

EFFECTS OF ELIMINATING PUBLIC SERVICE EMPLOYMENT

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EFFECTS OF ELIMINATING
PUBLIC SERVICE EMPLOYMENT

The Congress of the United States
Congressional Budget Office

NOTE

Unless otherwise indicated, all years referred to in this report are fiscal years.

PREFACE

The Administration's proposal to eliminate all federal funding for public service employment (PSE) by the end of 1981 has focused Congressional attention on the effects of implementing this proposal. On June 25 and 26, the Senate and House passed reconciliation bills that adopted the Administration's proposal; however, this paper was written before these bills passed. Prepared at the request of the Senate Budget Committee, the paper analyzes the effects of eliminating PSE on persons holding the jobs and thus on revenues and expenditures in other federal programs. The paper also examines how well the Congressional effort to target more PSE jobs on the economically disadvantaged has succeeded, since this in part determines the overall effects of eliminating PSE on the federal budget. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analysis, the paper offers no recommendations.

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SUMMARY

This paper addresses two interrelated issues. The first concerns the extent to which eliminating public service employment (PSE) authorized under the Comprehensive Employment and Training Act (CETA) would reduce participants' incomes and, consequently, decrease federal tax revenues and increase spending for other federal benefit programs. The second focuses on how well a major Congressional objective--increasing the proportion of PSE jobs held by the economically disadvantaged--has been achieved. The two issues are integrally related since the extent to which the Congress has been able to target the PSE programs on specific segments of the population directly affects the impact on the federal budget of eliminating them. The principal findings are:

- o Persons losing their PSE jobs would experience income losses of between 35 and 50 percent of the cost of the PSE jobs in 1982.
- o The secondary effects on the federal budget--decreased tax revenues and increased spending on other assistance programs--could initially be as high as 29 percent of the federal cost of providing PSE jobs, but in the long run they could be as low as 7 percent.
- o Congressional changes in eligibility criteria designed to target PSE jobs toward the economically disadvantaged have increased the proportion of disadvantaged participants, although the most disadvantaged groups generally do not obtain PSE jobs in proportion to their numbers in the eligible population.
- o If participants were representative of the total eligible population, the increased spending on public assistance and food stamp programs resulting from eliminating PSE jobs would be twice as large as currently estimated.

EFFECTS OF ELIMINATING PSE ON PARTICIPANTS
AND ON THE FEDERAL BUDGET

The Administration has proposed eliminating all PSE jobs by the end of 1981--approximately 120,000 jobs in 1981, and 310,000 jobs in 1982 compared with policies in the December 1980 resolution for continuing appropriations. In addition both the Senate and House recently passed reconciliation bills that would eliminate all federal funding for PSE jobs in 1982. Eliminating PSE would reduce total earnings of PSE participants and some would become eligible for other forms of federal assistance. Consequently, the reductions in direct spending for PSE would be partly offset by decreased tax revenues and increased spending for benefits such as public assistance, food stamps, and Unemployment Insurance (UI).

Effects on Participants

Eliminating PSE jobs would reduce employment for current and potential future participants, but the associated loss in their income would be less than the savings in program costs. The net loss in their incomes in 1982 would be between 35 and 50 percent of the federal cost of providing PSE jobs--between \$1.2 billion and \$1.8 billion. Several factors, more than one of which may affect the same PSE job loser, would contribute to this result:

- o Wages for participants make up only 70 percent of the total cost of the PSE programs. The remaining 30 percent represents fringe benefits, and administrative and training costs.
- o Some persons would obtain other jobs, about one-third soon after leaving PSE jobs and another one-third within a year.
- o Up to 50 percent of those losing PSE jobs would receive UI benefits to replace part of their lost wages.
- o Increased benefits from public assistance programs--Aid to Families with Dependent Children (AFDC) and state general assistance (GA)--would partially replace lost wages for 15 percent of the job losers.
- o Increased food stamp benefits would partially offset lost wages for almost 30 percent of the job losers.

- o About 10 percent of all persons would obtain neither other employment nor other benefits.

Effects on the Federal Budget

Eliminating all PSE jobs would reduce federal spending on PSE by \$1.2 billion in 1981, and \$3.6 billion in 1982 compared with policies in the December 1980 resolution for continuing appropriations. In 1981, the savings in direct federal spending would be reduced by 16 to 29 percent because of decreased tax revenues and increased spending for other programs, resulting in a net federal savings of between about \$0.9 billion and \$1.0 billion (see Summary Table 1). In 1982 and beyond, these secondary budget effects would decline to between 7 and 14 percent of the federal cost of the PSE programs, resulting in a net federal savings of between about \$3.1 billion and \$3.3 billion. The range in estimates is caused by the uncertainty surrounding the future of the PSE participants--how many would remain employed in essentially the same jobs but with their wages paid by state and local governments, how many would find other jobs, and how many would receive UI benefits.

