

# EMPLOYMENT AND TRAINING PROGRAMS

Staff Working Paper

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## PREFACE

This report is one of several reports on **unemployment** and **employment** policies issued by the Congressional Budget Office. It was undertaken at the request of Representative **Parren** J. Mitchell, Chairman of the Human Resource Task Force of the House Committee on the **Budget**.

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## SUMMARY

### Employment and Training Programs Staff Working Paper

A wide range of policies and instruments is available to reduce the unemployment **rate**, increase employment **opportunities**, and improve worker skills. The range includes general fiscal stimulation, targeted expenditure and tax programs, and government programs that train potential workers and directly create part-time or full-time jobs. This staff analysis focuses on this latter category of programs.

Most employment and training programs are classified in the **subfunction** 504 of the federal budget. These programs can be categorized into the following four activities:

- o Skill Development - to enhance skills and productivity through a **period** (about 6 months) of classroom or **on-the-job** training (**OJT**).
- o Job Development - to expand the number or range of employment opportunities by creating jobs directly.
- o Employability Development - to develop personal attitudes and attributes necessary for entry-level employment.
- o Work Experience - to provide part-time (about 3-6 months) employment opportunities outside traditional labor **markets**.

These four activities encompass the following programs:

- o Skill Development Programs

**CETA Title I--Most** of the skill training activities are conducted under the authority of the Comprehensive Employment and Training Act of 1973. (Title I delegates authority for planning and operating training programs to prime sponsors, which for the most **part**, are states and units of general purpose local **government** of 100,000 or more population. Funds are allocated on the basis of prior **year's** allotments of funds, unemployment rates, and percentages of **low-income** families in these **jurisdictions**.)

o Job Development Programs

1. The Job Opportunities Program - This direct job creation **program** was enacted as Title X of the Public Works and Economic Development Act. The program is administered jointly by the Departments of Labor and Commerce. Projects are selected for funding from recommendations made by federal agencies and regional commissions.

2. CETA Title II - This program provides transitional public service jobs for areas of substantial unemployment (6.5 percent unemployment rate or more) administered in the decentralized manner of Title I.

3. CETA Title VI - Title VI (Temporary Employment Assistance) authorizes a program of emergency public service jobs administered in the decentralized manner of Titles I and II, but giving preferred consideration to the unemployed and underemployed.

o Employability Development

1. CETA Title IV (Job Corps) - The Job Corps was originally authorized under the Economic Opportunity Act of 1964 and continued as Title IV of CETA. It is administered directly by the Department of Labor through Job Corps Centers across the country. The program is designed to provide education, vocational training, and counseling for **low-income, disadvantaged youth (aged 14-22)**.

2. The Work Incentive (WIN) Program - WIN was **estab-**lished to help **AFDC** recipients achieve self-support through a program of training, work experience, and employment. Every employable AFDC recipient must register for the program and employers of WIN participants can claim limited tax credits.

o Work Experience Programs

1. CETA Titles I and III - Programs under these titles provide part-time employment to target groups including Native Americans, migrant and seasonal farmworkers and disadvantaged youth during the summer months. Title III also provides a substantial amount of classroom training.

2. Community Service Employment for Older Americans - This program provides part-time work in community service activities (e.g., hospitals, day care centers, etc.) for unemployed, low-income persons 55 or over.

In fiscal year 1975 the job development activity served proportionately more white, male, prime-age workers than the other three major employment and training activities. The job development activity reflected the general characteristics of the unemployed population. In contrast, the other three activities reflected the traditional emphasis on the economically disadvantaged and underemployed.

The distribution of funds spent on employment and training programs in fiscal year 1975 reflected an emphasis on CETA Title I and its work experience component. Since CETA Title VI was not fully implemented until the initial months of fiscal year 1976, the fiscal year 1976 data will show a moderate shift in emphasis toward the job development activity.

The costs per participant of the four major activities range from \$500 in work experience to \$5,800 in job development. Potential benefits include increases in future earnings of participants and reductions in the unemployment rate. Expansion of the job development activity could reduce the unemployment rate and the skill development activity may be most effective at increasing labor force productivity.

There are two major decisions within the subfunction 504 that must be made for fiscal year 1977. Both the total amount spent and the relative emphasis on the four major activities must be determined. Summary Table 1 presents five alternative employment and training budgets, which illustrate some possible choices.

The Congressional Budget Office current policy base reflects a projection of current policy in fiscal year 1977. Nearly fifty percent of the \$7.8 billion in the current policy base is estimated to be in the job development activity. Other budgets range from the \$9.8 billion in the increased job development budget to the \$3.9 billion in the decreased job development budget. The budget containing increased emphasis on skill development illustrates a decrease in the relative emphasis on job development in current policy.

Summary Table 1--**ALTERNATIVE** EMPLOYMENT AND TRAINING BUDGETS  
(Fiscal year 1977 outlays in millions of dollars)

Activities Programs/Options	Current Policy Base	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
<b>I. Skill Development</b>					
CETA - Title I <u>a/</u>					
1. Classroom Training	650 <u>e/</u>	650	537	1,049 <u>f/</u>	537
2. <b>OJT</b>	300 <u>e/</u>	300	253	494 <u>f/</u>	243
<b>II. Job Development</b>					
A. Job Opportunities Program	500	1,000	222	222	222
B. CETA - Title II	480 <u>e/</u>	480	400	400	400
C. CETA - Title VI	2,770	3,918		1,065	1,065
<b>III. Employability Development</b>					
A. CETA - Title IV (Job Corps)	200 <u>e/</u>	200	175	175	175
B. WIN	260	260	260	260	260
<b>IV. Work Experience</b>					
A. CETA - Title I <u>a/</u>	940 <u>e/</u>	940	790	1,542 <u>f/</u>	790
B. CETA - Title III	290 <u>e/</u>	290	239	239	239
1. Indians	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>
2. Migrants & Farmworkers	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>
3. Summer Youth Program	510	510	400	510	400
4. Youth Employment Program	<u>c/</u>	504	<u>c/</u>	<u>c/</u>	<u>c/</u>
C. Community Service Employment for Older Americans	100	100			
<b>V. Other Function 504 Activities <u>d/</u></b>	840 <u>g/</u>	644	644	644	644
<b>TOTAL</b>	<u>7,840</u>	<u>9,796</u>	<u>3,920</u>	<u>6,600</u>	<u>4,985</u>

a/ Outlays were prorated on the basis of the approximate percentage distribution of activities in Title I:  
 1. Classroom Training = .5  
     (a) Institutional (.68 x .5 = .34)  
     (b) OJT (.32 x .5 = .16)  
 2. Work Experience = .5

b/ Breakdown not available

c/ Not currently enacted

d/ Includes Program Administration, Grants to States for **UIS** and ES, and Unemployment Trust Fund: Training and Employment.

e/ Prorated as Follows: (\$ in billions)

Titles	I = .66 x 2.86 = 1.89
	II = .17 x 2.86 = .48
	III = .10 x 2.86 = .29
	IV = .07 x 2.86 = .20
Totals	<u>1.00</u> <u>2.86</u>

f/ Adds \$1,705 million to **President's** request for Title I. Prorated as noted in a/.

g/ Includes \$196 million in undistributed reserves for new initiatives.

**Summary** Table 2 depicts the years of service that each of the alternatives would fund both by program and major activity. Since the unemployment rate is projected to remain well above six percent in fiscal year **1977**, the job development activity is a major concern. Consequently, the net effects of the budget alternatives in this activity alone have been analyzed and presented in Summary Table 3. The effects range from a possible increase in the unemployment rate of 0.4 percentage points in the decreased job development budget to a decrease of 0.1 percentage points in the increased job development budget.

The alternatives analyzed demonstrate that these programs can have an affect both on the unemployment rate and the future productivity of the labor force. Other policies and instruments can also be used to reduce the unemployment rate. Employment and training programs can be useful tools in a larger strategy aimed at promoting employment.

Summary Table 2--**ALTERNATIVE** EMPLOYMENT AND TRAINING BUDGETS  
(Fiscal year 1977 estimated years of service)

Activities Programs/Options	Current Policy Base	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
<b>I. Skill Development</b>					
CETA - Title I					
1. Classroom Training	131,048	131,048	108,266	211,492	108,266
2. CUI	57,870	57,870	48,804	95,293	48,804
<b>II. Job Development</b>					
A. Job Opportunities Program	39,907	79,815	17,719	17,719	17,719
B. CETA - Title II	51,719	51,719	43,098	43,098	43,098
C. CETA - Title VI	335,595	474,678	—	129,028	129,028
<b>III. Employability Development</b>					
A. CETA - Title IV (Job Corps)	20,514	20,514	17,951	17,951	17,951
B. WIN	29,066	29,066	29,066	29,066	29,066
<b>IV. Work Experience</b>					
A. CETA - Title I	288,787	288,787	242,704	473,733	242,704
B. CETA - Title III <u>a/</u>	79,736	79,736	65,713	65,713	65,713
1. Indians	—	—	—	—	—
2. Migrants & Farmworkers	—	—	—	—	—
3. Summer Youth Program	206,144	206,144	161,682	206,144	161,682
4. Youth Employment Program	—	200,238	—	—	—
C. Community Service Employ- ment for Older Americans	26,028	26,028	—	—	—
<b>V. Other Function 504 Activities</b>	—	—	—	—	—
TOTAL	1,266,414	1,645,643	735,003	1,289,237	864,031

(AIX)

a/ Based on a weighted average cost per year of service for Title III Indians and Migrants & Farmworkers.

