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The Revival of Job Creation Programs in the
1970s: Lessons for the 1980s

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During the 1970s, direct job creation was revived as a prominent instrument of national employment policy. Interest in this policy tack had been virtually dormant since the pioneering efforts of the 1930s. Relative to its chief policy rival--tax cutting, public service employment (PSE) was touted as having the distinct advantages of working quicker; accomplishing more; being capable of precise participant targeting; and being cheaper in its costs to the federal treasury.¹ Indeed, as the stagflation of the 1970s revealed itself to be more than a passing aberration, PSE was seen as being not only the best policy choice but, rather, as being possibly the only realistic policy alternative that could reduce unemployment without exacerbating latent inflationary pressures.²

By late 1981, however, the PSE era had ended. PSE had become the object of political scorn. The Reagan Administration, with the endorsement of Congress, not only eliminated all funding for PSE as of October 1, 1981 but it had also enacted the largest tax reduction program in the nation's history. Thus, PSE enrollments over the decade had started from zero in mid-1971; had peaked at 755,000 participants in April 1978; and had returned to zero by Fall 1981.

Fortunately, the progress of PSE was carefully followed by a number of

independent research studies. These studies have, collectively, examined the key facets of the PSE programs. They were based on field work and were conducted over all or part of the lifetime of the various PSE initiatives.

The major research sources consist of two comprehensive national series of studies--the Brookings-Princeton (B-P) studies and the National Research Council (NRC) of the National Academy of Science studies; a specific study of PSE in the rural South--the Cornell-Mississippi (C-M) study; and a study of the long term effects of PSE on program participants in one specific urban labor market--the Johns Hopkins (JH) study of the Baltimore SMSA.³ In addition, the findings of the Continuous Longitudinal Manpower Survey (CLMS) on participant impacts for the early PSE years (up to 1976) became available in 1981.⁴ Hence, there is now a rich repository of wisdom about the PSE era from which qualitative conclusions--not theoretical speculation--can be drawn.

A Brief Policy Overview

The revival of public sector job creation began as a temporary measure with the Emergency Employment Act of 1971 (EEA). It became an established part of the nation's economic policy when the Comprehensive Employment and Training Act of 1973 (CETA) was enacted. Between July 1, 1974 (when CETA became effective) and October 1978, (when CETA was reauthorized but with substantial amendments) the CETA legislation actually specified five more distinctly different PSE programs--each with its own eligibility standards and unique operational features. It is not necessary at this juncture to spell out the details of each of these ventures. Suffice to say that between 1971 and 1976, the PSE programs functioned in a countercyclical capacity; from 1976 to 1978 they served both countercyclical and counterstructural roles; and from 1978 to 1981 they were essentially counterstructural programs. By

October 1, 1981, funding had been eliminated and the PSE decade was over.

The Positive Side

Of all the issues surrounding PSE policy evolution, none was more nagging than concern over whether PSE could actually create net new jobs. There were fears that federal funds would merely displace local funds that would have otherwise been spent to maintain or increase employment levels. Using various econometric models, a body of circumstantial (i.e., simulation) evidence was accumulated that said that substantial displacement could be expected (some projected a rate as high as 100%). Even though other econometricians responded by showing how only slight changes in model specifications of these early studies could considerably reduce the expected displacement effect, it fell upon field research to reconcile these extreme differences in theoretical expectations. These field studies consistently found that during the counter-cyclical phase, the displacement rates were very low relative to what had been predicted. The B-P study found that the displacement effect varied on the basis of several criteria but that the overall effect was only about 22 percent. For instance, displacement was higher (31 percent) for large cities which were financially distressed but was lower (11 percent) for other large cities which were not so afflicted. The NRC study found an overall displacement rate of about 35 percent while the C-M study placed the rate at between 25 to 30 percent. All of the studies agree that as PSE was converted into a counterstructural program--with specified short term projects, mandated low wage rates, limited enrollment periods, and increased use of job sites sponsored by non-profit organizations rather than regular government agencies--the displacement rates declined even further. Thus, substantial net employment gains were achieved by the PSE programs over the decade.