In both 1981 and 1982, the effects of eliminating PSE jobs on tax revenues and on spending for public assistance and food stamps--measured as percents of the federal cost of providing PSE jobs--would be the same. In each year, the tax revenue effect would comprise approximately 70 percent of these effects on the federal budget. Specifically, federal tax revenues would decline by between 7 and 10 percent of the federal cost of PSE, whereas federal spending for public assistance and food stamps would increase by 3 to 4 percent. In addition, state and local spending for public assistance would increase by 2 percent of the federal cost of providing PSE jobs.

The major difference between the 1981 and 1982 secondary budget effects of eliminating PSE jobs is a result of spending for UI benefits. In 1981, up to 50 percent of all persons losing their jobs would initially receive UI benefits. This would increase spending for UI benefits by between 6 and 14 percent of the federal cost of PSE. Many of these people will be eligible for UI solely as the result of having held PSE jobs. By 1982, therefore, eliminating PSE jobs would have the reverse effect. Since no one would be able to gain eligibility for UI by having PSE jobs, federal spending for UI benefits in 1982 would decline by between 0.5 and 3 percent of the federal cost of PSE jobs.

SUMMARY TABLE 1. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, AS A PERCENT OF DIRECT FEDERAL SAVINGS, 1981 AND 1982

	Secondary Budget Effect			
	1981		1982	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Public Assistance	1.1	1.7	1.1	1.7
Food Stamps	1.7	2.7	1.7	2.7
Unemployment Insurance	6.4	14.4	-2.8	-0.5
Payroll Taxes	3.7	5.8	3.7	5.8
Income Taxes	<u>2.9</u>	<u>4.6</u>	<u>2.9</u>	<u>4.6</u>
Total, Secondary Budget Effect (As a percent of direct federal savings)	15.8	29.2	6.6	14.3

Direct Federal Savings (In millions of dollars)	1,227		3,567	
Net Federal Savings (In millions of dollars)	1,033	869	3,332	3,057

SOURCE: See Tables 1 and 2.

EFFECTS OF LEGISLATIVE CHANGES IN PSE

Because the PSE programs provide enough jobs to serve less than 5 percent of the eligible population, participants may not represent exactly the group that the Congress intended to aid. Although the Congress can restrict eligibility for PSE jobs to economically disadvantaged groups, it cannot control who will apply for PSE jobs or who will be hired.

The Congress has attempted twice--in 1976 and 1978--to focus the CETA PSE programs more heavily on economically disadvantaged groups, largely by changing the eligibility criteria. The 1976 effort was not particularly successful because the more restrictive eligibility requirements applied only to a portion of the jobs. Even though newly-eligible persons were more disadvantaged, on average, than those who had previously been eligible, there was little change in the overall characteristics of the total eligible population or the participants. The recent efforts in the 1978 CETA reauthorization were more successful, however, because they

SUMMARY TABLE 2. CHARACTERISTICS OF ALL PERSONS ELIGIBLE FOR CETA PSE PROGRAMS BEFORE AND AFTER THE 1978 CETA REAUTHORIZATION

	Before	After
Total (in thousands)	24,529	13,402
----- Percent Distribution		
Members of Families Receiving Transfer Payments		
Public Assistance	32.9	86.2
Public Assistance or Food Stamps	42.4	90.9
Receiving Unemployment Insurance Benefits	35.2	16.4
Sex		
Male	45.2	35.8
Female	54.8	64.2
Race		
White	69.7	58.0
Nonwhite	30.3	42.0

Average Family Income (In 1980 dollars)	\$16,828	\$9,114

SOURCE: See Tables 3 and 4.

substantially decreased the size of the eligible population and required that all PSE jobs be filled by persons meeting more restrictive eligibility criteria (see Summary Table 2). As a result, the proportion of disadvantaged participants increased significantly (see Summary Table 3).