Summary Table 3--ESTIMATED EMPLOYMENT AND BUDGET EFFECTS OF ALTERNATIVE BUDGETS

Effects of Differences in the Job Development Activity	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
I. Net Employment (thousands)				
A. Direct a	+45 to +134	-92 to -275	-59 to -178	-59 to 178
B. Indirect b	<u>+61</u>	<u>-105</u>	<u>-74</u>	<u>-74</u>
Total	+106 to +195	-197 to -380	-133 to -252	-133 to -252
II. Change in Unemployment Rate from 7.5 percent c	-0.1	+0.2 to +0.4	+0.2 to +0.3	+0.2 to +0.3
III. Net Budget Savings (+) or Cost (-)	-843 to -741	<b>+1,605</b> to +1,437	+1,050 to +921	+1,050 to +921

(AX)

Notes:

a. Range represents the potential effect of fiscal substitution on net employment creation. The net employment effect is assumed to be between 25 and 75 percent of employment supported by federal funds. A wide range was selected because of the uncertainty associated with the available evidence on this phenomenon. See Appendix C for a further discussion.

b. Stimulative effect of the increase in expenditures assumed to be equal to the effect of an equivalent reduction in personal income taxes. Method derived from "Temporary Measures to Stimulate Employment; An Evaluation of Some Alternatives."

c. Projected unemployment rate for the fourth quarter of fiscal year 1977 based on the Congressional Budget Office moderate growth path estimate (Path B)



## CHAPTER I

### INTRODUCTION

This paper analyzes the employment and training programs in **subfunction** 504 of the budget. These include such activities as public service employment, work experience, and classroom and **on-the-job** training. Other employment creating instruments such as general fiscal stimulation or targeted tax and expenditure programs classified outside **subfunction** 504 are not included in this analysis. 1/

To facilitate analysis, the paper reviews employment and training programs in terms of four basic categories of activities: skill development; job development; **employability** development; and work experience. Chapter II contains a brief description of the programs in each of the four categories. It includes the legislative authority for each program and describes, where appropriate, the mechanisms for providing training or creating jobs.

Chapter III discusses the characteristics of participants in employment and training programs in fiscal year 1975. It shows percentage distributions by major demographic groups (race, sex, age, education, economic status) and shows the variations in proportions of clients served by each program category.

Chapter IV discusses the relative costs and effects of employment and training programs. It summarizes program costs and displays years of service funded in fiscal year 1975. This chapter also reviews the literature on the benefits of employment and training programs in terms of potential annual earnings increases of participants.

Chapter V presents five alternative employment and training budgets. The budgets are intended to illustrate some possible resource allocations and do not reflect the full range of mixes of instruments that could be used to either reduce unemployment or upgrade worker skills.

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1. For **example**, accelerated public works and countercyclical revenue sharing are not in subfunction 504.

Appendix A provides a series of tables containing additional employment and training program and cost data. Appendix B summarizes the potential benefits and costs of employment and training programs. Appendix C is a discussion of one of the key issues in public employment ~~programs--~~public service employment and the issue of fiscal substitution. It concludes with some alternative strategies for lessening the incidence of fiscal substitution and increasing the net employment effects of public service employment programs.

## CHAPTER II

### PROGRAM SUMMARIES

Employment and training programs provide four kinds of activities: 2/

- o Skill Development - to enhance skills and productivity through a period (about 6 months) of classroom or **on-the-job** training (**OJT**).
- o Job Development - to expand the number or range of employment opportunities by creating jobs directly.
- o Employability Development - to develop personal attitudes and attributes necessary for entry-level **employment**.
- o Work Experience - to provide part-time (about 3-6 months) employment opportunities outside traditional labor markets.

The range of employment and training programs **includes** the following programs currently operating:

- o Skill Development Programs

**CETA Title I--Most** of the skill training activities are conducted under the authority of the Comprehensive Employment and Training Act of 1973. (Titles III and IV of CETA also contain a number of skill development **activities**.) Title I places authority for planning and operating training programs in the hands of prime **sponsors**, which for the most **part**, are states and units of general purpose local government of 100,000 or more population. Funds are allocated on the basis of prior years allotment, the unemployment rate, and the percentage of **low-income** families in these jurisdictions.

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2. Activities are not mutually exclusive by program. Most programs have funds allocated to more than one activity. Programs have been generally classified by these four major categories according to the activity that tends to dominate the percentage distributions of costs and years of service.

o Job Development Programs

1. The Job Opportunities Program

The Job Opportunities Program is a direct job creation program. It was enacted as Title X of the Public Works and Economic Development Act (**PWEDA**) by the Emergency Jobs and Unemployment Assistance Act of 1974. The purpose of the program is to provide financial assistance to areas of high unemployment for projects or activities with high job creation potential. The law prohibits the obligation of funds if the national rate of **unemployment** falls below 6.5 percent (3 month **average**). Any area with an unemployment rate of 6.5 percent or more and areas designated as redevelopment areas under PWEDA are eligible.

All federal agencies and regional commissions are eligible to submit recommendations for projects under Title X. After evaluating the job creation effectiveness of their programs and projects for which funds are to be obligated, agencies determine those which can be **financed** with funds available under Title X. They then can submit recommendations to the Secretaries of Commerce and Labor for programs and projects which have job creation potential for unemployed persons in eligible areas. More than **10,000** recommendations were received in fiscal year 1975. Approximately 1,400 were selected for funding. The criteria used, as required by the legislation, included the following: (1) the severity of unemployment in the area; (2) would the project contribute to the reduction of unemployment in the area; (3) could the project be initiated promptly and substantially completed within 12 months; and (4) would the project be of a labor-intensive **nature**.

2. CETA Title II

This program provides transitional public service **jobs**, training, and related services in areas of substantial unemployment (**6.5 percent** or more) administered in the same decentralized manner as Title I. Transitional public service jobs provide needed public services and are intended to enable participants to move into positions not subsidized under CETA.

3. CETA Title VI (Temporary Employment Assistance)

Title VI of CETA was added by the Emergency Jobs and Unemployment Assistance Act of 1974. It authorized a program of emergency public service jobs designed to help ease the impact of high unemployment. As such, CETA prime sponsors were to give preferred **consideration** to the underemployed and **unemployed--particularly** those not receiving unemployment compensation benefits.

o Employability Development

1. CETA Title IV (Job Corps)

The Job Corps was originally authorized under the Economic Opportunity Act of 1964 and continued as Title IV of CETA. It is administered directly by the Labor Department through Job Corps Centers across the country. The program is designed to provide education, vocational training, and counseling for **low-income, disadvantaged** youth (aged **14-22**).

In fiscal year 1975, there were 60 Job Corps centers located in 31 states and Puerto Rico. There are three types of centers:

(1) Civilian Conservation Centers (CCC's) are 168 to 224 person residential centers located on Department of Agriculture and Department of Interior lands.

(2) Contract Centers are operated under contracts with state or local government **agencies**, private non-profit organizations, or profit-making organizations selected through competition. Contract centers vary in size from 144 to 2,200 individuals.

(3) Extension Centers provide advanced vocational **skills training**, combined with **on-the-job** training, with close ties to job placement opportunities.

The cost per Job Corps enrollee during fiscal year 1975 was \$2,814. Costs include travel, education, job training, comprehensive health care, **counseling**, allowances,

and room and board. In fiscal year 1975, Job Corps provided 19,600 service years of training. 3/ The average weekly termination rate was 4.4 percent. Those who left the program and entered employment had an average starting wage of \$2.44 per hour.

## 2. The Work Incentive (WIN) Program

The Work Incentive program, authorized by the 1967 Amendments to the Social Security Act, was established to help **AFDC** recipients achieve self-support through a program of training, work experience, and employment. All **nonemployable** persons (those under **16**, in **school**, **disabled**, or with a dependent under six years old) receiving AFDC assistance are exempted from registration with the WIN program. Every employable AFDC recipient must register for the program. The program includes registration, counseling, CUT, PSE, work experience, and institutional training. Where possible, WIN participants are placed directly in jobs and their employers can claim limited tax credits.

Child care (in the home or in day care centers) and supportive services (**e.g.**, family planning, medical services, home improvement, transportation, and vocational rehabilitation) are provided to enable registrants to accept training or employment. Training is administered by the Department of Labor and child care and supportive services are administered by the Department of **Health**, Education, and Welfare. The program provides for federal-state sharing of funds for child care and supportive services (90 percent federal and 10 percent **state**).

### o Work Experience

#### CETA Title III

Programs; under this title provide part-time employment for particular target groups including Native Americans, migrant and seasonal **farm-workers**, older workers (55 and over) and youth seeking summer employment. Title I **programs**, described earlier, also provide a considerable amount of work experience while Title III programs provide a substantial proportion of skill development training.

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3. A service year is a position funded for one **year**, which could be filled by several participants during the **year**.

## 1. Summer Youth Employment Program

For the past ten years the Department of Labor has funded a program of summer youth employment. Beginning in **1974**, summer youth programs were run by **CETA** prime sponsors. Under the authority of Title **III**, funds are distributed through state and local prime sponsors on the basis of area unemployment, the poverty population, and previous **year's** funding. In addition to federally earmarked funds, prime sponsors may, at their option, use Title **I** funds to provide additional summer **jobs**.

Under the program, participants may be placed in **OJT**, public service jobs, or work experience positions. The latter category tends to dominate. Participants may also receive classroom training and supportive **services--including** transportation.

**Enrollees** are placed in a number of organizations including schools, hospitals, libraries, universities, community service organizations and private nonprofit agencies. Traditional part-time jobs include clerical work, school maintenance, counseling, teachers aides, nurses aides, and cashiers.

## 2. Community Service Employment For Older Americans

Title IX of the Older Americans Comprehensive Services Amendments of 1973 authorized funds to provide part-time work in community service activities for **unemployed, low-income** persons 55 and over. Enrollees work 20 to 24 hours per week in a wide range of community activities, including day care centers, hospitals, senior citizen centers, facilities for the handicapped, and conservation, restoration, and **beautification** projects.

The Secretary of Labor is authorized to enter into agreements with public or private nonprofit agencies or organizations to pay up to 90 percent of the costs of establishing and operating a project for the employment of older persons. Projects are usually run by national-level organizations such as Green Thumb **Inc.**, the National Council on Aging, and the National Council of Senior Citizens.



## CHAPTER III

### CLIENT CHARACTERISTICS

The characteristics of participants in employment and training programs in fiscal year 1975 varied significantly by program. As shown in Table 1, the percentages of program slots filled by minorities and the economically disadvantaged were higher in programs that emphasized skill development and work experience (CETA Titles I, III, and IV). On the other hand, the percentages of white, male, prime-age (22 to 44) workers were higher in programs designed to create jobs directly (CETA Titles II and VI and the Job Opportunities Program.)

