

Public service employment: its role in a changing economy

In recent years, the public service programs of the Comprehensive Employment and Training Act of 1973—more commonly known as CETA—have expanded rapidly. In 1974, fewer than 100,000 workers were employed under public employment programs. By April 1978, an estimated 755,000 people participated in these Federal programs. In fiscal 1979, about \$6 billion will be spent to employ an expected 625,000 workers.

Due in part to the rapid expansion of public employment as well as to the complexity of the CETA framework, public employment has been beset by problems of mismanagement and abuse. As a consequence, major steps recently have been taken to increase the program's effectiveness. Most importantly, the program has been restructured to insure that public service jobs are provided for those most in need of assistance. At the same time, increased emphasis has been put on placing CETA workers in regular jobs through greater coordination of public and private initiatives. Toward this end, related private efforts, which expand the number of private-sector job opportunities available to the economically disadvantaged, are being encouraged.

Legacy of the great depression

The Federal Government's first significant involvement with job training and public service employment began during the 1930's. The national economy was then in the grip of a severe depression with one out of every four workers jobless. In this environment, Federally sponsored programs were developed to reduce unemployment and to provide temporary income support.

No other program generated as many public-sector jobs as did the Works Progress Administration—later renamed Work Projects Administration, or the WPA.

Established in 1935, before the advent of Federal unemployment insurance, the WPA provided a minimum level of income for participants. The income support afforded by the WPA was intended, however, to be temporary. To encourage jobholders to seek nonsubsidized work, participants' wages were established below those prevailing in the private sector. Moreover, WPA employees enrolled for eighteen months were required to leave the program for at least thirty days before they could be rehired.

While the WPA was intended to provide temporary jobs, the program was regarded initially as a boondoggle wherein large numbers of participants did limited work. Gradually, however, the program was improved. In the end, the WPA's range of accomplishments was substantial. Roads, public parks, schools, and stadiums were constructed under WPA auspices. A variety of community services and cultural projects were also completed with WPA funds. Indeed, the experience demonstrated that public employment was a viable method for employing large numbers of workers with differing skill levels during long periods of high unemployment. At the height of the program in 1938, about 3 million persons, or approximately 30 percent of the 10 million unemployed, were provided jobs.

Following the peak in WPA employment in 1938, the number of participants declined steadily, and the program was abolished in 1943. By then, wartime labor shortages had developed, and public service programs were reoriented toward training in order to staff defense-related industries. In the decade following the end of World War II, public employment programs were no longer necessary because of the relatively high levels of employment and overall economic demand.

After these years of inactivity, public employment

programs were revived in the 1960's. The principal objective shifted from providing temporary economic assistance to workers who were between jobs to improving the employment prospects of the "hard-core" unemployed—those workers who were chronically unable to find jobs because of deficiencies in education, skills, or experience. This marked change in Federal policy was attributable, in part, to the relatively low levels of total joblessness that allowed the Federal Government to focus on the deep-seated employment problems facing relatively unskilled workers. Public service jobs were created to supplement existing job opportunities, but the emphasis was on job training and temporary work experience. A host of manpower programs aimed at minorities and the disadvantaged were initiated. These included the programs authorized by the Manpower Development and Training Act, as well as the Job Corps, the Neighborhood Youth Corps, and Operation Mainstream.¹

In response to rising unemployment in 1971, the Public Employment Program (PEP) was created. Reminiscent of the work-relief initiatives of the 1930's, PEP's primary aim was to counteract cyclical unemployment—unemployment attributable to inadequate total demand in the economy. In a move toward decentralization of authority, PEP monies were distributed to local governments that were responsible for designing and conducting employment programs with minimal Federal direction. At its peak in 1972, the program employed an estimated 150,000 workers or about 3 percent of the total number of unemployed. PEP was intended as a two-year counter-recession program. Under transitional provisions of the Comprehensive Employment and Training Act, supplemental funding became available in fiscal 1974, and the program did not begin winding down until 1975.

Consolidation and decentralization: the CETA program

The Comprehensive Employment and Training Act of 1973 consolidated the operations of PEP and other job training and public employment programs that had been developed over the previous decade. The act also formally decentralized authority for the design and operation of public service programs. State and local governments were delegated the responsibility for the development and administration of public employment activities. In this way, it was felt the programs would

be tailored to local needs. The shift in responsibility, however, transferred control from the Federal agencies, which had acquired experience in the development and operation of employment and training programs, to relatively inexperienced state and local governments.

