

Statement of
Alice M. Rivlin
Director
Congressional Budget Office

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Unemployment is currently at its highest level since World War II and is likely to continue high for some time to come. Today's joblessness is the result of both cyclical and structural causes: the slowdown in economic activity; the persistent job difficulties of disadvantaged low-income groups; and the long-term decline of some industries. Because the reasons for the joblessness of different groups are not the same, options for helping them differ.

In my remarks today I will discuss three topics:

- o The current unemployment situation;
- o Factors affecting the policy response to high joblessness; and
- o Options for assisting different groups of unemployed persons.

THE UNEMPLOYMENT SITUATION

Unemployment has risen steadily for over a year, reaching 10.8 percent in December 1982--the highest level since 1941 and up more than three and one-half percentage points since the most recent low point in July 1981. More than 12 million persons were searching for work in December, and 1.8 million others who wished to work were not counted as unemployed because they said they had given up looking for jobs. Of those counted as unemployed in December, almost 40 percent had been without work for 15 or more weeks, and over 60 percent were unemployed because they had lost their last job, as distinct from having quit or having newly joined or rejoined the work force.

The recent upsurge in unemployment occurs within the context of longer-term increases in both employment and average joblessness. Employment has grown considerably in recent decades, from 66 million workers in 1960 to nearly 100 million today--the result of both population growth and an increase in the proportion of women who work. The unemployment rate has also risen over this period, from an average of 4.6 percent in the 1950s and 1960s to 6.2 percent in the 1970s. Thus far in the 1980s--a period dominated by recession--unemployment has averaged 8.1 percent.

The recent rise in unemployment has affected all groups in the work force (see Table 1). Joblessness among adult men--a group that has had an historically low unemployment rate--reached 10.1 percent in December, exceeding the rate for adult women. In the same month, one in five blacks and nearly one in four teenagers in the labor market were without work. Unemployment has been concentrated in the goods-producing industries of the economy, with 22 percent of construction workers and 14.8 percent of manufacturing workers without jobs in December, compared to about 8 percent of all service workers. Regional unemployment patterns are strongly related to the types of workers and industries concentrated in particular areas, with the highest state jobless rates occurring in the industrial Midwest, parts of the South, and the far West.

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

Group	July 1981 ^{a/}	December 1982
All Workers	7.2	10.8
Adult Men	5.8	10.1
Adult Women	6.7	9.2
Teenagers	18.7	24.5
White	6.3	9.7
Black	13.8	20.8
Goods-Producing Industries		
Construction	15.2	22.0
Manufacturing	7.3	14.8
Durables	7.1	17.1
Nondurables	7.6	11.4
Service-Producing Industries		
Transportation and Public Utilities	4.1	8.0
Wholesale and Retail Trade	7.9	11.0
Finance and Service	5.7	7.9
Government	4.6	5.1

SOURCE: Department of Labor, Bureau of Labor Statistics.

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

The Outlook

The employment outlook for the near future is not promising. Even if economic recovery begins soon, joblessness is not likely to decline rapidly. If recovery begins in the first quarter of 1983, for example, building to an annual real economic growth rate of 4 to 5 percent, unemployment could still remain above 10 percent through early 1984. Moreover, even with decreases in overall unemployment, certain groups of workers will continue to have difficulty finding jobs because they lack the skills needed in today's labor market. Individuals who have little in the way of job skills, and employees displaced from declining industries with little prospect of being rehired by their former employers--often referred to as dislocated workers--will both continue to suffer employment problems.

FACTORS AFFECTING THE POLICY RESPONSE

In past periods of prolonged recession, the Congress has enacted economic stimulus programs, often including direct job-creation efforts such as public works and public service employment programs. While such programs could expand employment opportunities during the current downturn, there would be certain risks in undertaking them at this time. Specifically, federal deficits are very large now and are expected to remain large for some time to come--running in excess of \$150 billion for each of the next several years, unless further action is taken to increase revenues or hold down spending. Enacting new direct spending programs in the current

environment would thus add to already highly troublesome deficits, placing additional pressure on interest rates and risking choking off economic recovery. Attempts to offset this effect through monetary policy would risk higher inflation in the future.