Among the reasons for these relative distributions of participants are the following:

- o Skill development programs are similar to the pre-CETA categorical activities funded by the Manpower Development and Training Act of 1962 (MDTA). Many of the service providers under MDTA continued to operate under CETA. Consequently, the characteristics of the enrollees--largely economically disadvantaged--remained essentially constant.
- o Titles II and VI of CETA are relatively new programs. Title VI was enacted during the economic downturn of late 1974 and its emphasis was on the unemployed. The proportions of the participants in these programs tended to reflect those of the unemployed population rather than those of the economically disadvantaged population.

#### Skill Development

In fiscal year 1975 seventy-seven percent of the participants under Title I of CETA (the principal skill development program) were economically disadvantaged. There is no data to show the numbers of blacks, women, or youth that were economically disadvantaged. For all of Title I, however, 46 percent of the participants were female, 39 percent were black and 62 percent were under 22. Additionally, 60 percent of the participants had less than 12 years of education.

Table I-CHARACTERISTICS OF PARTICIPANTS IN EMPLOYMENT AND TRAINING PROGRAMS  
(Fiscal Year 1975)

<u>Employment and Training Programs</u>	<u>Total Served FY 75</u>	<u>% Male</u>	<u>% Female</u>	<u>% White</u>	<u>% Black</u>	<u>% Spanish Speaking</u>	<u>Under 22</u>	<u>22-44</u>	<u>44 &amp; Over</u>	<u>Under 12 Yrs. Education</u>	<u>12 Yrs. &amp; Over</u>	<u>Economically Disadvantaged</u>
<u>Skill Development</u>												
CETA Title I a/	1,034,481	54.4	45.6	55.7	38.5	12.5	61.7	32.1	6.1	60.2	39.8	77.3
<u>Job Development</u>												
Job Opportunities Program b/	100,000	--	--	--	--	--	--	--	--	--	--	--
CETA Title II	200,079	65.5	34.5	68.3	22.5	6.5	24.1	62.8	13.0	25.3	74.7	48.3
CETA Title VI	141,108	70.8	29.2	71.1	20.9	6.6	21.8	64.5	13.7	26.3	73.8	43.6
<u>Employability Development</u>												
CETA Title IV Job Corps	45,799	75.1	24.9	40.4	55.2	8.1	100.0	--	--	88.8	11.2	100.0
Work Incentive Program	839,408	25.0	75.0	53.0	45.0	9.0	19.0	73.0	8.0	59.0	41.0	--
<u>Work Experience</u>												
CETA Title III Migrant/farmworkers b/	140,000	--	--	--	--	--	--	--	--	--	--	--
Indians b/	50,000	--	--	--	--	--	--	--	--	--	--	--
Community Service Employment for Older Americans	12,858	50.3	49.7	72.8	20.8	5.7	--	--	100.0	69.5	30.5	100.0
Summer Youth Program	754,884	56.0	44.0	52.0	43.0	12.0	100.0	--	--	96.0	4.0	83.0

Notes:

a. About one-half of the CETA Title I clients were in work experience, but the data could not be broken down by client characteristics in work experience. Thus, all CETA Title I clients are displayed under the skill development category in this table.

b. Disaggregated data unavailable.

Source: Unpublished U.S. Department of Labor data.

### Job Development

The direct employment creation programs served a smaller **pro-**portion of women and minorities in fiscal year 1975 than other categories of employment and training programs. Approximately 35 percent of these participants in Title II of **CETA** were **female**, 22 percent **black**, and 48 percent economically **disadvantaged**. **Similarly**, 29 percent of the Title VI participants were female, 21 percent black and 44 percent economically disadvantaged. There is no information now available at the federal level concerning demographic characteristics of the participants in the Job Opportunities program. The program requires no reporting of such data by project sponsors.

### Employability Development

The Job Corps was designed primarily to develop personal attitudes and attributes for entry-level employment. The program trains those who have historically been harder to train and employ, and serves the economically disadvantaged exclusively. Blacks accounted for 55 percent of the slots and women made up 25 percent of the program.

During fiscal year 1975, more than 45,000 individuals entered the Job Corps program. **Seventy-five** percent of the enrollees were male and the average age of new enrollees was 17. Almost 90 percent of the new enrollees had less than a high school education. (Over half of these had less than seven years of **schooling**.) Over a third of the enrollees **came** from families with five to seven persons and 40 percent of the families were receiving public assistance payments.

Other Department of Labor statistics reflect that 64 percent were forced to leave school because their families needed support or their grades were too poor; 60 percent were from broken homes; 60 percent lived in substandard housing; and 68 percent of those eligible for military service could not pass induction tests because of physical or mental **reasons**.

WIN participants reflected the demographic composition of the **AFDC** population, with women outnumbering men by 3 to 1. Whites represented a little over half of all WIN participants. Seventy-three percent of all participants were **prime-age** workers (**22-44**), while 19 percent were under 22. A still smaller proportion (8 percent) was over 44. About 41 percent had attended school 12 years or longer.

Work Experience

**Work** experience programs tend to be targeted to particular segments such as **youth**, the old workers, Native Americans, and migrants. These programs serve high proportions of the economically disadvantaged. For example, 83 percent of the Summer Youth Program enrollees and 100 percent of the older workers were economically disadvantaged.

## CHAPTER IV

### COSTS AND EFFECTS

#### Program Costs

The fiscal year 1975 employment and training program costs are summarized by activity in Table 2. Approximately \$3.0 billion was spent on the programs listed. The work experience activity received 37 percent of the total costs, while lesser proportions were distributed to the other three activities. Title I of **CETA** received about 42 percent of the funds. The other Titles of CETA received 48 percent and the remaining **non-CETA** programs received only 10 percent of these funds.

Table 3 summarizes the years of service funded in these programs by activity. 4/ Again, the work experience activity was dominant, accounting for 57 percent of the 755,365 years of service funded. Title I of CETA supported 51 percent of the service years. The non-CETA programs funded only 5 percent of the total service years.

Because Title VI of CETA expanded in the **first** half of fiscal year **1976**, it is likely that these relative emphases have shifted toward job development. **However**, fiscal year 1976 data are not currently available in a detailed form that would show this shift.

#### Effectiveness

There is limited evidence on the effects of participation in the four major categories of employment and training activities. 5/ A primary benefit is the expected increase in annual earnings of participants above what they would have earned in the absence of participation.

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4. See Appendix A for data on total costs, years of service, average length of stay, total participants, cost per year of service, and cost per participant by program and training activity.

5. See Appendix **B--Potential** Benefits and Costs of Training Programs.

Table 2--EMPLOYMENT AND TRAINING PROGRAM COSTS  
(Fiscal year 1975, Millions of dollars)

<b>Program/Activity</b>	<u>Skill Development</u>	<u>Job Development</u>	<u>Employability Development</u>	<u>Work Experience</u>	<u>Other</u>	<u>Total</u>
CETA - Title I	555	93		634	22	1304
Job Opportunities Program	---	22	---	---	---	22
CETA - Title II	5	503		10	1	519
CETA - Title VI		246		72	---	318
CETA - Title IV	---	---	170	---	---	170
WIN	---	---	269	---	---	269
CETA - Title III	22	5		18	24	69
Summer Youth Program	---	---		410	---	410
Community Service Employment For Older Americans	---	---	---	9	---	9
TOTAL <u>a/</u>	582	869	439	1153	25	3090

14

Source: U.S. Department of Labor unpublished data.

a/ Column totals exclude Function 504 activities such as Program Administration, ES, EEA, CETA Sec. 3A (MDTA and EOA), and CETA Title III "other" and "Program Support."

Table 3--EMPLOYMENT AND TRAINING YEARS OF SERVICE a/  
(Fiscal year 1975, Millions of dollars)

<u>Program/Activity</u>	<u>Skill Development</u>	<u>Job Development</u>	<u>Employability Development</u>	<u>Work Experience</u>	<u>Other</u>	<u>Total</u>
CETA - Title I	126,535	10,282	---	221,931	26,074	384,822
Job Opportunities Program	---	2,002	---			2,002
CETA - Title II	1,263	58,282	---	3,707	533	63,785
CETA - Title VI	303	33,484	---	10,321	96	44,204
CETA - Title IV	---	---	19,924			19,924
WIN	---	---	34,400			34,400
CETA - Title III	5,604	738	---	4,787	3,778	14,907
Summer Youth Program	---	---	---	188,721	---	188,721
Community Service Employment For Older Americans	---	---	---	2,600	---	2,600
TOTAL b/	133,707	104,788	54,324	432,067	30,481	755,365

Source: U.S. Department of Labor unpublished data.

a/ A year of service is an employment or training position funded for one year, which could be filled by more than one participant during the year.

b/ Column totals exclude Function 504 activities such as Program Administration, ES, EEA, CETA Sec. 3A (MDTA and EOA), and CETA Title III "other" and "Program Support."

The available evidence suggests that skill development yields the highest increases in annual earnings while work experience yields the smallest increase. The following rough ranges have been reported by one recent comprehensive review of the literature on these programs: 6/

Potential Postparticipation Earnings Effects of Employment and Training Activities

<u>Activity</u>	<u>Range of Annual Earnings Increases (dollars)</u>
Skill Development	400-800
Job Development	300-700
<b>Employability</b> Development	200-400
Work Experience	0-200

Although these ranges are based on rough judgments about many evaluation studies, they can be used cautiously as one measure of relative effectiveness.

There is little evidence that these annual earnings gains persist. The results of one recent study suggest that the average annual earnings gains over a **five-year** period resulting from skill development were about **\$380**. 7/ Given the pretraining earnings reported in the **literature**, this represents at least a 10 percent gain in the **participants'** average annual earnings. These increases, however, tended to be larger in the first year after training and

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6. Charles R. Perry, et. **al.**, The Impact of Government Manpower Programs (Philadelphia: The **Wharton** School, **1975**), p. 76.

