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Introduction

One of the most significant developments in the field of employment and training policy to occur in the past decade was the revival of job creation programs. Virtually dormant as a policy instrument since the 1930s, public service employment (PSE) became a contender in the 1970s for prominence in the nation's arsenal of policy weapons to combat unemployment. The evolution of PSE during this era has been laced with controversy and criticism. For within the span of a mere ten years, PSE has not only had to compete with more traditional policy measures for support. It has also been forced into sharply diverse roles as the result of frequent legislature changes in its programatic content and objectives.

Yet with the likely prospect of substantial increases in unemployment rates as the 1980s begin, PSE as it presently stands has been stripped of any real potential as a countercyclical policy instrument. Its usefulness as an effective means of combating general unemployment has been essentially nullified by the Comprehensive Employment and Training Act (CETA) Amendments of 1978. Unless these restrictions are either removed or a new title is added, it will be impossible for any Administration in the 1980s to utilize PSE as an effective instrument of fiscal policy.

A Brief Policy Review

During the late 1960s, the need for some form of job creation program was noted by several congressional committees. PSE was also specifically advocated by a number of presidential advisory commissions during that era. But it was not until 1971 that a specific PSE program was enacted. Then, with unemployment rates on the rise (in the high 5 percent to low 6 percent range), Congress initiated and President Nixon signed the Emergency Employment Act (EEA) of 1971. EEA was the first straightforward job creation law to be enacted in the United States since 1935. EEA was enacted as a pure form of countercyclical PSE. The jobs created were to be "transitional" in nature. It had a general population focus but with an inordinately strong preference given to serving veterans.

Subsequently, the EEA program as well as most of the other existing manpower programs were merged into the Comprehensive Employment and Training Act (CETA) of 1973 (which became effective on July 1, 1974). CETA created a nationwide system of prime sponsors to administer most of the programs authorized by its provisions. Under the original CETA of 1973, PSE was authorized under two titles.

Under Title I, a local prime sponsor was free to choose from a variety of different human resource services in order to achieve a combination of programs which seemed most appropriate to the citizens of its area. Among the fundable array of programs was public service employment. Under Title II, funds were solely available for PSE purposes but restricted to areas where the unemployment rate was 6.5 percent or more for three or more consecutive months. Thus, Title II PSE was essentially countercyclical in its intention and it had a general population focus.

Hardly had CETA begun before it was amended in late 1974 by the Emergency Jobs and Unemployment Assistance Act. Passed in response to further increases in the national unemployment rate (averaging in the mid-6 percent range), the Act added a new Title VI to CETA. This original Title VI was designed exclusively to be a countercyclical weapon. It was intended to encourage prime sponsors to hire unemployed persons as quickly as possible and to employ them in public service jobs. Title VI funding differed substantially from the Title II funding formula. Under the original Title VI, 50 percent of the distributed funds were based on the proportion of the nation's unemployed population in its jurisdiction; 25 percent on the proportion of the area's share of all unemployed persons in excess of 4.5 percent of the labor force; and 25 percent among those areas of substantial unemployment (i.e., 6.5 percent unemployment for three consecutive months). Local areas with unemployment in excess of 7 percent were able to hire people who had been unemployed for only 15 days.

The thrust of the public service employment programs authorized under the Titles II and VI, therefore, was toward geographical areas with high unemployment rates as officially measured and with high coverage rates of unemployed workers by unemployment compensation. Emphasis was given to participation by persons who had both low incomes and who were long term unemployed.

In October 1976, the temporary countercyclical program enacted in 1974 as Title VI was renewed by the Emergency Jobs Program Extension Act of 1976. It provided for the extension of Title VI and it also called for a major redesign in program format. To overcome criticisms that the original Title VI program was simply allowing local governments to substitute federal funds for local funds in hiring public workers, the new Title VI required program agents to establish clearly definable "projects." Each "project" had a fixed completion date of no more than one year. Moreover, the "projects" were supposed to be in employment ventures that local governments would not normally be able to fund. The Act also required that 50% of all vacancies that year be filled by low income, long term unemployed persons.

As unemployment remained high in 1976, the Carter Administration pressed for an expansion of the existing PSE programs shortly after it came into office in 1977. The Administration was successful in its efforts. The Economic Stimulus Appropriations Act of 1977 was enacted. Almost half of the $20 billion stimulus was earmarked for expansion of the existing public service employment programs during 1977 and 1978. During this time period, the level of PSE participation increased from about 300,000 to 725,000 persons and the nation's unemployment rate declined from over 7 percent to less than 6 percent over the interval.