In light of concerns regarding the deficit, the Congress could finance additional spending by raising taxes selectively--as in the recently passed highway and mass transit bill. Such an approach would shift productive activity from the private sector to the public sector, and would alter the composition of employment in the short run, but would probably have little effect on overall employment in the long run. Similarly, a job-creation program could be financed by reducing federal spending in other areas--again altering the composition, and perhaps the timing, of employment in the near term, but probably having little effect on total employment in the long run.

OPTIONS FOR ASSISTING THE UNEMPLOYED

Although substantial improvement in the employment situation will not occur without sustained economic growth, options are available for aiding some number of the unemployed now. Two general approaches are available:

- o Addressing cyclical unemployment problems by expanding immediate job opportunities for unemployed persons; and
- o Focusing on structural problems responsible for the long-term joblessness of certain groups.

Addressing Cyclical Unemployment Problems

Currently, the principal program for aiding the cyclically unemployed is Unemployment Insurance (UI)--a joint federal-state system that provides short-term partial income replacement for some unemployed persons but does nothing to expand their immediate job prospects. As of December, approximately 5.7 million persons--or about half of all unemployed individuals--were receiving UI payments, about 700,000 of them under the Federal Supplemental Compensation program authorized last fall and due to expire at the end of March. Further extending federal benefits would provide an additional financial cushion for some of the cyclically unemployed but would not improve their employment opportunities.

Several approaches are available for expanding immediate job opportunities. Specific options--all of which have been used in previous recessions--include:

- o Public works construction or repair programs;
- o Other public employment programs; and
- o Wage subsidies for new private-sector employment.

These and other options are discussed in greater detail in a recently released Congressional Budget Office paper--**Strategies for Assisting the Unemployed**--prepared in response to requests from the chairman of this Subcommittee and others.

Public Works Programs. Increasing federal funding to enable states and localities to pay for the construction or repair of public facilities such as roads, bridges, and sanitation systems is one way of expanding employment opportunities principally in high-wage, high-skill construction jobs and in the industries that supply construction materials. A public works program might also improve the overall efficiency of the economy by helping to address the nation's long-term public capital needs.

The most recent such federal effort--the Local Public Works (LPW) program--provided \$6 billion to states and localities during the late 1970s to fund 10,600 projects, principally in areas of high unemployment. LPW projects were generally relatively small-scale, costing an average of about \$570,000, with none larger than \$5 million. The Department of Commerce, which administered the LPW program, has estimated that the federal funds generated approximately 93,000 person-years of on-site project employment--principally in short-duration construction jobs--plus 66,000 person-years of employment in such supplying industries as concrete and steel manufacturing. The average federal expenditure for the nearly 160,000 person-years of employment estimated to have been created directly was therefore about \$38,000 per job-year in 1978 dollars.

Most of the effects of the LPW program were felt during the economy's recovery, however, with project-related employment peaking well after overall joblessness had begun to decline. The slowness of LPW spending was due in part to the timing of Congressional action in authorizing the program, and in part to the lags inherent in planning and carrying out public works projects.

Other Public Employment. Funding temporary jobs in government agencies, nonprofit organizations, or conservation projects is another means of expanding short-term employment opportunities. This approach could create more direct employment than public works projects, because public employment generally uses less capital and provides participants with lower wages. Since wages are usually lower, public service jobs are more likely to go to low-income persons or to the long-term unemployed who have depleted their financial resources.