7. **Orley Ashenfelter**, "Program Report on the Development of Continuous Performance Information on the Impact of the Manpower Development **Act**," Technical Analysis Paper No. 12A (Office of the Assistant Secretary for Policy Evaluation and Research, U.S. Department of Labor, October 1973, **processed**), p. 14.

to decline slowly over the **five-year** period. The study also found that **post-training** annual earnings increases varied by sex and race. <sup>8/</sup> Females appeared to gain the most from skill development and black males tended to gain more than white males. These earnings gains may have resulted from changes in hourly wages; changes in hours worked; and changes in labor force participation.

The major cost associated with employment and training programs results from the funding of a job or training slot. Table 4 shows that skill development appears to be more effective in terms of potential annual earnings gains than the other three major types of activities. While job development programs look relatively costly in terms of cost per **participant, however,** they also provide direct increases in employment. Likewise, the work experience programs also have the additional benefit of directly creating part-time jobs. It is **difficult** to compare the effects of **employability** development and skill development activities, because the former programs typically involve participants who are relatively harder to train and employ. Because of differences in objectives, target groups, and services provided, it is very difficult to draw conclusions about the relative effectiveness of these programs.

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8. Ibid.

**Post-Training** Increases in Annual Earnings

Race	Sex	
	Males	Females
Black	\$350	\$550
White	\$250	\$550

TABLE 4--COSTS AND EFFECTS OF EMPLOYMENT  
AND TRAINING ACTIVITIES a/

Activities	Fiscal Year 1975 Cost Per Participant (dollars)	Potential Future Increases In Annual Earnings (dollars)
I. <u>Skill Development</u>	1,600 - 1,900	400-800
II. <u>Job Development (Direct Employment Creation)</u>	<b>4,700</b> - 5,800	300-700
III. <u>Employability Development</u>	2,600 - 3,500	200-400
IV. <u>Work Experience (Direct Part- time Employment Creation)</u>	500 - <b>2,300</b>	0-200

Sources: U.S. Department of Labor unpublished data and Perry, Charles R., The Impact of Government Manpower Programs (Philadelphia: The Wharton School, 1975), p. 76.

a. The data presented in this table should not be used as a basis of benefit-cost comparisons for several reasons. (a) The absence of information on the persistence of annual earnings gains precludes an estimate of the present value of the future benefits. (b) A number of relevant benefits and costs are not included because they are difficult to quantify. For example, reductions in the administrative costs of income maintenance programs are not included as benefits nor are the foregone earnings during training of participants included as costs. See Appendix B for a list of relevant benefits and costs. (c) For the job creation programs the benefits should be measured in terms of immediate income assistance to low-income individuals, as well as future earnings potential.

## CHAPTER V

### ALTERNATIVES

#### Outlays and Services in Fiscal Year 1977

A wide range of alternative employment and training budgets could be funded in fiscal year 1977. Five options are illustrated in Table 5. The Congressional Budget Office current policy base provides a benchmark against which other budgets can be compared. The current policy base reflects a projection of current policy for the fiscal year 1977. The other budgets were selected to respond to three relevant factors. **First**, the increased job development budget responds to the problem of high unemployment expected to continue in fiscal year 1977 by increasing employment directly. Second, the budget with increased emphasis on skill development responds to the objective of augmenting labor force productivity in the **future**. **Third**, the decreased job development budget and the **President's** budget generally respond to an expectation of a continuing economic recovery through fiscal year 1977 and a resulting decreased reliance on targeted, employment-creating activities.

Total outlays range from about \$9.8 billion in the increased job development budget to about \$3.9 billion in the decreased job development budget. Given the estimated cost per service year in fiscal year 1977 for each program in the four activities, the number of service years funded by each budget can be calculated. 9/ Table 6 presents these figures by activity and program for each budget option.

The years of service funded range from 1,646,000 in the increased job development budget to 735,000 in the decreased job development budget. These figures permit a comparative analysis of the four alternative budgets in relation to the current policy **base**.

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9. The average cost per year of service in fiscal year 1977 was derived by multiplying the average cost per year of service in fiscal year 1975 by a factor of 1.14 to adjust for inflation under the **CBO** path B economic assumptions.

Table 5--ALTERNATIVE EMPLOYMENT AND TRAINING BUDGETS  
(Fiscal year 1977, outlays in millions)

Activities Programs/Options	Current Policy Base	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
<u>I. Skill Development</u>					
CETA - Title I <u>a/</u>					
1. Classroom Training	650 <u>e/</u>	650	537	1,049 <u>f/</u>	537
2. COT	300 <u>e/</u>	300	253	494 <u>f/</u>	243
<u>II. Job Development</u>					
A. Job Opportunities Program	500	1,000	222	222	222
B. CETA - Title II	480 <u>e/</u>	480	400	400	400
C. CETA - Title VI	2,770	3,918		1,065	1,065
<u>III. Employability Development</u>					
A. CETA - Title IV (Job Corps)	200 <u>e/</u>	200	175	175	175
B. WIN	260	260	260	260	260
<u>IV. Work Experience</u>					
A. CETA - Title I <u>a/</u>	940 <u>e/</u>	940	790	1,542 <u>f/</u>	790
B. CETA - Title III	290 <u>e/</u>	290	239	239	239
1. Indians	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>
2. Migrants & Farmworkers	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>
3. Summer Youth Program	510	510	400	510	400
4. Youth Employment Program	<u>c/</u>	504	<u>c/</u>	<u>c/</u>	<u>c/</u>
C. Community Service Employment for Older Americans	100	100			
V. Other Function 504 Activities <u>d/</u>	840 <u>g/</u>	644	644	644	644
TOTAL	7,840	9,796	3,920	6,600	4,985

a/ Outlays were prorated on the basis of the approximate percentage distribution of activities in Title I:

1. Classroom Training = .5
  - (a) Institutional (.68 x .5 = .34)
  - (b) OJT (.32 x .5 = .16)
2. Work Experience = .5

b/ Breakdown not available

c/ Not currently enacted

d/ Includes Program Administration, Grants to States for UIS and ES, and Unemployment Trust Fund: Training and Employment.

e/ Prorated as Follows: (\$ in billions)

Titles	I = .66 x 2.86 = 1.89
	II = .17 x 2.86 = .48
	III = .10 x 2.86 = .29
	IV = .07 x 2.86 = .20
Totals	<u>1.00</u> <u>2.86</u>

f/ Adds \$1,705 million to President's request for Title I. Prorated as noted in a/.

g/ Includes \$196 million in undistributed reserves for new initiatives.

Table 6--ALTERNATIVE EMPLOYMENT AND TRAINING BUDGETS  
(Fiscal year 1977, estimated years of service)

Activities Programs/Options	Current Policy Base	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
I. <u>Skill Development</u>					
<u>CETA - Title I</u>					
1. Classroom Training	131,048	131,048	108,266	211,492	108,266
2. OJT	57,870	57,870	48,804	95,293	48,804
II. <u>Job Development</u>					
A. Job Opportunities Program	39,907	79,815	17,719	17,719	17,719
B. CETA - Title II	51,719	51,719	43,098	43,098	43,098
C. CETA - Title VI	335,595	474,678	—	129,028	129,028
III. <u>Employability Development</u>					
A. CETA - Title IV (Job Corps)	20,514	20,514	17,951	17,951	17,951
B. WIN	29,066	29,066	29,066	29,066	29,066
IV. <u>Work Experience</u>					
A. CETA - Title I	288,787	288,787	242,704	473,733	242,704
B. CETA - Title III a/	79,736	79,736	65,713	65,713	65,713
1. Indians	—	—	—	—	—
2. Migrants & Farmworkers	—	—	—	—	—
3. Summer Youth Program	206,144	206,144	161,682	206,144	161,682
4. Youth Employment Program	—	200,238	—	—	—
C. Community Service Employment for Older Americans	26,028	26,028	—	—	—
V. Other Function 504 Activities					
TOTAL	1,266,414	1,645,643	735,003	1,289,237	864,031

a/ Based on a weighted average cost per year of service for Title III Indians and Migrants & Farmworkers.



### The Current Policy Base

The current policy base emphasizes job development and work experience activities because of the antirecession orientation of current policy. About **430,000** years of service would be funded under Titles II and VI of **CETA** and the Job Opportunities Program. The current policy base would also fund about 600,000 years of service in the work experience category. Only about 20 percent of the total current policy base years of service is allocated toward skill and **employability** development.

### Differences from the Current Policy Base

Table 7 depicts the gross differences of the four alternative budgets from the current policy base in terms of both outlays and years of service.

Increased Job Development. The increased job development budget expands the job development and work experience activities. **It** exceeds the current policy base by about \$2.0 billion in outlays and 379,000 years of service. It expands the job development activity by 179,000 years of service. This amount is composed of 40,000 years of service funded in the Job Opportunities Program and 139,000 years of service funded in Title **VI** of CETA. The latter total increases public service employment under CETA to nearly 530,000 years of service. Finally, in response to high unemployment rates among youth, this budget includes about 200,000 years of service that could be funded in a part-time youth employment program supported by \$500 million outlays from Title III of CETA.

The increased job development budget illustrates two important resource allocation points. First, the estimated average cost per year of service for the Job Opportunities program is about **fifty** percent higher than for Title VI of CETA. If the additional \$500 million for the Job Opportunities Program had been allocated to Title VI of CETA, about 21,000 additional positions would be funded. Second, a categorical youth employment program could be funded through Title III of CETA. Alternatively, this additional \$500 million for youth could be allocated to Title I of CETA. This would permit CETA prime sponsors to allocate resources in accordance with their own assessments of local labor market needs. In this case, **however**, it is likely that not all of the funds would be allocated for youth in the work experience activity.