Initially, CETA was organized into four separate programs—each with its own special goals. Title II, the principal job-creation program, was aimed at regions with disproportionately high unemployment.² Funding was distributed according to the extent of unemployment in areas with jobless rates of 6.5 percent or higher for three consecutive months. Unemployed workers and persons from low-income families were eligible to apply, and the first participants were hired in July 1974. By the close of the year, nearly 100,000 persons were employed under public service programs.

In response to rising unemployment, a temporary countercyclical Title VI program was appended to CETA in December 1974. Applicants were required to have been unemployed for at least thirty days, or fifteen days if the local unemployment rate was above 7 percent. By December 1975, over 325,000 jobs were financed by the combined CETA public employment programs. With high rates of joblessness continuing in 1976, funding for the Title VI program was extended late in the year. At that time, stricter eligibility requirements were introduced. The majority of new public service positions was restricted to the low-income and the long-term unemployed. In addition, emphasis was put on placing CETA workers in special, short-term projects that would not have been initiated without Federal aid. The economic-stimulus package of 1977 allowed for more than a doubling of public service jobs. Most of the increase was slated for public service jobs under Title VI. By April 1978, an estimated 755,000 jobs were funded under the CETA public employment Titles II and VI. In addition, smaller scale CETA programs provided public service jobs for youths, welfare recipients, and other disadvantaged workers.

As the economy expanded, steps were taken to distinguish between countercyclical public employment and public service programs aimed specifically at the disadvantaged. In October 1978, the administrative framework of public service employment was revised. All public employment activities directed toward the low-income and long-term unemployed were combined under the Title II program. Eligibility for Title II jobs

¹ The programs authorized by the Manpower Development and Training Act initially focused on retraining workers who had been displaced by automation. Later, these programs emphasized training unskilled and inexperienced workers. The Job Corps and the Neighborhood Youth Corps provided education, job training, and work experience for young people. Operation Mainstream was aimed at older workers in small communities and rural areas.

² Title I provided for the continuation of comprehensive employment and training activities nationwide. Similar services were provided for special groups of workers such as youth, migrants, and older workers under Title III. The Title IV program authorized the extension of the Job Corps for disadvantaged youth. In addition, a fifth title established the National Commission for Manpower Policy to serve as an independent advisory agency.

currently is limited to persons from low-income families unemployed for at least fifteen weeks or receiving welfare payments. These public service jobs are linked directly with training and are intended to lead to regular employment in the public or private sector.

In addition to introducing administrative changes, a formula was adopted specifying the number of countercyclical jobs in a below "full employment" economy. According to this formula, when the overall jobless rate exceeds 4 percent, the number of Title VI jobs created equals 20 percent of the number of unemployed in excess of 4 percent. Should the unemployment rate exceed 7 percent, the number of public service jobs created would equal 25 percent of the number of jobless workers above 4 percent. These positions are intended to provide temporary work and income support for those who are between jobs.

Using this formula, the current rate of joblessness of under 6 percent means that the number of countercyclical jobs in 1979 will decline substantially from the 600,000 Title VI jobs authorized under the 1977 economic-stimulus package. The countercyclical program is scheduled to be cut even further in fiscal 1980. What impact these reductions will have on total employment remains to be seen. It may be that state and local governments will use their own resources to fund some of these public service jobs. In New York City, for example, the jobs of up to 7,800 of the city's 25,000 CETA workers would be eliminated because of proposed funding reductions in 1980. However, the city's 1980 budget plans provide funds to rehire about 3,000 of these CETA workers. Countercyclical funds may also become available through other Federal programs. Under a proposed urban-aid plan, cities with high jobless rates may receive \$400 million over the next two years.

Although the number of countercyclical public service jobs is scheduled to be cut sharply, job opportunities for the relatively unskilled are being stepped up through greater coordination of public and private programs. Toward this end, a new Federal initiative, which seeks to involve the private sector explicitly in CETA planning, is included in CETA's 1978 reauthorization. Under this program, CETA agencies are encouraged to develop programs meeting the employment needs of private industry and to help CETA participants find private-sector jobs. At the same time, there are incentives for businesses to expand hiring and training of unskilled workers, especially disadvantaged youths.³ An estimated 80,000 private-sector

jobs are to be created under the new program by late 1980. In this vein, a revised tax credit program has also been enacted which aims at promoting job creation in the private sector by lowering the effective cost of hiring and training disadvantaged workers. Taken together, these programs are anticipated to offset most of the proposed cuts in CETA's countercyclical program. Nonetheless, because of the increased emphasis on the private sector, public service funding will decline significantly from the \$6 billion authorized for public service employment in fiscal 1979.

