs. If formula changes were made, antirecession programs could be phased down without major fiscal problems in distressed areas. Some fiscal adjustment assistance to local governments may, however, be necessary during the process.

[7] U.S. Treasury, op. cit., p. 40.

Chapter V

Some Options

The Problem

Although the economic recovery is 3 years old, problems remain. The national unemployment rate is still about 6 percent. Even if it declines further, structural problems will persist in some areas. Phasing down antirecession programs risks worsening these structural problems.

Most antirecession programs have State and local triggers and allocation mechanisms that target on areas with high unemployment rates, which reflect not only recession-caused but also structural problems. The fact that a distinction has not been made is the principal source of the dilemma. Although three programs have national on-off triggers, only one (PWEA–II) has a national trigger that automatically adjusts the program size to economic fluctuations. Hence, many of these programs have been alleviating structural problems despite their primary purpose as antirecession devices.

If phasedown problems are to be lessened, antirecession programs must be distinguished from structural programs. Otherwise, funds will be withdrawn from areas still experiencing economic problems. Some distinctions are drawn in table 5. Antirecession programs are temporary and change with economic cycles. Structural programs may be permanent and occasionally adjusted for demographic, productivity, and price level changes.

TABLE 5.—COMPARISON OF TYPICAL ANTIRECESSION AND STRUCTURAL FORMULAS

Program component	Policy types	
	Antirecession	Structural
National trigger	(a) Theory—Change current policy as the national unemployment rate changes.	(a) Theory—Maintain a constant policy that does not change with the national unemployment rate.
	(b) Example—Maintain a constant ratio of direct employment funded to unemployment above the unemployment rate at which "full employment" is reached.	(b) Example—Maintain a constant policy related to structural problems that could be adjusted annually for the changes in price levels, productivity, and demography.
State-local trigger	(a) Theory—Target areas whose unemployment rates change proportionately with the national unemployment rate.	(a) Theory—Target on areas with high unemployment rates that do not change proportionately with the national unemployment rate.
	(b) Example—Areas could be eligible, if their unemployment rates increase by at least as much as the national unemployment rate.	(b) Example—Areas could be eligible, if their unemployment rates are above 7 percent.
Allocation mechanism	(a) Theory—Distribute funds based on an area's share of increased unemployment above a specified rate.	(a) Theory—Distribute funds based on an area's share of unemployment above a certain high unemployment rate.
	(b) Example—Funds could be distributed based on an area's share of the increase in unemployment among eligible areas.	(b) Example—Funds could be distributed based on an area's share of unemployment in eligible areas.
Individual eligibility criteria	(a) Theory—Target on cyclically unemployed.	(a) Theory—Target on structurally unemployed.
	(b) Example—Anyone certified to have been unemployed more than 1.25 times the current national median weeks of unemployment would be eligible.	(b) Example—Anyone unemployed longer than 15 weeks or unable to earn more than a poverty level income would be eligible.

TYPES OF OPTIONS

Three types of options are available in fiscal year 1979. First, current policy, which represents the beginning of a phasedown, could be pursued. Second, a current policy phasedown could begin, but "hold-harmless" funds could be made available on either a formula or discretionary basis. Third, a reallocation of resources to more structurally oriented programs could be implemented Although data are not available to show the extent to which these options lessen the phasedown problem, the direction of change is discernable.

Current Policy

The distribution among programs of the estimated $2.3 billion change in current policy outlays for fiscal year 1979 is shown in table 6. Outlays for public works, antirecession fiscal assistance, extended unemployment insurance, and the jobs tax credit decline, while those for CETA public service employment increase.