Likewise, the studies document that countercyclical PSE did have the desired fiscal effect. The money was spent quickly by most local program sponsors. Little of the available funds were idle at any time. Most prime sponsors were both willing and able to meet specified program enrollment levels within short time frames. Some, of course, had to be prodded by the Department of Labor's policy of "use it or lose it". Nevertheless, the results were unequivocal: enrollment and spending targets were usually met.

As for the crucial issue of the usefulness of the value of the produced services, the B-P study noted that during the countercyclical phase of the program that a "bargain" had been struck. The local governments would be willing to employ some persons who might not meet their normal qualifications if the work of PSE workers in general was useful. This "bargain" held at least until FY 1979. During this period, the quality of the services performed by PSE workers was consistently found to be at least equal to that of regular public employees in the same occupations. The tendency of urban prime sponsors was to employ PSE workers to expand existing types of services or to maintain previous levels of public services in localities in fiscal distress. In rural areas, according to the C-M study, the tendency was to add "new" services to rural communities but, the "new" services were typically of a nature that they would be considered common in the urban sector (e.g., emergency services, police dispatchers, teacher aids, etc.). Thus, the countercyclical PSE program often enhanced the quality of rural life. As PSE was converted into a counterstructural program, however, the types of jobs and the characteristics of the participants changed dramatically in urban areas. In rural areas, the jobs changed but the characteristics of the participants did not vary as much.

As a counterstructural program, PSE jobs became more temporary and unskilled in nature. The job sites increasingly shifted to non-profit private

organizations. As a result, the terms of the original "bargain" were broken. Still, the studies show that while these jobs may not have been as politically attractive, they were still socially useful (e.g., weatherization, senior citizen care, conservation, repairs, etc.).

Despite differences in measurement standards, the studies show that PSE participants sustained significant post-program gains relative to preprogram wages and/or employment status. For instance, the JH study found that real wages were 16 percent higher for PSE participants in their first job after completing PSE enrollment compared to their last pre-PSE job; the C-M study, using the same comparison, found a \$.25 an hour average money wage improvement. The only study that used a control group, the CLMS data, found a \$250 higher average annual post-program income gain for PSE participants over the control group. Both the C-M and the CLMS data found strongly positive correlations between the length of PSE enrollment and higher hourly wages and incomes in post-program employment (e.g., in C-M, the hourly wage gain was \$1.48 for those in PSE for over 52 weeks; in CLMS, the annual income gain was \$650 for 40 weeks or more). As would be expected, the absolute wage and income gains were the greatest for the persons who had the lowest pre-PSE wages and incomes (i.e., the most economically disadvantaged).

The studies that calculated a transition employment rate for persons who found jobs immediately after completing PSE set the rates in the high 30 percent to high 40 percent range. The JH study--the only one to study of the long term post-PSE employment experiences--found that the post-program employment rate increased dramatically over time. Specifically, the JH study found a 48 percent immediate transition rate for PSE participants when they left the PSE program but, one month later, the percentage was 59 percent; six months later it was 66 percent; one year later it was 70 percent; and

for three to five years later it ranged from 74 to 80 percent. Hence, the JH study concluded that the standard short term indicators of PSE program impacts "severly understate" both the wage and employment effects of PSE participation. Given the high unemployment rates and the often low income status of the typical pre-PSE participant, the post-program impacts indicate that the PSE experience was very beneficial to many if not most of its participants.

During the countercyclical phase, PSE funds were used successfully to leverage access for minorities in a number of urban and rural labor markets to higher job classifications in the public sector. In the rural South, PSE jobs were especially useful in gaining initial access to public jobs in areas where these jobs are highly prized and where blacks had been historically excluded. During the pre-FY 1979 period, it was also a notable accomplishment of PSE nationwide that many minority PSE workers were able to transition directly from PSE jobs into permanent public jobs as vacancies occurred. As the program shifted to a counterstructural program, minority participation increased even more but the ability to transition directly into public sector jobs diminished substantially. Still, it is important to credit PSE with an ability to alter the racial composition of public employment patterns during a period in the nation's history when such changes in economic opportunity were essential.