Important steps recently have been taken to strengthen the Federal Government's supervision of CETA as a result of mismanagement and certain abuses of the program in the past, such as political patronage, fraud, and discrimination. In addition to improving overall management and efficiency, a new Federal program is designed to enhance the training and technical assistance provided by the Federal Government to local supervisory staff. This program seeks to identify successful local programs and to encourage the development of similar activities in other regions. At the same time, independent monitoring agencies are being established to improve program supervision at the local level. These agencies are charged with insuring local compliance with CETA rules and periodically evaluating local operations. In light of past abuses of the CETA program, the United States Department of Labor has been given expanded authority to investigate and to take action against possible misuses of CETA funds in order to prevent similar abuses in the future.

The cyclical impact of public service employment

Jobs created under public employment programs play an important role in a countercyclical policy. The significant expansion of CETA public employment between mid-1977 and mid-1978 was aimed at reducing the high rate of joblessness that resulted from the 1973-75 recession. In the twelve months ended April 1978, about 450,000 additional jobs were funded under the CETA programs. That increase represents roughly 12 percent of the gain in total employment during that period. Whether the actual contribution of CETA public employment was this large, however, depends on the extent to which local agencies substituted Federally financed jobs for positions they would otherwise have funded themselves. Such "job substitution", of course, reduces the effectiveness of public service programs in directly creating jobs.

Estimating the rate of substitution is difficult. Analyses of the job-creation effects of public employment programs report widely differing rates of job substitution. Several statistical studies evaluated the job-

³ For a discussion of private-sector programs, see *Jobs for the Hard-to-Employ: New Directions for a Public-Private Partnership* (Committee for Economic Development, January 1978).

creation impact under PEP and the continuation of public employment under CETA.⁴ In these studies, the substitution rates were estimated to be 30 to 60 percent one year later and, in several cases, to be substantially higher thereafter. Based on interviews with CETA staff and local fiscal data, two recent studies evaluated CETA public employment as of July 1977 and December 1977.⁵ According to these surveys, between 15 and 18 percent of CETA positions were substituted for jobs that would have existed in the absence of Federal funding. These analyses, however, employed a very narrow definition of substitution. CETA jobs that maintained services which might otherwise have been curtailed were considered new jobs. Between 15 and 30 percent of the CETA jobs were involved with maintaining existing local services. Whether or not these services would actually have been discontinued is subject to question. If some of these positions had been maintained with local funds, the substitution rate would approach earlier estimates. Although the various studies of substitution are based on differing assumptions and are subject to limitations, the evidence suggests that the substitution rate of public employment programs is in the neighborhood of 40 to 50 percent about one year later and increases subsequently.

Although the estimates of earlier studies indicate there are high rates of substitution, these estimates may not be representative today, in light of new regulations. The maximum Federal contribution currently is limited to \$10,000 for each new CETA worker or \$12,000 for each new employee in a high-wage area. Previously, local agencies were allowed to supplement public service wages from their own budgets by any amount, but current regulations limit local agencies to adding no more than 10 percent of the maximum Federal wage paid to workers in the countercyclical program.⁶ In addition, the duration of public service jobs is now

generally limited to eighteen months. These regulations may significantly change the composition of CETA employment, especially in large cities where CETA had often been used to pay the salaries of city workers who would have been laid off in the absence of Federal funding. Because of expected changes in personnel, the level of community services may be affected. In New York City, for example, a major portion of the CETA work force must be replaced by October 1979 to comply with the new, stricter employment standards. The city's budget plans make allowance for problems likely to be created by replacing experienced employees with untrained CETA workers.

Public service employment and structural joblessness

In addition to creating further job opportunities, public service programs attempt to reduce structural unemployment—joblessness that reflects mismatches of skills, inadequate education, institutional barriers to employment, or geographical imbalances of job opportunities. The principal goal of countercyclical public employment is to provide jobs and income support to persons who are temporarily without work. Most of the unemployed are eligible. Structural public service programs, in contrast, are primarily for those groups of workers who suffer chronically high unemployment. Even if substitution is extensive, public service programs can be effective in reducing structural unemployment if the composition of local employment is altered to include those workers who are relatively disadvantaged. The increasing focus of public service employment on those workers most likely to face special difficulties in obtaining employment is reflected in CETA enrollment. In fiscal 1978, over 75 percent of CETA jobholders qualified as being economically disadvantaged. About one third of CETA public employment participants were members of minorities, considerably more than their share of the unemployed population.