Table 7--DIFFERENCES IN OUTLAYS AND YEARS OF SERVICE FROM THE CURRENT POLICY BASE (Fiscal year 1977, Millions of dollars)

Activity	Increased Job Development		Decreased Job Development		Increased Emphasis on Skill Development		President's Request	
	Outlays (\$ in millions)	Years of Service	Outlays (\$ in millions)	Years of Service	Outlays (\$ in millions)	Years of Service	Outlays (\$ in millions)	Years of Service
I. Skill Development	0	0	-160	-31,848	+593	+117,867	-160	-31,848
II. Job Development	+1,648	+178,991	-3,128	-366,404	-2,063	-237,376	-2,063	-237,336
III. Employability Development	0	0	-25	-2,563	-25	-2,563	-25	-2,563
IV. Work Experience	<u>+504</u>	<u>+200,238</u>	<u>-411</u>	<u>-130,596</u>	<u>+451</u>	<u>+144,895</u>	<u>-411</u>	<u>-130,596</u>
Subtotal								
V. Other Function 504 a	-196	--	-196	--	-196	--	-196	--
TOTAL	+1,956	+379,229	-3,920	-531,411	-1,240	+22,843	-2,855	-402,383

a. Undistributed reserves for new initiatives in the current policy base.

Decreased Job Development. The decreased job development budget does not **contain** a renewal of authorization for Title VI public service employment through CETA. It is **one-half** of the current policy base and about 70 percent of this cut in funding is accounted for by a substantially smaller job development activity. Of the 531,000 years of service **decrease, 366,000** are in the job development activity.

Increased Emphasis on Skill Development. This budget primarily **reallocates** some resources away from **job** development and toward the relatively more effective skill development activity. It reflects a longer-run concern for augmenting the productivity of the labor force by increasing support for skill development activities by \$600 million over the current policy base. These additional outlays would support approximately 118,000 more years of service. This budget option also illustrates the effect of a likely increase in funds allocated to work experience. This likelihood is based on the assumption that local prime sponsors will continue to allocate about **one-half** of their Title I funds to work experience.

As the economy continues to **recover**, CETA prime sponsors may decide to shift resources from work experience toward skill development. The extent to which they shift their resource allocations in this manner will reduce the emphasis on work experience reflected in this budget. Finally, even though this budget is lower than the current policy base by about \$1.2 billion, it funds more service years than the current policy base. The fact that skill development was less costly than job development in fiscal year 1975 by roughly \$3,000 per service year partly explains this phenomenon.

The President's Budget Request. The **President's** budget request is lower than the current policy base by about \$2.9 billion in outlays and 402,000 years of service. The major differences occur in job **develop-**ment and work experience activities, where a total of 368,000 years of service are cut from the current policy base. This phenomenon reflects a diminished effort to fund **full-and** part-time jobs in reaction to a projected continuation of the recovery, a decision to rely more heavily on the private **sector**, and a belief that public service employment does not create a **significant** number of new jobs.

#### Net Effects of Differences from the Current Policy Base

The estimated net effects of the job development activity in the four alternative budgets are presented in Table 8. Since the skill development, **employability** development, and work experience activities do not directly create full-time employment, their net effects have not been estimated. The gross differences in years of

Table 8--ESTIMATED EMPLOYMENT AND BUDGET EFFECTS OF ALTERNATIVE BUDGETS

Effects of Differences in the Job Development Activity	Increased Job Development	Decreased Job Development	Increased Emphasis on Skill Development	President's Request
I. Net Employment (thousands)				
A. Direct a	+45 to +134	-92 to -275	-59 to -178	-59 to 178
B. Indirect b	<u>+61</u>	<u>-105</u>	<u>-74</u>	<u>-74</u>
Total	+106 to +195	-197 to -380	-133 to -252	-133 to -252
II. Change in Unemployment Rate from 7.5 percent c	-0.1	+0.2 to +0.4	+0.2 to +0.3	+0.2 to +0.3
III. Net Budget Savings (+) or Cost (-)	-843 to -741	+1,605 to +1,437	+1,050 to +921	+1,050 to +921

to

Notes:

a. Range represents the potential effect of fiscal substitution on net employment creation. The net employment effect is assumed to be between 25 and 75 percent of employment supported by federal funds. A wide range was selected because of the uncertainty associated with the available evidence on this phenomenon. See Appendix C for further discussion.

b. Stimulative effect of the increase in expenditures assumed to be equal to the effect of an equivalent reduction in personal income taxes. Method derived from "Temporary Measures to Stimulate Employment; An Evaluation of Some Alternatives."

c. Projected unemployment rate for the fourth quarter of fiscal year 1977 based on the Congressional Budget Office moderate growth path estimate (Path B).

service and outlays that were presented in Table 5 must be adjusted to obtain the net effects. First, the differences in outlays must be adjusted to obtain the net effects. First, the differences in outlays must be adjusted for direct and indirect changes in tax revenue and changes in unemployment compensation outlays. **Second**, total employment funded must be adjusted for the phenomenon of fiscal substitution. 10/ The reduction in employment resulting from a decrease **in federal** funding for job development may be less than the number of jobs supported by federal **funding**, if a percentage of these jobs would have been supported with local funds **anyway**. 11/

Increased Job Development. The increased job development budget increases **job** development outlays by about \$1.7 billion above the current policy base. This implies an estimated increase in employment of between 106,000 and 195,000 years of service. Consequently, the unemployment rate may decrease about 0.1 of a percentage point. The net budget effect of the \$1.7 billion outlay increase would be between \$843 and \$741 million.

Decreased Job Development. The decreased job development budget would cut employment by between an estimated 197,000 and 380,000 years of **service**. This cut would increase the unemployment rate by between 0.2 and 0.4 of a percentage point. The net budget savings from this approximate \$3.1 billion decrease in outlays would be between about \$1.6 and \$1.4 billion.

Increased Emphasis on Skill Development. The budget that emphasizes the skill development activity also decreases outlays from the current policy base by about \$2.0 billion. Its net effects in job development are the same as the **President's** request for fiscal year 1977. However, its long-run effects beyond the fiscal year 1977 may be different. The extent to which skill development increases the annual earnings of trainees through both increased wage and employment rates may render this budget a more effective long-run strategy than the other three alternatives. **Unfortunately**, due to the lack of definitive research results, it is **difficult** to estimate the magnitude of this potential long-run effect.

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10. See Appendix C for a discussion of fiscal substitution.

11. The net direct employment effect is assumed to range from 25 to 75 percent of the employment supported by federal funds.

The **President's Request**. The **President's** proposed reduction of about \$2.0 billion in job development from the current policy base implies an estimated reduction in employment of between **133,000** and 252,000 years of service. The extent to which state and local jurisdictions have not been able to substitute federal funds for local funds suggests that the actual figure may be closer to the higher end of the range. **However**, since there is no data on the extent of fiscal substitution in current programs, only a broad range can be provided. This range implies an increase in the unemployment rate of between 0.2 and 0.4 of a percentage point. Finally, the net budget saving resulting from the approximate \$2.0 billion decrease is between about \$1.1 billion and \$0.9 billion.

#### Potential For Expansion Of Public Service Employment

There is little evidence or agreement on the capacity for public service employment. Estimates have ranged from 300,000 to 600,000 years of service. A study of the high impact demonstration projects under the Public Employment Program (PEP) concluded that the program could have been expanded two to three times, which suggests a capacity of roughly 500,000 years of service in state and local **governments**. **12/** In contrast, the National Commission for Manpower Policy, **established** by Title V of **CETA**, recommended a maximum of 400,000 years of service in **October, 1975**. **13/** Others have argued for as much as one million years of service. Unfortunately, the limited research results do not provide enough information to narrow this broad range.

There are two major constraints on the expansion of public service employment. First, in the short run there is a limit to the number of additional jobs that state and local government can absorb. However, this constraint may be lessened by the extent that state and local jurisdictions have not been able to maintain their normal levels of employment and to the extent that nongovernmental agencies are used as job creation sites. Second, a higher

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12. An Evaluation of the Economic Impact Project of the Public Employment Program, Vol. 1, Final Report (Washington, D. C.: **The National Planning Association, May 1974**), pp 122-124 and 164.

13. National Commission for Manpower Policy, First Annual Report to the President and the Congress (Washington, D. C.: **Government Printing Office, October, 1975**), p. 17.

number of jobs funded may increase the amount of fiscal substitution, which would reduce the net direct job creation effect of the additional jobs. These problems could be lessened by targeting funds to the jurisdictions adversely affected by the recession and by funding jobs not normally provided by state and local governments. Unfortunately, the lack of current estimates on the capacity for expansion does not permit an assessment of the exact magnitude of these constraints.

### Conclusion

The alternative employment and training budgets illustrate possible allocations of resources within budget **subfunction** 504. These programs could directly reduce the unemployment rate and increase the productivity of the labor force. Depending on the relative emphasis of the four major activities, these budgets have varying effects.

The effects of skill and **employability** development are difficult to assess. Some research results indicate that they increase the annual earnings of trainees above the levels they would have earned without training. **However**, these research results are not definitive and must be interpreted cautiously.

The effects of work experience and job development can be more readily assessed. Increases or decreases in outlays for job **develop-**ment can have an immediate effect on the unemployment rate. Likewise, so can changes in outlays for work experience. Because work experience usually funds part-time jobs, about twice as many jobs can be funded per \$1 billion in work experience than in job development. **14/ However**, work experience jobs are often filled by special target groups such as youth, older **workers**, and welfare recipients. Consequently, although work experience is less costly per job than the job development activity, part-time work in **low-skilled** jobs may not be as appropriate for workers unemployed due to the recession.

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14. The fact that the work experience activity funds twice as many jobs per \$1 billion does not imply that it is twice as desirable. Work experience will affect the unemployment rate proportionately less than job development because it does not require prior labor force participation. Also, a part-time job may not be as valuable in terms of increasing productivity as a full-time job.