The federal government has funded public service employment (PSE) programs several times in the recent past, with PSE spending peaking at \$5.8 billion in 1978. Most PSE jobs were short-duration positions in such areas as law enforcement, education, transportation, and parks and recreation. The types of people employed in PSE jobs, the wage levels paid, and thus the average federal cost per worker have all varied over time. When phased out in 1981, PSE jobs were focused on the disadvantaged, and

the maximum allowable annual wage level was \$10,000. In that year, each person-year of employment funded through PSE programs cost approximately \$11,000 in federal outlays--about 70 percent of which went for wages. Evaluations of past PSE programs have generally concluded that some share of the persons employed with federal funds would have been hired in any event--thereby creating fewer net new jobs in the short run. The extent to which such fiscal substitution would occur today is difficult to assess.

Another means of expanding public employment would be to provide unrestricted cash grants to states and localities, allowing them to determine how the money should be spent. Such a countercyclical revenue sharing program operated between 1976 and 1978; distributing more than \$3 billion to state and local governments. In the short run, funds distributed under that program merely increased governments' financial balances, thus delaying the full stimulus effect of the program. While the strained fiscal condition of states and localities today might make them more likely to spend additional federal funds more quickly, they might not necessarily use the money for particularly labor-intensive projects.

Countercyclical Wage Subsidies. A quite different approach to expanding job opportunities would be to provide wage subsidies--through tax

credits or direct expenditures--to private-sector employers hiring additional workers. This option could help stimulate broad-based employment gains by reducing the cost of labor. Such a subsidy could be implemented quickly and could be made applicable only for hiring during specified time periods. The net job-creation effect of such a subsidy is uncertain, however, because many employers might receive the subsidy for new employment that would have occurred anyway.

A New Jobs Tax Credit operated during 1977 and 1978, providing businesses with a nonrefundable tax credit of 50 percent of the first \$4,200 of wages per employee for increases in employment of more than 2 percent over the previous year. Evaluations of that program concluded that the availability of the credit did little to alter most employers' hiring decisions, however.

Addressing Structural Unemployment Problems

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems--low-income individuals who have little recent work experience or who have worked previously but with chronically low earnings; and workers who have been displaced by long-term changes in the economy. The primary goal of policies to assist these persons--the structurally unemployed--is to increase

their long-term employability, rather than just to expand immediate job opportunities. None of these policies can succeed, however, without sustained real economic growth.

Authorizing legislation already exists that would help structurally unemployed persons. The Job Training Partnership Act, which was enacted in October 1982 as a replacement for the Comprehensive Employment and Training Act (CETA), provides federally financed but state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. The principal issues in addressing structural employment problems, therefore, now concern what funding levels to provide in the future and how to exercise discretion available under the Act.

Assisting Disadvantaged Persons. Experience under CETA and related programs suggests that different approaches might be used to aid different groups of disadvantaged persons. A joint CBO-National Commission for Employment Policy study found that for adults with little previous work experience, training and related services provided under CETA were successful in raising trainees' earnings, on average, primarily by increasing the number of hours worked. For adults with more work experience but chronically low earnings, more extensive--and, therefore, more expensive--training would probably be required to increase future earnings.

For disadvantaged youth--who often lack any work experience, and who may lack marketable skills as well--some combination of remedial education, work training, and job-search assistance might be required.

Assisting Dislocated Workers. Title III of the Job Training Partnership Act authorizes several different services for dislocated workers. Under that title, states--with the assistance of Private Industry Councils, if the states choose to use them--will identify groups of dislocated workers and determine what job opportunities might exist for which the individuals could be trained. Funds may be used to provide job-search assistance, pre-layoff assistance, relocation aid, training, and early joint employer-labor intervention in the event of a plant closing. In order to receive Title III aid, states must provide matching funds, with the size of the match varying with the state unemployment rate.

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

CONCLUSION

In conclusion, several options are available to expand short-term employment opportunities or to address structural unemployment problems. All such options have certain limitations and carry risks, however. Countercyclical stimulus programs might expand already large federal deficits--increasing pressures on credit markets and posing some risk of rekindling inflation. Training and other assistance for the structurally unemployed also add to the deficit but might contribute as well to longer-term productivity gains once economic recovery takes hold. Deliberations regarding the fiscal year 1984 budget will present the Congress with its next opportunity to address competing employment policy concerns.