SUMMARY TABLE 3. PERCENT DISTRIBUTION OF CHARACTERISTICS OF PARTICIPANTS BEFORE AND AFTER THE CETA 1978 REAUTHORIZATION

	Before	After
Members of Families Receiving Transfer Payments		
Public Assistance	21.8	29.6
Food Stamps	25.1	35.5
Receiving Unemployment Insurance Benefits	24.2	20.5
Sex		
Male	62.9	51.7
Female	37.1	48.3
Race		
White	69.4	54.1
Nonwhite	30.6	45.9

Median Family Income (In 1980 dollars)	6,917	5,954

SOURCE: See Table 5.

Although the proportion of disadvantaged participants increased after the 1978 changes, the most disadvantaged groups generally remain underrepresented in the programs in comparison to the population eligible for PSE jobs. For example, although women in families receiving public assistance represent about 60 percent of all eligible persons, they account for only 20 percent of all PSE participants. This underrepresentation occurs for two reasons: this group appears less likely to apply for jobs--they are often single parents of young children--and, when they do apply, it seems that they are less likely to be hired.

Although this paper deals exclusively with the PSE programs, the analysis in it may be useful in examining proposals to modify other programs. The Administration has proposed dramatic changes for many federal programs--in education, health, and local economic development, for example--that would give substantially greater control over use of federal funds to state and local governments. It is difficult to assess the likely effects of adopting these proposals, since they would depend entirely on the state and local governments' responses. Some evidence may be gained, however, from a study of how these governments have exercised discretion in administering previous programs. Consequently, the analysis of participation in the PSE programs presented in this paper may help the Congress in its consideration of proposals in other areas.

CHAPTER I. INTRODUCTION

The Administration has proposed eliminating all federal funding to state and local governments for public service employment (PSE) authorized under Titles II-D and VI of the Comprehensive Employment and Training Act (CETA). Both the Senate and House recently passed reconciliation bills that adopt the Administration's proposal. This action would eliminate approximately 310,000 PSE jobs in 1982 and reduce PSE spending by \$3.6 billion, compared with policies in the December 1980 resolution for continuing appropriations.

The PSE programs currently provide federal funds through block grants to state and local governments to pay most of the costs of jobs for low-income persons. Of all PSE jobs, about two-thirds are in state and local government agencies and one-third are in nonprofit organizations. The characteristics of these jobs have varied since the beginning of the programs, but now they are relatively low-paid since the legislated average wage in 1980 was about \$3.70 an hour. In addition to increasing the incomes of participants and providing additional public services, these jobs may facilitate participants' abilities to find private-sector jobs in the future.

This paper examines two aspects of the CETA PSE programs:

- o First, the paper estimates the net impact on the federal budget of terminating the PSE programs. This analysis describes who will be affected by termination of the PSE programs and answers the immediate question of what actual federal savings could be expected if the programs were eliminated.

- o Second, the paper examines how the Congress has changed eligibility for PSE jobs and how the state and local governments that administer the programs have exercised the discretion available to them in selecting employees. This analysis may help in understanding how state and local governments might exercise greater discretion in programs outside the employment area if it was provided to them.

Chapter II analyzes the net effect on the federal budget of eliminating all PSE jobs. Eliminating them would save the direct costs of the programs, but would also reduce employment opportunities and earnings for both current and potential future participants thereby decreasing tax revenues and increasing spending on other federal programs, such as public assistance, food stamps, and Unemployment Insurance. Chapter III examines the effectiveness of various legislative changes in the PSE eligibility criteria that were designed to focus the programs more heavily on the economically disadvantaged.

CHAPTER II. EFFECTS OF ELIMINATING PSE ON PARTICIPANTS AND ON THE
FEDERAL BUDGET

Under the December 1980 resolution for continuing appropriations, funds were available to support approximately 310,000 public service employment (PSE) jobs in 1981. This number of jobs would employ approximately 535,000 persons, each for an average of about seven months, and would cost approximately \$3.2 billion in 1981. Maintaining this same number of jobs in 1982 would cost \$3.6 billion.

The Administration has proposed eliminating all federal funding for PSE authorized under the Comprehensive Employment and Training Act (CETA) by the end of 1981. Adopting this proposal, the Congress reduced 1981 PSE funding by approximately \$840 million.¹ In addition, both the House and Senate recently passed reconciliation bills that eliminate authorization for all PSE jobs in 1982.

To accomplish the proposed phase-out of the programs, the Administration instituted a hiring freeze for all PSE jobs in March 1981 and reduced funding allotments for existing PSE positions. By the end of May 1981, the number of people holding PSE jobs had declined from 307,000 to approximately 131,000 from a combination of natural attrition, layoffs, and firings.