APPENDIX A

Employment and Training Program Data

Appendix Table 1--SUMMARY OF EMPLOYMENT AND  
 TRAINING PROGRAM DATA  
 Fiscal year 1975

Program	Total Costs (\$ M)	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
Work Incentive Program	269	34,400	0.35	100,400	7,820	2,679
<del>CETA</del> - Title I	1,304	384,822	0.36	1,057,290	3,388	1,233
<del>CETA</del> -Title II	519	63,785	0.71	90,136	8,141	5,758
CETA- Title III- Migrants & Farmworkers	37	3,810	0.28	13,480	4,027	1,128
CETA - Title III- Indians	32	11,097	0.28	35,349	2,903	905
CETA - Title IV- Job Corps	170	19,924	0.40	49,810	8,552	3,420
CETA - Title VI	318	44,204	0.66	66,761	7,240	4,781
Summer Youth Program	410	188,721	0.25	754,884	2,170	543
Community Service Employment For Older Workers	9	2,600	0.58	4,500	3,370	1,919

Appendix Table 2--FISCAL YEAR 1975 DATA  
**PROGRAM:** WORK INCENTIVE PROGRAM

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service 2/	Cost Per Participant
<b>OJT 1/</b>	101	38	9,800	0.36	27,200	10,337	3,724
Institutional	71	26	<b>15,400</b>	0.33	46,700	<b>4,591</b>	1,514
Work Experience	11	4	3,300	0.19	17,400	<b>3,212</b>	609
Public Service <b>Employment</b>	86	32	5,900	0.65	9,100	14,627	9,483
Other	---	---	---	---	---	---	---
Total for Program	269	100%	34,400	0.35	100,400	7,820	2,679

1/ OJT = On-the-Job-Training

2/ Costs include child care and supportive services, which were arbitrarily distributed proportionally among the four major training activities.

Note: Costs are on an accrual basis only for WIN. Otherwise, costs are on a cash basis. Thus, costs in other programs are equivalent to outlays.

Appendix Table 3--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - TITLE I

Training Activity	Total Costs (S M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
CUT <u>1</u> /	112	9	<b>24,658</b>	0.37	66,643	<b>4,547</b>	1,682
Institutional	443	34	101,877	0.42	242,564	<b>4,351</b>	<b>1,827</b>
Work Experience	634	49	221,931	0.35	634,089	2,855	2,205
Public Service Employment	93	7	10,282	0.75	13,709	9,003	6,752
Other	<u>22</u>	<u>1</u>	<u>26,074</u>	<u>0.26</u>	<u>100,285</u>	<u>850</u>	<u>221</u>
Total for Program	<b>1,304</b>	100%	384,822	0.36	1,057,290	3,388	1,233

1/ OJT = On-the-Job-Training

Appendix Table 4--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - TITLE II

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
<u>OJT</u> <u>1/</u>	2	0	315	0.37	851	5,280	1,953
Institutional	3	1	948	0.42	2,257	2,847	1,196
Work Experience	10	2	3,707	0.51	<b>7,269</b>	<b>2,731</b>	1,393
Public Service Employment	503	97	58,282	0.75	77,709	8,638	6,479
Other	<u>1</u>	<u>0</u>	<u>533</u>	<u>0.26</u>	<u>2,050</u>	<u>2,437</u>	<u>633</u>
Total for Program	519	100%	63,785	0.71	90,136	8,141	5,758

1/ OJT = On-the-Job-Training

Appendix Table 5--FISCAL YEAR 1975 DATA

PROGRAM: CETA - TITLE III  
MIGRANTS AND FARMWORKERS

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
OJT <sub>1/</sub>	2	5	610	0.26	2,346	3,934	1,029
Institutional	11	30	2,710	0.28	9,679	4,022	1,128
Work Experience	2	5	490	0.33	1,485	4,166	1,375
Public Service Employment <sub>2/</sub>	—	—	—	—	—	—	—
Other <sub>2/</sub>	22	59	—	—	—	—	—
Total for Program	37	100	3,810	0.28	13,480	4,027	1,128

1/ OJT = On-the-Job-Training

2/ Categories are not applicable. Many services for migrants and farmworkers are for housing, child care, etc.

Appendix Table 6--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - Title III-INDIANS

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
COT <u>1/</u>	2	6	704	0.26	2,708	3,550	916
Institutional	7	22	1,580	0.27	<b>5,582</b>	4,620	1,244
Work Experience	16	50	<b>4,297</b>	0.24	17,904	<b>3,700</b>	884
Public Service Employment	5	16	738	0.42	1,757	<b>6,500</b>	2,732
Other	2	6	3,778	0.53	7,128	480	253
Total for Program	32	100	11,097	0.28	35,349	2,903	—

1/ OJT = On-the-Job-Training

Appendix Table 7--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - TITLE IV - JOB CORPS

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
OJT <u>1/</u>	--	--	--	--	--	--	--
Institutional	170	100	19,924	0.40	49,810	8,552	3,420
Work Experience	--	--	--	--	--	--	--
Public Service Employment	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--
Total for Program	170	100	19,924	0.40	49,810	8,552	3,420

1/ OJT = On-the-Job-Training

Appendix Table 8--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - TITLE VI

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
OJT <u>1/</u>	0	0	228	0.20	1,140	1,404	—
Institutional	0	0	75	0.29	259	<b>4,237</b>	—
Work Experience	72	23	<b>10,321</b>	0.51	<b>20,237</b>	<b>6,986</b>	3,558
Public Service Employment _	246	77	33,484	0.75	44,645	<b>7,351</b>	5,510
Other _	0	0	96	0.20	480	3,329	—
Total for Program	318	100	<b>44,204</b>	0.66	<b>66,761</b>	<b>7,240</b>	<b>4,781</b>

1/ OJT = On-the-Job-Training

Appendix Table 9--FISCAL YEAR 1975 DATA

PROGRAM: CETA - Title III  
SUMMER YOUTH PROGRAM

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
<u>OJT 1/</u>	---	---	---	---	---	---	---
Institutional	—	—	—	—	—	—	—
Work Experience Public Service Employment	410	100	188,721	0.25	754,885	2,170	543
Other	—	—	—	—	—	—	—
Total	410	100	188,721	0.25	754,884	2,170	543

1/ OJT = On-the-Job-Training

Appendix Table 10--FISCAL YEAR 1975 DATA  
PROGRAM: **COMMUNITY SERVICE EMPLOYMENT**  
FOR OLDER AMERICANS

<u>Training Activity</u>	<u>Total Costs (\$ M)</u>	<u>% of Total Costs</u>	<u>Years of Service</u>	<u>Average Length of Stay (years)</u>	<u>Adjusted Participants</u>	<u>Cost Per Year Of Service 2/</u>	<u>Cost Per Participant</u>
OJT 1/	--	--	--	--	--	--	--
Institutional	--	--	--	--	--	--	--
Work <b>Experience</b>	<b>9</b>	100	2,600	0.58	4,500	3,370	1,919
Public Service Employment	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--
<hr/> Total	<hr/> <b>9</b>	<hr/> 100	<hr/> 2,600	<hr/> 0.58	<hr/> 4,500	<hr/> 3,370	<hr/> 1,919

1/ OJT = On-the-Job-Training

Appendix Table 11--FISCAL YEAR 1975 DATA  
PROGRAM: CETA - Sec. 3A (MDTA, EOA)

<u>Training Activity</u>	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service	Cost Per Participant
COT <u>1/</u>	--	--	--	--	--	--	--
Institutional	--	--	--	--	--	--	--
Work Experience Public Service Employment	202	100	27,729	0.70	39,613	7,300	5,111
Other	--	--	--	--	--	--	--
<b>Total</b>	<b>202</b>	<b>100</b>	<b>27,729</b>	<b>0.70</b>	<b>39,613</b>	<b>7,300</b>	<b>5,111</b>

1/ OJT = On-the-Job-Training

Appendix Table 12--FISCAL YEAR 1975 DATA

PROGRAM: EMERGENCY EMPLOYMENT  
ASSISTANCE

Training Activity	Total Costs (\$ M)	% of Total Costs	Years of Service	Average Length of Stay (years)	Adjusted Participants	Cost Per Year Of Service 2/	Cost Per Participant
OJT 1/	--	--	--	--	--	--	--
Institutional	--	--	--	--	--	--	--
Work Experience	--	--	--	--	--	--	--
Public Service Employment	53	100	8,476	0.53	15,992	6,300	3,339
Other	--	--	--	--	--	--	--
Total	53	100	8,476	0.53	15,992	6,300	3,339

1/ OJT = On-the-Job-Training



APPENDIX B

POTENTIAL BENEFITS AND COSTS OF EMPLOYMENT  
AND TRAINING PROGRAMS

APPENDIX B

POTENTIAL BENEFITS AM) COSTS OF TRAINING PROGRAMS

Benefits		
Society	Individual	Government
<ol style="list-style-type: none"> <li>1. Increase in gross earnings of program participants.</li> <li>2. Increases in other gross income               <ol style="list-style-type: none"> <li>a. To <b>pay</b> for fringe benefits</li> <li>b. Due to other resources becoming more productive</li> <li>c. Due to increasing the productivity of future generations as children become better educated (<b>inter-generation</b> effect)</li> <li>d. Due to previously unemployed workers taking jobs vacated by program participants (vacuum effect)</li> </ol> </li> <li>3. Reduction in administrative expenses of transfer payment programs               <ol style="list-style-type: none"> <li>a. Unemployment administration</li> <li>b. Employment service operation</li> <li>c. Welfare program administration</li> </ol> </li> <li>4. Reduced costs to society due to bad citizenship.               <ol style="list-style-type: none"> <li>a. Economic loss to others</li> <li>b. Crime control system</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Increase in after-tax earnings</li> <li>2. Additional fringe benefits due to increased income.</li> </ol>	<ol style="list-style-type: none"> <li>1. Increase in taxes               <ol style="list-style-type: none"> <li>a. From participants</li> <li>b. From others</li> </ol> </li> <li>2. Decrease in expenses of               <ol style="list-style-type: none"> <li>a. Unemployment insurance</li> <li>b. Employment service</li> <li>c. Welfare programs</li> <li>d. Crime control</li> </ol> </li> </ol>

Costs		
Society	Individual	Government
<ol style="list-style-type: none"> <li>1. Foregone gross earnings during training.</li> <li>2. Operating costs of training or education agency.</li> <li>3. Capital expenses of training or education agency.</li> <li>4. Induced reductions in gross income of workers displaced by program participants (displacement <b>effect</b>).</li> </ol>	<ol style="list-style-type: none"> <li>1. Foregone after-tax earnings during training.</li> <li>2. Loss of transfer payments               <ol style="list-style-type: none"> <li>a. Welfare support</li> <li>b. Unemployment insurance</li> <li>c. Other subsidies</li> </ol> </li> <li>3. Extra costs related to program participation               <ol style="list-style-type: none"> <li>a. Tuition</li> <li>b. Books, supplies, etc.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Costs of instruction and supplies after <b>taxes</b>.</li> <li>2. Capital costs</li> <li>3. Additional administrative costs after taxes.</li> <li>4. Additional subsidies paid during training.</li> </ol>

Source: Steve L. Barsby, Cost-Benefit Analysis and Manpower Programs (Lexington, Mass.: D.C. Heath and Company, 1972), pp. 9-10.