Just how effective are public employment programs in reducing structural unemployment? One measure of the near-term success of public service employment is the extent to which participants secure nonsubsidized employment following enrollment in the program. In fiscal 1977, only about one third of the participants who left CETA public employment programs obtained regular positions in the public or private sector.⁷ While data are limited, the evidence suggests that CETA workers tend to remain in public service programs. This is due, in part, to the fact that generally the length

⁴ For example, see the technical analysis papers of George E. Johnson and James D. Tomola, prepared for the Office of the Assistant Secretary for Policy, Evaluation and Research, United States Department of Labor; *An Evaluation of the Economic Impact Project of the Public Employment Program* (Final Report, National Planning Association, May 1974); William Mirengoff and Lester Rindler, *CETA: Manpower Programs Under Local Control*, (National Academy of Sciences, 1978).

⁵ Richard P. Nathan and others, "Monitoring the Public Service Employment Program—Preliminary Report", in *Job Creation Through Public Service Employment* (Volume II, An Interim Report to the Congress of the National Commission for Manpower Policy, March 1978), and *Monitoring the Public Service Employment Program: The Second Round* (Number 32, A Special Report of the National Commission for Manpower Policy, March 1979).

⁶ To insure that those workers with the greatest employment needs participate, local agencies may not supplement wages under the CETA program aimed at the disadvantaged. Moreover, the nationwide wage goal for CETA public employment is \$7,200.

⁷ "Public Service Employment: An Overview of the Issues and the Evidence", in *Job Creation Through Public Service Employment* (Volume I, An Interim Report to the Congress of the National Commission for Manpower Policy, March 1978).

of participation was unrestricted, and therefore movement to regular work was less of an immediate concern. Today, the emphasis in the structural public service program is on increasing skills to prepare participants for transition to regular employment. Moreover, the new limit on CETA participation allows a greater number of disadvantaged workers to participate and provides an incentive for workers to find regular employment.

While steady work experience enhances the future job prospects of participants, to be effective these structural programs must impart knowledge and marketable skills enabling workers to acquire long-term employment. When participants in structural public service programs are assigned to low-level positions without the advantage of training, enrollment may not help alleviate the disparities between job requirements and participants' skills. In the past, public service participants have worked primarily in basic service areas—such as fire and police protection, utilities, and public works—but the work assignments have tended to require relatively few skills. Moreover, there has been only a minimal emphasis on job training. Under CETA's 1978 reauthorization, structural public service employment now encompasses job training directly. During the next four years, moreover, the proportion of funds spent on skill development under the structural program will more than double.

How successful this increased emphasis on training will be in improving the long-term job prospects of public employment participants remains to be seen. A modest improvement in near-term earnings has been found in evaluations of pre-CETA training efforts.⁸

⁸ For example, see Orley Ashenfelter, "The Effect of Manpower Training on Earnings: Preliminary Results", *Proceedings of the Twenty-Seventh Annual Meeting of the Industrial Relations Research Association* (December 1974), pages 252-60.

Participation in CETA's public employment programs can increase the current income level of workers. Participation may also be effective in generating short-term gains. The long-run performance of CETA's structural public employment program, however, remains to be thoroughly evaluated.⁹

Directions of public service employment

As a countercyclical policy tool, public service employment provides temporary jobs and income support to workers during periods of economic slowdown. Since public employment can be instituted relatively quickly and is likely to create more jobs per dollar spent than other policies, it is an effective short-run countercyclical tool. However, its effectiveness declines over time as local agencies come to rely increasingly on Federal funds. With the economy entering its fifth year of expansion, cyclical joblessness is not a problem today. As a consequence, and in response to past mismanagement and abuse, greater emphasis is being placed on public employment programs for those groups of workers who suffer chronic unemployment. Combined with training, these jobs are being created in an attempt to increase the future employment prospects of participants. A greater emphasis is also being placed on engaging the private sector in the Government's employment and training programs aimed at the disadvantaged. At the same time, attempts are being made to improve the management and efficiency of these Federal programs.

⁹ The Bureau of the Census conducts an ongoing survey of CETA participants following enrollment in the program. The data which are available show a short-term improvement in earnings. An analysis on the employment and earnings status of CETA participants three years after entering the program is in progress.

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