TABLE 6.—CURRENT POLICY PHASEDOWN IN FISCAL YEAR 1979

[In millions of dollars]

Program	CBO current policy fiscal years		Current policy change
	1978	1979	
CETA–II	1,016	1,150	+134
CETA–VI	4,413	5,053	+640
JOP	13	0	−13
PWEA–I	2,800	1,920	−880
PWEA–II	1,374	740	−634
UI–EB	950	400	−550
UI–FSB and SUA	497	65	−432
JCT	2,500	1,900	−600
Total	13,563	11,228	−2,335

Most of the expenditure changes in declining programs, which total $3.1 billion, is the result of economic growth and automatic phasedowns in extended unemployment insurance (EB, FSB, and SUA) and antirecession fiscal assistance (PWEA–II). The jobs tax credit decreases as it expires at the end of calendar year 1978. Finally, public works outlays also decline as the annual rate of spending from the $6 billion fiscal year 1977 appropriation diminishes.

These changes will probably affect areas with high unemployment rates disproportionately. The $1.5 billion outlay decrease in local public works (PWEA–I) and antirecession fiscal assistance (PWEA–II) will hurt areas with unemployment rates above 6.5 and 4.5 percent, respectively. The $0.8 billion increase in public service employment (CETA II and VI) partially offsets this, but these outlays are less targeted on areas with high unemployment rates.

The $1.6 billion phasedown of extended unemployment insurance and the jobs tax credit will probably not substantially hurt areas with high unemployment rates. The extended benefits program (EB) has triggered off in States with insured unemployment rates below 4 percent. The jobs tax credit is more targeted on areas experiencing employment growth, which tend to have relatively low unemployment rates.

Hold-Harmless Phasedown

Additional funds could be appropriated to alleviate the problems caused by the phasedown of antirecession fiscal assistance and local public works. Since the $1.5 billion outlay decrease in these programs is partially offset by an $0.8 million increase in public service employment, it is doubtful that more than $1 billion would be necessary to avert phasedown induced service cuts or tax increases in fiscal year 1979. As governments adjust over a few years, hold-harmless funds could be phased out. In future years much less might be needed, especially if the additional funds were targeted on areas with high unemployment rates. These funds could be reduced by a specified percentage each year until they are completely phased out, while capital and labor continue flowing to more productive areas.

Hold-harmless funds could be provided on a formula or discretionary basis. A formula method would be imprecise to the extent that it does not reflect fiscal problems, but State and local governments would know what to expect. Alternatively, the funds could be distributed by executive discretion. This would cause more uncertainty for State and local governments, but their fiscal problems could be determined more accurately. Either approach, however, is likely to be imprecise because it is impossible to obtain complete knowledge about the fiscal problems of as many as 39,000 units of general purpose local government.

If a formula method is selected, it could target funds on areas with high unemployment rates. Unemployment rates are only rough proxies for fiscal problems, however. Other indicators, such as recent declines in population, employment, and relative per capita income, could be included in the formula. Although these indicators are not available soon enough to use in an antirecession formula, they are timely enough for a longrun, structural program.

Reallocations to Structural Problems

Antirecession programs could in effect be phased down by redesigning them as structural programs. This could be achieved by making the following changes:

- Delete all national triggers and use annual appropriations;
- Amend State and local triggers to determine area eligibility at some base level unemployment rate, or by declines in population, employment, and relative per capita income;
- Amend allocation mechanisms to target funds on areas with high unemployment rates, or declining population, employment, and relative per capita income;
- Amend individual eligibility criteria to exclude high income, short-term unemployed persons in some programs such as public service employment or the jobs tax credit.

Public service employment, local public works, and antirecession fiscal assistance could be transformed into a consistent set of structural programs. Once the national trigger is deleted from antirecession fiscal assistance, jurisdictions could be determined eligible at a minimum unemployment rate, say, 5 percent. The allocation mechanism could be graduated so that areas with high unemployment rates would receive proportionately more funds.

The reallocation approach might not acquire any additional funds because it could shift existing funds to areas with structural problems. If any fiscal problems arise in the process, however, hold-harmless funds could be made available. These funds could be used on a discretionary basis to avert layoffs, service cuts, and tax increases caused by the reallocation.