APPENDIX C

PUBLIC SERVICE EMPLOYMENT AND THE  
ISSUE OF FISCAL SUBSTITUTION



PUBLIC SERVICE EMPLOYMENT AND THE  
ISSUE OF FISCAL SUBSTITUTION

The Phenomenon of Fiscal Substitution

The federal government funds public service employment in state and local government under Titles II and VI of the Comprehensive **Employment** and Training Act of 1973 (**CETA**). **Currently**, the Department of Labor has estimated that 330,000 jobs have been funded under these two titles. **However**, the percentage of these jobs funded that are in addition to those that would have existed in the absence of the public service employment funding has not yet been estimated.

The percentage of jobs funded by the federal government that are in addition to those that would have existed in the absence of public service employment funds is the "net public employment **effect**." This does not consider the multiplier effects of the additional money available to consumers as a result of the federal expenditure. The net public employment effect is likely to be less than 100 percent of the total public service jobs funded because of the phenomenon of "fiscal **substitution**." 1/

Fiscal substitution is the phenomenon by which state and local governments use federal funds for existing or planned public service **employment**, rather than state and local **funds**. When a state or local government receives a grant for public service employment, its income available to purchase goods and services is increased by the amount of the grant. In the long run, the community chooses the proportion of public versus private goods and services it wishes to produce and consume. If it receives a federal grant for public service employment of an unlimited duration, it can plan to shift some of its local resources previously used for the public sector to the private **sector**. If this process is applied to 100 percent of the federal grant for public service **employment**, then the net public employment effect is zero and the federal grant merely shifts the tax burden for funding these already existing or planned jobs from state and local taxpayers to federal taxpayers.

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1/ The net public employment effect (A) is the complement of **fiscal** substitution (B). Mathematically, this is expressed by the equation  $A=100-B$ . For example, if fiscal substitution is 75 percent, then the net public employment effect is 25 percent ( $25=100-75$ ).

In the long run **fiscal** substitution can occur through the reduction in state and local tax **efforts**, as communities shift local resources away from the public sector to the private **sector**. However, overt attempts to reduce tax effort have been specifically prohibited by the "maintenance of effort" clauses contained in federal legislation. For example, Section **208(a)** of **CETA** in part reads as follows:

Sec. **208(a)**. The Secretary shall not provide for financial assistance for any program or activity under this title unless he determines, in accordance with such regulations as he shall **prescribe**, that \_\_\_\_\_ (1) the program (A) will result in an increase in employment opportunities over those opportunities which would otherwise be available, (B) will not result in the displacement of currently employed workers (including partial displacement such as a reduction in the hours of **nonovertime** work or wages or employment **benefits**), (C) will not impair existing contracts for services or result in the substitution of federal for other funds in connection with work that would otherwise be performed, and (D) will not substitute public service jobs for existing federally assisted jobs.

This "maintenance of effort" clause appears to prevent blatant attempts to lower state and local tax rates to the extent that public employment opportunities would be less than would be available without the tax cut. **However**, less obvious methods are more difficult to detect. For example, a local government could permit its real property tax base to erode by not reassessing property values in accordance with rapidly increasing market values. This process would result in a property tax yield not sufficient to maintain current levels of public employment, if wages and other costs continued to increase with the rate of inflation. Consequently, through no obvious state or local policy to substitute federal for local funds the process of fiscal substitution can continue to occur.

#### Research Results on the Public Employment Program

The Public Employment Program (PEP) was established by the Emergency Employment Act of 1971 and expired at the end of the fiscal year 1975. Table 1 summarizes the **estimates** of the net public employment effects under PEP. These results range from as little as 10 percent to as large as 54 percent. In other words, between one to about five out of every ten jobs funded were estimated to be additional jobs over the number that would have existed in the absence of the program.

Appendix Table 13--NET PUBLIC EMPLOYMENT EFFECTS

<u>Time Period</u>	<u>NPA</u>	<u>Fechter</u>	<u>Johnson &amp; Tomola</u>
1 year	54%	—	40%
2 years	—	—	33%
Long-run	—	10-40%	--

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Source: National Planning **Association**, An Evaluation of the Economic Impact Project of the Public Employment Program. Final Report, Vol. I of IV, May 22, 1974. **Fechter**, Alan. Public Employment Programs. Washington, D.C.: American Enterprise Institute, 1975. Johnson, George E. and James Tomola. "The Efficacy of Public Service Employment Programs," June, 1975 (**Processed**).

The National Planning Association study compared the historical time trends in employment of 182 "high impact" areas with 182 matched jurisdictions. Based on an estimate of the expected employment level in 1972 using an extrapolation of the historical time trends in employment, NPA estimated that 54 percent of the jobs funded by PEP were in addition to the number that would have existed in the absence of the program.

The NPA study had several limitations. First, it covered slightly less than one year of the program. Second, it used a **nonrandom** sample. Third, it extrapolated public employment as only a function of time. This third limitation makes the method inapplicable in a time period when the trend in public **employment** no longer holds true. The level of public employment is certainly more than just a function of time and the federal subsidy. Later studies have avoided this problem.

Alan Fechter calculated the net public employment effect to be only between 10 to 40 percent. This means that he estimated only one to four out of ten jobs funded were additional jobs beyond those that would have existed in the absence of the program. Fechter used a more sophisticated economic framework, which incorporated the following relevant factors:

1. The sensitivity of the demand for public goods and services to changes in income.
2. The proportion of total income allocated to the public **sector**.

3. The proportion of public expenditures that are for **employment**.
4. The wage rate of public employees.
5. The amount of the federal subsidy.

Although **Fechter's** framework was quite **sophisticated**, his calculations were not based on original empirical work. Instead, he merged estimates of the required parameters from other studies and then calculated the net public employment effect. Consequently, it is very difficult to assess the validity of his results.

The most rigorous study was performed by Johnson and **Tomola**. They calculated a net public employment effect of 40 percent after one year and 33 percent after two years. Their results were based on an econometric model that incorporated the relevant factors included in **Fechter's** framework. However, in contrast to Fechter, Johnson and Tomola performed their own empirical analysis to estimate the relevant parameters. Although it is difficult to assess the validity of their final results, their methods appear to be superior to both the **NPA** and Fechter studies.

Johnson and Tomola summarize their analysis with an important point that to date has been ignored. 2/ There is no evidence on fiscal substitution under CETA, but due to the severity of the recent recession there may be less fiscal substitution under CETA than under PEP. This phenomenon may occur because some units of government may have suffered decreases in their tax bases as a result of the recession. Moreover, many other jurisdictions may have suffered such rapid increases in costs that even growing tax bases may not yield enough revenue to maintain current employment levels. When they found themselves unable to meet their payrolls with current tax revenue, they may have used CETA funds to maintain their current levels of employment. This could occur by rehiring regular employees that have been laid off and by funding open positions due to normal attrition with CETA funds. Although preliminary Department of Labor data indicate that the rehiring of regular employees has not been a pervasive phenomenon in the first year of CETA, the more subtle form of funding open positions may have been more pervasive. Moreover, this particular phenomenon could grow, if state and local tax bases do not recover rapidly from the recession.

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2. George E. Johnson and James D. Tomola, "The Efficacy of Public Service Employment Programs," June, 1975, p. 10 (Processed).

The rehire phenomenon has been an issue in the first year of CETA, and has been confused with fiscal substitution. By definition, laying off regular employees and **rehiring** them with CETA funds in the absence of a reduction in tax effort is not fiscal substitution. **However**, where this phenomenon has occurred, it renders CETA public service employment programs similar in effect to an antirecession grant for state and local government.

In **summary**, the evidence on PEP indicated a fairly high rate of fiscal substitution, but as stated previously there is no evidence on CETA. Fiscal substitution may be lower under CETA than under PEP, due to the effect of the recession on state and local tax bases. Johnson and **Tomola** hypothesize that fiscal substitution will be higher in jurisdictions not substantially affected by the recession than those substantially **affected**, but this remains untested.

#### Strategies For Lessening Fiscal Substitution

The analysis by Johnson and Tomola suggests that public service employment under CETA has two different effects. First, in **jurisdic-**tions substantially affected by the recession, the programs have an effect similar to an antirecession revenue sharing program for state and local governments. Second, in jurisdictions not substantially affected by the **recession**, the programs are similar to general revenue sharing. 3/ In this case, fiscal substitution is likely to be similar to that under PEP.

The extent of fiscal substitution under PEP has led to serious consideration in Congress of ways in which to lessen this problem. If a high rate of fiscal substitution can be avoided, then the net employment effect of public service employment programs will be higher. This would help to reduce the unemployment rate more than the current programs.

There are two main elements in a strategy to lessen fiscal substitution--**targetability** and the value of goods and services produced (**output**). Fiscal substitution is likely to be less, if the funds are targeted to jurisdictions most severely hurt by the recession. Second, if the value of output is low, then the community may not have previously produced

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3. Public service employment is not exactly like general revenue sharing because it has many legislative and administrative constraints that are absent in general revenue sharing. For example, public service employment under Titles II and VI of CETA has a salary ceiling of **\$10,000**.

or planned to produce the goods and services produced by a public service employment program. If the **program** is limited to such products of relatively low **value**, then fiscal substitution is likely to be **smaller**. **However**, as the value of the output decreases, the program begins to resemble an expensive income maintenance program. Thus, the **trade-off** between the value of output and the rate of fiscal substitution limits the use of this second strategy.