Eliminating PSE jobs reduces employment for persons currently holding jobs and removes employment opportunities that future participants would have had. This chapter examines what would happen to these persons and provides estimates of the resulting impact on the federal budget--through reduced tax receipts and increased spending on other programs--in 1981 and 1982. The last section discusses various factors--such as changing economic conditions and modifications of other federal programs--that would affect these estimates.

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1. These reductions include a \$607 million deferral of Title II-D funds and a \$234 million rescission of Title VI funds. The deferred Title II-D funds are to be used in 1982 for employment and training programs funded under Title II-B,C of CETA. The Administration has also set aside \$245 million of PSE funds for Unemployment Insurance (UI) payments for persons losing their jobs.

EFFECTS OF ELIMINATING PSE ON CURRENT AND POTENTIAL
PSE PARTICIPANTS

Eliminating PSE would result in a net loss of income for current PSE participants and potential future participants of between about 35 and 50 percent of the federal cost of the PSE programs in 1982.² This income loss would amount to between \$1.2 and \$1.8 billion, or between \$2,300 and \$3,300 per participant.

Three main factors account for the fact that participants' losses would be less than the cost of the PSE jobs:

- o Participants' wages represent only a portion of federal funding for PSE;
- o In the absence of PSE, some participants would find other jobs or remain in essentially the same jobs with funding from state and local governments; and
- o Some of the loss in PSE wages would be replaced by increased benefits from other programs.

Approximately 70 percent of all PSE funds represent wages for participants. The remaining 30 percent consist of 10 percent for fringe benefits and 20 percent for administrative and training costs. The loss of fringe benefits--for example, health insurance--might affect participants, but data limitations precluded incorporating their value in the analysis.

One-third of all persons leaving PSE jobs would find other employment immediately, and by the end of the first year another one-third would probably find jobs.³ Some of these jobs would be

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2. The income measure used here includes food stamp benefits since they increase families' available resources even though they are not money payments.
 3. These estimates are based on data concerning previous PSE participants who left the programs. The fractions could increase if additional efforts were made to find jobs for persons leaving PSE jobs. On the other hand, however, they could decrease since large numbers of persons would be losing their jobs simultaneously at a time when unemployment is already relatively high.

in the private sector. In other cases, state and local governments would substitute their own funds and continue essentially the same jobs. The extent to which state and local governments would continue to employ people now holding PSE jobs--often called fiscal substitution--accounts for much of the uncertainty associated with estimating the effects of eliminating PSE. Unfortunately, there are no firm estimates of fiscal substitution for the current programs. The range of estimates provided in this analysis is based on two levels of assumed fiscal substitution--20 and 50 percent.⁴

One of the federal programs from which those losing PSE jobs would receive benefits is Unemployment Insurance (UI). The Department of Labor estimates that up to 50 percent of PSE participants would receive UI benefits at the time of their termination. On average, each person would receive approximately \$1,600. Consequently, the Administration's proposal would increase the cost of the UI program in 1981. The effect in 1982, however, would be the reverse--the cost of the UI program could actually be less than if the PSE programs were continued. Two factors contribute to the reversal. First, many PSE job losers would have exhausted their UI benefits. Second, some persons employed in PSE jobs acquire eligibility to receive UI benefits in the future. To the extent that PSE jobs were eliminated in 1981, this means of gaining eligibility for UI benefits would no longer exist, and there would be fewer UI beneficiaries in 1982.

Of the 30 percent of the PSE participants who are members of families receiving public assistance--Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and state general assistance (GA)--about half would receive increased payments upon losing their jobs. Part of the reason that only half would receive more is that approximately one-third are not actually members of the filing unit whose income affects the

4. These estimates are based on levels of fiscal substitution during previous PSE programs with assumed reductions due to the 1978 changes in the PSE programs and current levels of state and local government funding. For the earlier programs, estimates varied widely, but the weight of evidence suggested a range of 50 to 60 percent. For a summary and critique of previous fiscal substitution estimates, see U.S. Department of Labor, The Implications for Fiscal Substitution and Occupational Displacement Under an Expanded CETA Title VI (March 1979).

benefit amounts, so that losing PSE wages would not affect the family's public assistance benefits.⁵ In addition, some PSE participants would secure other jobs at similar wages; hence, their public assistance benefits would be unaffected.

Of the PSE participants losing their jobs, almost 30 percent would have some of their loss in income made up by food stamp benefits. Specifically, 17 percent of all PSE job losers would start receiving food stamps and 12 percent (who had been receiving them while holding their PSE jobs) would receive increased benefits.