The Negative Side

The era of the PSE programs was not without its problems. It is important, however, to distinguish between difficulties that were the result of burdens imposed on PSE that would hamper--even cripple--the effectiveness of any type of human resource development program from problems that were inherent in the PSE concept itself.

Looking first at these externally imposed encumbrances, it is unrealistic to think that any program format could be substantially changed as often as it was for PSE and not cause extensive administrative difficulties. Compounding the drastic programmatic shifts was the fact that they occurred during the start up-years of the local prime sponsor system itself. The process of building an institutional capacity to deliver local human resource programs (which include numerous other activities besides PSE) is a fragile process. Frequent and extensive program changes in PSE did much to undermine the ability of local prime sponsors to build a credible foundation during these critical formative years. Vacillations in PSE funding levels as well as delays in making funds available by Congress added to the administrative difficulties. In mid-1977, prime sponsors had to contend with the numerous programmatic changes that occurred in late 1976 when the shift of PSE to a counterstructural PSE focus began. They also had to implement the massive PSE enrollment "build-up" of countercyclical PSE that was the cornerstone of the Carter Administration's economic stimulus program. Simultaneous with all of this, the Youth Employment and Demonstration Project Act (YEDPA) was also enacted in the Spring of 1977. YEDPA was the most complicated and multifaceted human resource program to have been created by Congress up until that time. Simply put, the administrative capacity of the local prime sponsor system was overtaxed by the combined obligations of all of these happenings. A price was paid. Planning, monitoring, and evaluation of PSE program performance were luxuries that could only be perfunctorily performed. Without these functions, it was not long before incidents of waste, fraud, or mismanagement provided plentiful fodder for local politicians and news media to exploit. All of CETA--but PSE in particular--fell victim to a debilitating image from which it has yet to escape. The extensive restrictions imposed on

PSE in late 1978 were the Congressional capstone to this traumatic episode.

Even though the actual incidents of proven mismanagement of PSE funds were grossly exaggerated, there were a sufficient number of legitimate wrongdoings to undermine the public's perception of what PSE sought to accomplish. Because the local prime sponsors were themselves governmental entities, they could not be oblivious to changes in the political winds. The PSE program was vulnerable to criticism. Without the ability to plan, to monitor and to evaluate, even the best of administrators cannot avoid errors in judgement or detect actions of malice by some local opportunists. Local criticism served to undermine the morale of many staff workers and contributed to high turnover rates of administrators and staff workers as noted in the studies. Such losses in expertise hindered program efficiency. If PSE should again become part of the nation's employment strategy, the ability to plan--which includes stability in program design and funding by Congress--as well as to monitor and to evaluate on-going program activities must be feasible in fact and not just be fictional statutory language.

The studies that continued past FY 1979 confirm that, as PSE became counterstructural, the more restrictive targeting came at a cost of diminished short run job transition. (Unfortunately the JH study of long term impacts did not include anyone who entered the PSE program after March, 1978). The job sites were increasingly shifted to private non-profit organizations. These community based organizations (CBOs) typically had limited budgets and were usually unable to absorb PSE workers when their PSE eligibility ended. The types of jobs provided by CBOs were less likely to provide experience that was directly transferable to either the public or the private-for profit sector. The regular public agencies that provided better job sites were largely precluded from doing so by the mandated low wage rates and the bans

on local wage supplementation. With these shifts in program direction, the perceived value of the PSE program declined rapidly to local and state government officials. PSE had become so restrictive in both whom it served and how it operated that it literally choked itself--politically and operationally speaking--to death. Detailed program regulation at the federal level is not the way to run any program in a system that was founded on the principle of decentralization of responsibility.