THE ADMINISTRATION'S PROPOSALS

The administration's proposals are a mixture of the three types of options. They include:

- Maintaining the existing 725,000 public service jobs (CETA titles II and VI), but distinguishing structural from antirecession jobs beginning in fiscal year 1980;
- Creating a new "soft public works" program of $1 billion in budget authority for each of 3 years beginning in fiscal year 1979, which would supplant the Job Opportunities Program and the local public works projects;
- Replacing the current jobs tax credit with a $1.5 billion tax credit targeted on long-term unemployed youth from 18 to 24 years old;
- Replacing antirecession fiscal assistance with a $1 billion fiscal adjustment assistance program for local governments in distressed areas.

These proposals phasedown or terminate the Job Opportunitise Program, local public works projects, antirecession fiscal assistance, the jobs tax credit, and the unemployment insurance extended benefits program. They also target $3.5 billion in fiscal year 1979 on distressed areas, of which $2 billion will be allocated to State and local governments in areas with high unemployment rates or declining population, employment, and relative per capita income. In effect, the retargeted spending will probably more than compensate fiscally strained jurisdictions for the phased down antirecession programs.

If the President's proposals are enacted, most antirecession programs will be transformed into structural programs. Only the Job Opportunities Program, extended benefits under unemployment insurance, and a nationally triggered public service employment (CETA–VI under H.R. 11086) program would remain as permanent antirecession programs.

APPENDIX

Appendix A

Estimated Relationships Between the National Rate of Unemployment and State and Local Labor Market Area Rates of Unemployment

Equation (1) presents the simple linear form in which State and local rates of unemployment were regressed on the national rate of unemployment using ordinary least squares. Seven equations were estimated for each area, ranging from lags of 1, 2, and 3 months to leads of 1, 2, and 3 months and one coincident with the national rate of unemployment. Then, the equation with the highest R^2 was chosen as the best fit for each area. These equations were sorted by census region and the results are displayed in detail in tables A–1 and A–2.

$$LRU_t = b_o + b_1 NRU_{t-n} + e_t \tag{1}$$

Where:

LRU_t = Local rate of unemployment (3-month moving average)
NRU_{t-n} = National rate of unemployment (3-month moving average)
b_o = Constant
b_1 = Slope
e_t = Error term
t = Time period in months
n = Lead, coincidence, or lag ($n = -1, -2, -3, 0, 1, 2, 3$, respectively)

The statistical properties of the estimates were poor. The null hypothesis that there was positive serial correlation of the residuals could not be refuted by the Durbin-Watson test. Other runs were made using first differences and first-order autocorrelation adjustments, but the estimates were not improved substantially. A run using a second-order autocorrelation adjustment was tried on a small number of Labor Market Areas (LMAs) and promising results were obtained. Resource constraints, however, did not permit further pursuit of this approach.

The problem of autocorrelation implies that the estimates of b_o and b_1 are still unbiased, but the t, F, and R^2 statistics are biased upwards. This eliminates the possibility of performing valid statistical tests of significance on the estimates. The estimates could, however, be used for prediction, but the predictions would be "inefficient" because their variances would be too high in relation to the "correct" model.

Despite these extreme caveats, the following rough generalizations can be made:

- There was a wide and uniform distribution of the estimated leads and lags for state and local unemployment rates.

- The high R^2 statistics indicated in appendix table A–2 are, in part, the result of autocorrelation. Even with this upward bias, 44 LMAs out of 187 had R^2 below 50 percent. This suggests that some key variables have been omitted.
- There was a wide and uniform distribution of the "responsiveness" (b_1) estimates. They ranged from zero to 2.7, indicating that some areas are quite responsive and others are unresponsive.
- Apart from a local areas' relationship to the national rate of unemployment, many areas had unemployment rates that were not related to fluctuations in the national rate of unemployment. Local conditions seem to be very important for some areas, even though the estimates for b_o tended toward zero.