#### Alternatives To Reduce Fiscal Substitution

Chart I depicts the flow of budget authority in **CETA** based on the **President's** fiscal year 1976 budget request. The emphasis has been on Title **VI**, which had a budget authority request of **\$2.5** billion. This compares to only \$0.4 billion for Title II. Also, the final outlay figures for the fiscal year 1975 indicate that 50 percent of Title I funds were spent on public service employment and work experience. <sup>4/</sup> Although it has not been discussed, fiscal substitution could be occurring within Title I, also.

The current policy base contains about \$0.5 billion in outlays for fiscal year 1977 in Title **II**. Since the authorization for Title VI expired on December **31**, 1975, no budget authority is currently available for fiscal year 1977 in Title VI. **However**, Congress is currently considering several measures to not only maintain the current level of funding for public service jobs through the end of fiscal year 1976 and the transition **quarter**, but also through additional fiscal years.

The following alternatives illustrate a range of choices and the **trade-offs** embodied in these choices:

1. Maintain the current status.
2. Reauthorize Title VI.
3. Appropriate additional funds for Title II.
4. Enact a "local projects" program.
5. Enact a youth employment program through Title III.

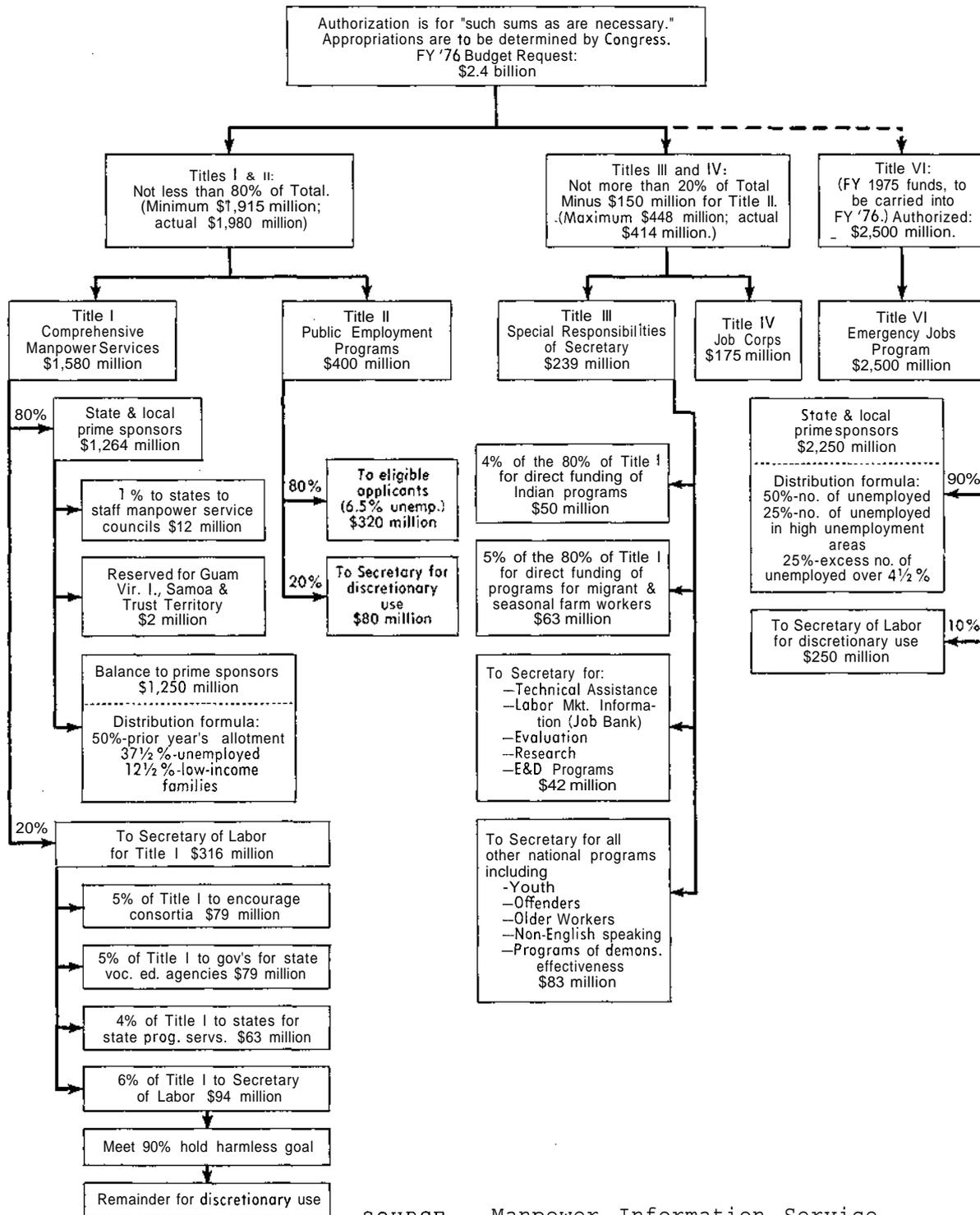
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4. Daily Labor Report, December 24, 1975, p. **D-5**.

# CETA Funds Flow

Amounts Authorized for Program Activities  
Under Comprehensive Employment and Training Act

Based on FY 1976 Budget Request



### Maintain the Current Status

If the current status of Titles II and VI were maintained, then many **CETA** prime sponsors would not be able to continue the employment of those currently working. The current level of funding for Title II is likely to continue, but funds available to spend under Title VI will begin expiring before the end of fiscal year 1976. The latest Department of Labor data indicate that 110 out of 431 prime sponsors will exhaust their funds before the end of fiscal year 1976. <sup>5/</sup> This would mean a loss of a substantial number of jobs funded by the end of fiscal year 1976. However, if the net employment impact was similar to the 40 percent estimated by Johnson and **Tomola**, then the net job loss of maintaining current status would be less. For **example**, if only 132,000 (40 percent of the 330,000) of the 330,000 jobs now funded are actually additional jobs beyond the number that would have existed in the absence of the program, then the expiration of funding for some of these jobs may have a smaller effect on total employment. Unfortunately, this effect under CETA is difficult to calculate, because fiscal substitution may not have been as significant as it was under PEP.

### Reauthorizing Title VI

**Reauthorizing** Title VI would enable prime sponsors to continue funding the currently existing jobs, but fiscal substitution could continue to erode the net public employment effect. If prime sponsors are able to plan on the existence of this program for a number of years, then they will be more able to substitute federal funds for local revenue. In the long run, as they perceive the program to be more permanent, fiscal substitution will continue to grow larger. If it reaches 100 **percent**, the net public employment effect is zero.

### Appropriate Additional Funds for Title II

Since the authorizing legislation has expired for Title VI, Congress could allocate more funds through Title II. This alternative would probably reduce fiscal substitution because of the difference in allocation formulae between Titles II and VI. Chart 1 shows that Title VI distributes funds predominately on the basis of the proportion of unemployed in a small unit of general local government, <sup>6/</sup> while Title II distributes funds

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5. "Manpower Information **Service**", Vol. 7, Number 8, December 24, 1975, p. 172.

6. This unit must have a population of at least 10,000.

to **prime** sponsors on the basis of whether they contain an "area of substantial **unemployment.**" 7/ Fiscal substitution is likely to be smaller under Title II because it is targeted to areas with higher unemployment rates than Title VI. The Title II grantees are more likely to have suffered substantially from the recession. Consequently, the net public employment effect is likely to be higher in Title II than in Title VI.

#### Enact a "Local Projects" Program

Short-term projects that were not being provided nor planned to be provided by state and local governments are the main ingredients of a "local projects" program. If the projects were not provided nor planned to be provided, then fiscal substitution of state and local funds could be minimal. **However,** substitution may occur between these projects and private philanthropic or voluntary efforts. No evidence exists on this phenomenon. Furthermore, if the "**local** projects" program output was neither produced nor planned to be produced, then the community apparently did not value the output as highly as other goods and services produced or planned to be produced. Thus by avoiding fiscal substitution, this alternative selects output of relatively less value than the public output normally produced.

The local projects approach may have several other advantages. The projects could be of a definite short-term length, which would avoid the bottleneck in some programs when the workers hesitate to return to the private **sector.** This could reduce future inflationary pressure of public employment programs by reducing labor shortages that might occur in some occupations as the economy recovers. Furthermore, if the value of the product is relatively less than other public output, then lesser wage rates could be paid than are now paid in public service employment. This implies that more jobs could be funded per billion dollars spent than under Titles II or VI.

In summary, a "local projects" program would probably experience less fiscal substitution, cause less inflation, and fund more jobs per \$1 billion spent than Titles II or VI, but the value of output is likely to be relatively less than is produced in Titles II and VI.

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7. An area of substantial unemployment must have a 6.5 percent unemployment rate for three consecutive months, as determined by the Secretary of **Labor.** Also, a prime sponsor must have a population of at least 100,000.

Enact a Youth Employment Program Through Title III

A **youth** employment program could be established through Title III, which could operate in a manner similar to the summer youth program. Since youth unemployment rates are quite high, the program would help a significant group of individuals suffering unemployment. Moreover, since they are likely to have less skills than most unemployed older workers, their wage rates could be lower than workers employed in Titles II and VI. The extent to which the youth produce goods and services not normally produced or planned to be produced will lower the rate of fiscal substitution in public service employment programs, but there is no evidence on which to base an estimate of this potential effect.

Conclusion

Fiscal substitution lowers the net employment effect of public service employment programs. The extent of fiscal substitution is unknown for the programs under CETA, but it has been argued that it would be less than under PEP. Fiscal substitution can be lessened with more accurate targeting toward jurisdictions in relatively greater "need" and by producing goods and services not normally produced or planned to be produced. **However**, strategies designed to avoid **fiscal** substitution may imply the production of goods and services that are valued relatively less by the community than those normally produced by the public **sector**.

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