In 1978, the original lifespan of CETA expired. Thus, Congress was given the opportunity to terminate, rewrite, or reauthorize all CETA activities. Ultimately, CETA was reenacted in October 1978, but with a number of fundamental changes. The public service employment eligibility provisions were changed dramatically. A new Title II (D) program became entirely a structural PSE program. Eligibility was restricted to persons who were receiving welfare or economically disadvantaged and who were unemployed for 15 weeks or more. All PSE positions under Title II (D) must be at the entry level and, where possible are to be combined with training and supportive services. For the first time with respect to all previous PSE endeavors of the decade, no local salary supplementation is permitted. Title VI was retained nominally as a form of countercyclical PSE. But it is actually a highly targeted PSE program to help only certain groups of people in areas of high unemployment at any time. A trigger mechanism was built into the legislation. Funds are supposedly to be made available to employ 20 percent of the number of persons in excess of 4 percent unemployment and 25 percent of the excess above 4 percent when the unemployment rate is in excess of 7 percent. At least 50 percent of the funds are to be used to employ persons in "projects" of up to one year duration. All persons not employed in "projects" but who are in regular PSE positions can only be employed at entry-level jobs. Title VI, although billed as counter-cyclical, requires that all participants be unemployed for ten out of twelve weeks prior to application and come from a family whose income is below the Lower Living Standard or is receiving welfare. Also with respect to both Titles II (D) and VI, no person may be employed in any form of PSE job for more than 18 months. Severe restrictions are currently placed on the types of people and the types of jobs for which PSE funds can be used.

The Rationale for PSE

The factors that explain the drastic conceptual changes in PSE that occurred with the 1978 CETA Amendments are complex and somewhat controversial. The rapid build-up of PSE in 1977-8 greatly over taxed the administrative capabilities of the young system. It should be recalled that the CETA delivery system was less than three years old when the PSE build-up occurred. As a form of institution building, it will take time before the local expertise is developed to handle the responsibilities of local implementation of national economic policies. But in this case, no lead time for adequate planning or staffing was provided. Extreme pressure was exerted on prime sponsors to meet their hiring goals as quickly as possible. Threats were made that if these goals were not met rapidly, the money would be taken away and assigned to other prime sponsors who could meet such performance requirements. At the same time, the prime sponsors were in the process of implementing an entirely new and comprehensive youth employment initiative (i.e., the programs created under the Youth Employment and Demonstration Projects Act of 1977). Furthermore, as indicated earlier, the PSE programs themselves went through a number of variations in both content and program design during the period just prior to the build-up. Thus, the prime sponsors did not have sufficient experience with the existing PSE programs to prepare themselves for the strains and pressures of the rapid expansion. The result could have been predicted. A number of incidents of mismanagement and inefficiencies occurred in the implementation of the expanded PSE programs. Where they did occur, they were often highly publicized. Congress reacted in a very negative way in 1978 to the entire concept of a countercyclical PSE program. The attributes of PSE over the alternative forms of fiscal policy were seemingly forgotten in the Congressional haste to chastise the CETA delivery system.

The Merits of PSE

It is of little value to discuss any policy proposal in the abstract. Rather, the merits and demerits of PSE as an instrument of fiscal policy must be assessed in relation to other means of reducing unemployment. To be specific, the primary policy alternative to PSE is tax cutting. The policy research that paralleled the evolution of PSE program during the 1970s has convincingly demonstrated the relative advantages of PSE over tax cutting as a means of accomplishing their common objective. Among these considerations are that PSE can achieve a specified level of aggregate demand more quickly than a tax cut since the latter must wait for consumers to spend their tax savings before there is any effect; the direct creation of jobs is quicker under PSE than by tax cuts since the PSE jobs are created at once whereas tax cuts do not initially create new jobs and will do so only after tax savings are spent and existing inventories are depleted; PSE jobs can be targeted directly to those people and regions who need additional jobs whereas tax cuts can trigger inflationary pressures when consumers spend tax savings on items that are short in supply or create a demand for jobs for which the unemployed cannot qualify.

The major functional criticism of PSE as an effective job stimulation device has centered upon charges of job substitution. It was alleged that local governments merely substituted the funds for PSE workers for their own funds that would otherwise be used to hire the same people. If true, this could nullify the effectiveness of PSE as a plausible countercyclical device. But, this criticism overlooked the fact that even if employment substitution did occur, the availability of PSE would enable local and state governments to release those funds to spend on other goods and services which would also stimulate an increase in aggregate spending. Also, the availability of PSE workers could preclude or lessen the severity of any counterproductive tax increases that might be necessary at the local level to maintain a needed level of public services. It is also conceivable that the availability of PSE workers could allow some local taxes to be reduced with no loss in public services. To further allay the fears of possible substitution, the aforementioned requirement was imposed that a substantial number of PSE workers now must be assigned to short term projects that are definable and distinct form other activities sponsored or provided for by local and state governments.