These results should be interpreted and used very cautiously. The autocorrelation problem could be corrected, but these estimates do not contain any corrections. Several sources could be causing the problem. A nonlinear model might fit the data better. Certain key variables could have been omitted and there could be excessive error in the measurement of local unemployment rates. An improved model would help, but much more basic research must be performed before these problems can be solved.

TABLE A–1.—ORDINARY LEAST SQUARES REGRESSION RESULTS BY REGION AND STATE FOR 1970–77

Region/State	Coincidence (lead−; lag+; or coincident-0 in months)	b_o	b_1	R^2
New England:				
Vermont	2	−0.72	1.20	0.82
Massachusetts	1	−.55	1.29	.72
Connecticut	3	2.09	.92	.67
Middle Atlantic:				
New York	3	−1.25	1.38	.90
Pennsylvania	2	−.59	1.08	.89
New Jersey	2	−1.90	1.44	.87
South Atlantic:				
Florida	−1	−4.81	1.78	.90
South Carolina	−3	−1.89	1.21	.89
Maryland	2	−.48	.90	.87
Georgia	−2	−2.73	1.27	.86
Virginia	−2	−.93	.87	.80
North Carolina	−2	−2.87	1.28	.78
East North Central:				
Illinois	2	.50	.77	.85
Ohio	0	−1.01	1.16	.81
Michigan	−2	−.83	1.43	.71
Wisconsin	0	.18	.76	.68
Indiana	−1	.09	.88	.60
East South Central:				
Tennessee	−2	−1.76	1.10	.80
Mississippi	−1	−1.00	1.02	.79
Alabama	−3	.72	.80	.79
Kentucky	1	1.05	.68	.56
West North Central:				
Missouri	1	.07	.76	.77
Minnesota	2	1.63	.53	.47
West South Central:				
Oklahoma	−1	−1.33	.94	.83
Texas	1	1.99	.45	.79
Louisiana	3	6.88	.04	0
Mountain:				
New Mexico	−1	4.13	.66	.77
Colorado	0	1.23	.63	.68
Pacific:				
California	1	3.76	.71	.67
Oregon	0	1.45	1.05	.61
Washington	2	7.47	.22	.05
Alaska	3	7.04	.19	0