The CETA Amendments of 1978 also added specific percentage set-asides of PSE funds for training. The assumption was that structurally unemployed persons were in need of job skills and that, while they were PSE workers, some could also have these deficiencies rectified. While the diagnosis may have been plausible, experience shows that the prescription was wrong. The legislation specified that significant percentages of funds be spent for training--not that any particular numbers of persons must be trained. Much of the funds were spent on consultants, teaching materials, and "world-of-work" orientation classes. Skill training opportunities for PSE participants were scant. The logistics of arranging training opportunities--especially in rural areas--were often horrendous. Moreover, because the Amendments also limited the duration of PSE eligibility to participants to 18 months, many employers simply could not see the utility of the training requirement. The PSE workers hired after 1978 were largely employed in jobs that did not require skills. Hence, many pragmatic employers could not see the need to train workers to do something else or to be employed somewhere else. It would appear that it was a mistake to have added such an amorphous training requirement for PSE workers. In practice, the two functions did not mix. The strong suit of PSE is on-the-job training--not make-shift classroom instructions. Had it not been for the mandatory diversion of substantial funds from job

creation to training, more funds could have been used to hire more PSE workers. If training was the problem, there were other CETA titles that could be used to provide such opportunities. As a minimum, the use of some PSE funds for training should have been at the option of the local prime sponsors. The training mandates unnecessarily complicated the administration of an already complex program.

Concluding Observations

During the 1970s, there were a variety of different PSE programs. There was not a monolithic format. As could be anticipated, some phases and some aspects of the various PSE programs were more successful than others. On balance, the research on PSE is strongly favorable. In its countercyclical role, PSE, was an effective instrument of fiscal policy for the nation; in its counterstructural role, it was a beneficial human resource development program for its participants. In both capacities it contributed notably to the furtherance of equal employment opportunity objectives in the public sector. As with any new public policy initiative, however, it did not work perfectly. But at least its positive and negative aspects are now known. It remains to be demonstrated whether the chief alternative to PSE--massive tax cutting--can accomplish as much or more. It can only be hoped that the tax reduction program enacted for the 1980s will be put to the same rigorous performance tests as were the PSE programs of the 1970s.

Footnotes

1. See Charles C. Killingsworth, "Issues in Full Employment Policy: The Role of Public Service Employment," Proceedings of the 1977 Spring Meeting of the Industrial Relations Research Association, pp. 489-495; and Michael Wisemen, "Public Employment as Fiscal Policy," Brookings Papers on Economic Activity, No. 1 (1976), pp. 67-114.
2. Orley Ashenfelter, "Evaluation of the Macroeconomic Effects of Employment and Training Programs: Problems and Prospects." Paper presented at the International Conference on Manpower Program Evaluation Methods, Washington, D.C. (December, 1978), Mimeographed material, pp. 1-24.
3. Richard Nathan, Robert F. Cook, and V. Lane Rawlins, Public Service Employment: A Field Evaluation, (Washington, D.C.: The Brookings Institution, 1981); William Mirengoff, Lester Rindler, Harry Greenspan, and Scott Seablom CETA: Assessment of Public Service Employment Programs, (Washington: National Research Council of the National Academy of Sciences, 1980); William Mirengoff, Lester Rindler, Harry Greenspan, Scott Seablom, and Lois Black, The New CETA: Effect on Public Service Employment Programs (Washington, D.C., National Research Council of the National Academy of Sciences, 1980); Vernon M. Briggs, Jr., Brian Rungeling, and Lewis H. Smith Public Service Employment in the Rural South, A Report to the Employment and Training administration of the U.S. Department of Labor under contract #21-36-78-37 (August, 1981); and Laura L. Morlock, David S. Salkever, Faye E. Malitz and Steven P. Schwartz Long Term Follow-Up of Public Service Employment Participants: The Baltimore SMSA Experience During the 1970s, A Report to the National Center for Health Services Research of the U.S. Department of Health and Human Services under contract #HS03046 (March 1981). It should be noted that in several instances

these research projects also issued additional interim and related reports that were read but are not listed due to brevity restrictions.

4. U.S. Department of Labor, "Impact on 1977 Earnings of New FY 1976 CETA Enrollees in Selected Program Activities" Continuous Longitudinal Manpower Survey, Net Impact Report No. 1 (Washington, D.C.: U.S. Department of Labor, 1981) A Report to the Office of Program Evaluation, Employment and Training Administration U.S. Department of Labor prepared by Westat, Inc. under contract #23-24-75-07 (June 1981).