Thus, despite the clear superiority of PSE over tax cuts as an effective means of combating mounting unemployment, the CETA Amendments of 1978 have virtually made it impossible for the PSE to be available as a policy tool to combat a general increase in the level of aggregate unemployment. As a result, by default, tax cutting is now the only readily available means to accomplish this end. Tax cuts are always politically popular even though they are a clearly second-best policy as a means of reducing unemployment in a less inflationary manner. But as matters now stand, tax cuts may be the only available means to be taken in the event that the anticipated sharp rise in the nation's unemployment rate in late-1980 does occur.

As an immediate response to rising unemployment, an available PSE program is superior to sole reliance upon subsidized unemployment through unemployment compensation. PSE at least offers the assurance of increased production for its claim upon public expenditures.

The Steps that Need to be Taken

The nation needs to have a contingency plan that involves a significant PSE program that can be used as a countercyclical measure to benefit the general labor force. At present, the PSE programs that exist are essentially structural in their orientation. The case for a contingenty countercyclical program does not in any way diminish the need for the existing structural PSE programs. Rather, it simply means that there are benefits of having a separate countercyclical program available as a standby option if it should be needed. If the legislation were enacted for such a proposal, the planning could begin and the administrative shortcomings of past crash build-ups in PSE could be largely avoided. All of the rules, regulations, guidelines would be known. All funding formulas could be in place. For virtually the first time in the history of any employment and training program, sufficient understanding and planning for such a program could all be done in advance. Then, if and only if the need should arise, all that would be necessary would be for the funding appropriation to occur.

There are two possible ways to implement the proposed program for a contingent countercyclical PSE program. One is to revise the current restricttions and practices that prevent Title VI from becoming a truly countercyclical PSE program. The second alternative is to add immediately a new title to CETA that would authorize such a PSE program to meet the employment needs of the general labor force during times of high national rates of unemployment.

If the first route is taken, several changes would be required. The first change would be that Congress would have to fulfill the funding pledges that are already called for under the existing Title VI of CETA. The trigger requirement that calls for funds to increase as unemployment rises is already in place. But the appropriations that are required to meet these authorized increases in program operations have not been forthcoming. In fact, existing budget plans call for / an arbitrary reduction in the scale of PSE operations. A trigger mechanism for a policy weapon that is actually unloaded eliminates the effectiveness of the entire concept. This is presently the case. Hence, the trigger concept of Title VI must include an automatic funding process if it is to be meaningful. In addition, the existing legislative limitations on the eligibility of who can participate; the types of jobs that participants can hold; the wage rates that participants can receive; and the opportunities for local government to supplement wages and salaries should be waived automatically when the national unemployment rate reaches a specified level (e.g., 6.5 percent) for a specified time period (say 3 consecutive months). In this way, Title VI could serve the general labor force and Title II (D) PSE could remain reserved for the economically disadvantaged who are also unemployed.

The second alternative would be to add a new title to CETA. It would authorize a standby countercyclical PSE program that would be similar to that enacted under the Emergency Jobs and Unemployment Assistance Act of 1974. It would be a simple program that would encourage prime sponsors to employ persons in useful public sector jobs as quickly as possible. It would be authorized to become operative should the national unemployment rate exceed a specified level (say 6.5 percent) for a specified number of months (say 3 consecutive months). The President then could request immediate funding for the creation of a sufficient number of jobs to return the unemployment rate to the 6.5 percent level. Funding should be sufficient to allow those hired in the program to remain in subsidized employment for a set period of time (say 18 months) regardless of whether the aggregate rate should subsequently fall back to or below the 6.5 percent level. As under the Act of 1974, eligibility for participation should vary with the local unemployment rates. For example, any person unemployed for over 30 days would be immediately eligible but in those local areas with higher unemployment rates, the period of unemployment could be even less. The program should specify that local and state governments maintain their previous levels of employment. But given the lead time to do effective planning as to the specific occupations for which PSE participants would be employed, it should be possible to avoid many of the administrative pitfalls that occurred during the 1977 build-up. Although some federal wage ceiling would have to be set, discretion should be given to local governments to supplement those ceilings if they see fit.

Under either of the proposed alternatives, the lessons of the past should be incorporated into the appropriate rules and regulations. Namely, as a countercyclical program, it should be clearly understood that participants should not be hired and employed in occupations that provide essential government services (i.e., police, fire fighters, and sanitation services). Rather, the jobs that are created should be in occupations that make communities better places to live and to work but are not absolutely essential to its ability to operate in a viable manner (e.g., conservation, beautification, the arts, weatherization, housing rehabilitations, care for senior citizens, child care, or educational enrichment).

Conclusion

The nation needs to have an available alternative to tax cuts as a means of creating jobs should the economy require immediate stimulation. PSE has proven its usefulness as both a countercyclical and a counterstructural policy weapon. But as matters now stand, there is no truly countercyclical PSE program available for immediate implementation. It is suggested that there should be.