TABLE A–2.—ORDINARY LEAST SQUARES REGRESSION RESULTS BY REGION AND LABOR MARKET AREA FOR FISCAL YEARS 1970–77

Region/labor market area (LMA)	Coincidence (lead−; lag+; or coincident-0 in months)	b_0	b_1	R^2
New England:				
Fitchburg-Leciminster, Mass.	0	−1.93	1.63	0.68
Lawrence-Haverhill, Mass.-N.H.	2	−1.33	1.62	.82
New Bedford, Mass.	0	−.46	1.53	.64
Fall River, Mass.-R.I.	−2	−1.64	1.45	.63
Bristol, Conn.	3	3.07	1.38	.21
Lowell, Mass.	−1	−.50	1.37	.66
Brockton, Mass.	1	−.76	1.32	.66
Boston, Mass.	3	−.44	1.26	.70
Worcester, Mass.	2	−.23	1.24	.65
Meriden, Conn.	3	2.63	1.21	.51
New Britain, Conn.	3	1.79	1.21	.55
New Haven, Conn.	3	.79	1.11	.83
Springfield-Chicopee-Holyoke, Mass.-Conn.	1	.76	1.10	.59
Pittsfield, Mass.	2	.83	1.06	.68
Bridgeport, Conn.	3	3.09	1.03	.59
Norwalk, Conn.	3	2.67	.63	.55
Stamford, Conn.	3	2.80	.52	.49
Middle Atlantic:				
Vineland-Millville, Bridgeton, N.J.	−1	−2.26	1.77	.75
Northeastern Pennsylvania	0	−3.09	1.69	.82
Wilkes-Barre-Hazelton, Pa.	1	−2.76	1.69	.66
Erie, Pa.	3	−3.91	1.64	.83
Williamsport, Pa.	1	−3.21	1.63	.83
Allentown-Bethlehem-Easton, Pa.-N.J.	1	−5.02	1.62	.90
Camden, N.J.	2	−2.13	1.61	.91
Scranton, Pa.	0	−2.54	1.59	.82
Jersey City, N.J.	2	−.69	1.56	.83
Paterson-Clifton-Passaic, N.J.	1	−1.42	1.54	.77
York, Pa.	0	−4.86	1.52	.89
Syracuse, N.Y.	2	−2.29	1.46	.93
New York, N.Y.-N.Y.	3	−1.42	1.46	.87
Newark, N.J.	2	−2.28	1.46	.87
Buffalo, N.Y.	2	−.21	1.45	.70
Atlantic City, N.J.	1	−.31	1.40	.48
New Brunswick-Perth Amboy-Sayreville, N.J.	2	−1.70	1.33	.88
Nassau-Suffolk, N.Y.	3	−1.97	1.30	.79
Rochester, N.Y.	3	−2.35	1.30	.87
Long Branch-Asbury Park, N.J.	0	−.42	1.24	.72
Reading, Pa.	1	−3.62	1.24	.89
Lancaster, Pa.	1	−3.60	1.23	.88
Utica-Rome, N.Y.	3	1.19	1.19	.55
Altoona, Pa.	1	−.78	1.17	.78
Albany-Schenectady-Troy, N.Y.	3	−1.23	1.15	.87
Harrisburg, Pa.	0	−2.71	1.04	.87
Binghamton, N.Y.-Pa.	2	.20	1.01	.77
Philadelphia, Pa.-N.J.	2	.12	1.01	.86
Elmira, N.Y.	3	1.99	1.01	.47
Poughkeepsie, N.Y.	3	−1.72	1.00	.87
Trenton, N.J.	0	−.34	.90	.76
Pittsburgh, Pa.	3	2.52	.64	.67
Johnstown, Pa.	2	2.75	.60	.39
South Atlantic:				
Fort Lauderdale-Hollywood, Fla.	−1	−9.99	2.74	.89
West Palm Beach, Fla.	−1	−5.79	2.12	.86
Miami, Fla.	0	−5.53	1.95	.91
Tampa-St. Petersburg, Fla.	−1	−6.16	1.93	.89
Orlando, Fla.	−2	−5.30	1.91	.87
Daytona Beach, Fla.	−1	−4.24	1.71	.86
Melbourne, Titusville-Cocoa, Fla.	−3	−.08	1.59	.78
Charlotte-Gastonia, N.C.	−2	−5.50	1.55	.86
Asheville, N.C.	−2	−4.15	1.49	.72
Greenville, Spartanburg, S.C.	−2	−4.47	1.43	.91
Greensboro-Winston Salem-High Point, N.C.	−2	−2.92	1.20	.79
Baltimore, Md.	1	−.86	1.09	.90
Roanoke, Va.	−1	−1.96	.96	.86
Columbia, S.C.	1	−1.14	.89	.88
Charlestown, S.C.	−3	1.38	.74	.75
Jacksonville, Fla.	−3	.48	.73	.66
Pensacola, Fla.	−3	.70	.72	.66
Raleigh-Durham, N.C.	−1	−.26	.62	.70
Newport News-Hampton, Va.	−3	.99	.62	.71
Norfolk-Virginia Beach-Portsmouth, Va.-N.C.	−3	1.39	.58	.81
Richmond, Va.	−1	.32	.45	.77
Lakeland-Winter Haven, Fla.	−3	7.83	.31	0

TABLE A-2.—ORDINARY LEAST SQUARES REGRESSION RESULTS BY REGION AND LABOR MARKET AREA FISCAL YEARS 1970–77—Continued

Region/labor market area (LMA)	Coincidence (lead −; lag +; or coincident-0 in months)	b_0	b_1	R^2
East North Central:				
Youngstown-Warren, Ohio	0	−4.48	1.82	.84
Jackson, Mich	0	−4.14	1.75	.84
Ann Arbor, Mich	−3	−4.53	1.73	.83
Flint, Mich	−3	−1.64	1.66	.43
Battle Creek, Mich	0	−2.37	1.54	.86
Akron, Ohio	1	−3.81	1.53	.88
Fort Wayne, Ind	0	−4.31	1.49	
Saginaw, Mich	−2	−2.72	1.47	.71
Muskegon-Muskegon Heights, Mich	1	−.17	1.47	.73
Detroit, Mich	−2	−.48	1.46	.70
Lansing-East Lansing, Mich	−3	−2.17	1.44	.72
Rockford, Ill	0	−2.83	1.43	.77
Decatur, Ill	1	−3.11	1.42	.87
Canton, Ohio	1	−2.53	1.40	.84
Toledo, Ohio-Mich	−2	−2.61	1.35	.82
Bay City, Mich	−1	.50	1.28	.57
Kalamazoo-Portage, Mich	−1	−1.29	1.19	.87
Muncie, Ind	0	−1.17	1.18	.58
Columbus, Ohio	0	−2.76	1.17	.85
Grand Rapids, Mich	−1	−.47	1.16	.76
Dayton, Ohio	0	−1.61	1.10	.78
Kenosha, Wis	3	−1.40	1.01	.56
Cincinnati, Ohio	1	.15	.98	.84
Milwaukee, Wis	−1	−1.01	.94	.78
Gary-Hammond-East Chicago, Ind	3	.12	.89	.59
Chicago, Ill	2	.16	.83	.90
Cleveland, Ohio	2	.71	.83	.62
South Bend, Ind	−2	.39	.76	.46
Appleton-Oshkosh, Wis	2	.07	.73	.67
Racine, Wis	2	.66	.70	.68
Evansville, Ind.-Ky	−1	.50	.70	.55
Springfield, Ill	3	.68	.55	.68
Terre Haute, Ind	2	2.12	.50	.38
Green Bay, Wis	3	2.89	.39	.34
Madison, Wis	3	1.72	.31	.42
Indianapolis, Ind	−2	3.39	.29	.12
Bloomington-Normal, Ill	−1	2.02	.24	.25
Peoria, Ill	3	3.15	.17	.12
Champaign-Urbana-Rantoul, Ill	3	2.85	.15	.15
La Crosse, Wis	−3	6.94	−.11	.01
East South Central:				
Louisville, Ky.-Ind	1	−2.51	1.29	.89
Gadsden, Ala	−3	1.22	1.17	.54
Chattanooga, Tenn.-Ga	−3	−2.82	1.14	.92
Memphis, Tenn.-Ark.-Miss	−1	−1.70	1.03	.82
Sheffield, Ala	−2	.91	1.02	.56
Nashville-Davidson, Tenn	−1	−1.88	.93	.82
Biloxi-Gulfport, Miss	0	−.31	.91	.85
Knoxville, Tenn	−1	−1.24	.86	.83
Huntsville, Ala	−3	.69	.84	.73
Tuscaloosa, Ala	−3	.35	.68	.44
Montgomery, Ala	−2	−.14	.68	.80
Jackson, Miss	−1	.13	.65	.78
Birmingham, Ala	0	1.78	.60	.74
Mobile, Ala	−3	3.96	.28	.42
West North Central:				
Springfield, Mo	−1	−2.67	.93	.77
Kansas City, Mo.-Kans	0	−.19	.90	.82
St. Joseph, Mo	2	−1.23	.82	.79
Minneapolis-St. Paul, Minn	2	.84	.72	.80
St. Louis, Mo.-Ill	1	2.01	.68	.73
Columbia, Mo	2	1.79	.17	.29
West South Central:				
Anniston, Ala	−3	−3.86	1.65	.76
Sherman-Denison, Tex	2	−3.00	1.61	.83
Texarkana, Tex.-Ark	−1	−.14	1.25	.74
Lawton, Okla	−1	−2.62	1.20	.70
Oklahoma City, Okla	0	−2.27	1.07	.80
El Paso, Tex	1	.39	1.06	.55
Tyler, Tex	−2	−.92	.92	.75
San Antonio, Tex	−2	.39	.87	.76
Brownsville-Harlingen-San Benito, Tex	−3	3.10	.87	.63
Tulsa, Okla	0	−.50	.78	.81
Longview, Tex	0	.91	.73	.72
Laredo, Tex	3	10.50	.71	.17
Austin, Tex	−1	−.62	.62	.76
Waco, Tex	−3	1.46	.59	.53
McAllen-Pharr-Edinburg, Tex	3	5.73	.59	.32

TABLE A–2.—ORDINARY LEAST SQUARES REGRESSION RESULTS BY REGION AND LABOR MARKET AREA FISCAL YEARS 1970–77—Continued

Region/labor market area (LMA)	Coincidence (lead−; lag+; or coincident-0 in months)	b_0	b_1	R^2
West South Central—Continued				
Dallas-Fort Worth, Tex	0	.57	.56	.72
Corpus Christi, Tex	−3	2.89	.46	.41
Shreveport, La	−2	3.86	.45	.55
New Orleans, La	−2	4.61	.43	.50
Galveston-Texas City, Tex	3	3.06	.41	.30
Monroe, La	−3	4.86	.37	.44
Beaumont-Port Arthur-Orange, Tex	3	4.59	.37	.43
Wichita Falls, Tex	0	1.56	.36	.47
Houston, Tex	3	2.56	.36	.62
Lubbock, Tex	−3	1.98	.23	.12
Abilene, Tex	2	2.21	.21	.15
San Angelo, Tex	−2	2.96	.12	.12
Amarillo, Tex	2	3.40	.04	0
LaFayette, La	0	5.84	−.17	.19
Baton Rouge, La	−3	8.51	−.30	.22
Lake Charles, La	−3	11.56	−.40	.19
Mountain:				
Albuquerque, N. Mex	−2	1.46	1.02	.82
Denver-Boulder, Colo	0	−.80	.89	.79
Pacific:				
Eugene-Springfield, Oreg	−1	0	1.38	.69
San Diego, Calif	−1	.19	1.37	.75
San Francisco-Oakland, Calif	3	2.19	1.10	.91
Riverside-San Bernardino-Ontario, Calif	−1	1.97	1.07	.79
Santa Rosa, Calif	−1	2.37	1.07	.48
Portland, Oreg.-Wash	1	1.02	.99	.80
San Jose, Calif	2	2.38	.80	.60
Los Angeles-Long Beach, Calif	2	3.43	.77	.59
Modesto, Calif	3	8.18	.66	.08
Tacoma, Wash	3	5.05	.65	.50
Sacramento, Calif	2	4.03	.55	.30
Salem, Oreg	0	4.59	.54	.16
Santa Barbara-Santa Maria-Lompoc, Calif	2	2.99	.54	.65
Oxnard-Simi Valley-Ventura, Calif	3	4.32	.53	.58
Bakersfield, Calif	3	4.52	.48	.49
Spokane, Wash	−2	4.62	.48	.29
Anaheim-Santa Ana, Calif	1	4.36	.44	.14
Salinas-Seaside-Monterey, Calif	0	4.56	.44	.10
Vallejo-Fairfield-Napa, Calif	3	3.62	.41	.35
Stockton, Calif	2	6.72	.38	.08
Fresno, Calif	2	6.31	.30	.08
Seattle-Everett, Wash	3	7.92	.24	.01

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