Finally, approximately 10 percent of PSE job losers are not expected to find other jobs or to receive any type of federal benefits to replace their lost wages during the following year. In other words, they would lose, on average, \$4,700 in PSE wages in 1981.⁶

EFFECTS OF ELIMINATING PSE ON THE FEDERAL BUDGET

Eliminating all PSE jobs would reduce federal funding for Titles II-D and VI by \$1.2 billion in 1981 and \$3.6 billion in 1982, but these savings would be offset by secondary budget effects--decreased tax revenues and increased spending on other federal benefit programs. In 1981, the secondary federal budget effects would amount to between 16 and 29 percent of the federal cost of providing PSE jobs--resulting in a net federal savings of between \$0.9 billion and \$1.0 billion (see Table 1). In 1982 and beyond, the federal PSE savings would be reduced to between 7 and 14 percent--resulting in net federal savings of between \$3.1 billion and \$3.3 billion (see Table 2). These secondary budget effects are calculated as a percent of the federal cost of the programs. If, instead, they were computed as a percent of federal PSE wages--thereby excluding fringe benefits and administrative costs--they would range from 23 to 42 percent in 1981 and from 9 to 20 percent in 1982.

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5. For example, children over 18 years of age could be part of a family receiving AFDC benefits, but they would not be included in the AFDC filing unit since they are over the maximum eligible age. Therefore, if one of the children over age 18 lost a PSE job, the family's AFDC benefit would be unaffected.
 6. This figure refers to average earnings for seven months of employment.

TABLE 1. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND ON TAX REVENUES, IN 1981

	Secondary Budget Effect			
	Lower Bound ^a	As a Percent of Direct Federal Savings	Upper Bound ^b	As a Percent of Direct Federal Savings
	Millions of Dollars		Millions of Dollars	
Public Assistance	13	1.1	21	1.7
Food Stamps	21	1.7	33	2.7
Unemployment Insurance	79	6.4	177	14.4
Payroll Taxes ^c	45	3.7	71	5.8
Income Taxes ^c	<u>36</u>	<u>2.9</u>	<u>56</u>	<u>4.6</u>
Total, Secondary Budget Effect	194	15.8	358	29.2
Direct Federal Savings ^d	1,227		1,227	
Net Federal Savings ^e	1,033		869	

SOURCE: CBO estimates from the Census Bureau's March 1978 Current Population Survey, modified to represent 1980.

- a. Based on 50 percent substitution and 20 percent participation in the Unemployment Insurance (UI) program after leaving PSE.
- b. Based on 20 percent substitution and 50 percent participation in the UI program after leaving PSE.
- c. These figures represent a reduction in tax revenues.
- d. Direct federal savings are reductions in direct spending for PSE jobs. This estimate assumes that the phase-out implemented by the Administration--which had reduced the number of PSE jobs to 131,000 by the end of May 1981--will continue so that no jobs will remain at the end of 1981.
- e. Net federal savings are direct PSE savings adjusted for changes in other federal tax and transfer programs.

TABLE 2. EFFECTS OF ELIMINATING PSE ON SPENDING FOR OTHER FEDERAL PROGRAMS, AND TAX REVENUES, IN 1982

	Secondary Budget Effect			
	Lower Bound ^a		Upper Bound ^b	
	Millions of Dollars	As a Percent of Direct Federal Savings	Millions of Dollars	As a Percent of Direct Federal Savings
Public Assistance	39	1.1	61	1.7
Food Stamps	61	1.7	96	2.7
Unemployment Insurance ^c	-100	-2.8	-18	-0.5
Payroll Taxes ^d	132	3.7	207	5.8
Income Taxes ^d	<u>103</u>	<u>2.9</u>	<u>164</u>	<u>4.6</u>
Total, Secondary Budget Effect	235	6.6	510	14.3
Direct Federal Savings ^e	3,567		3,567	
Net Federal Savings ^f	3,332		3,057	

SOURCE: CBO estimates from the Census Bureau's March 1978 Current Population Survey, modified to represent 1980.

- a. Based on 50 percent substitution and 50 percent participation in the Unemployment Insurance (UI) program after leaving PSE.
- b. Based on 20 percent substitution and 20 percent participation in the UI program after leaving PSE.
- c. Previous estimates of the secondary budget effects associated with eliminating PSE jobs did not take into account the fact that holding a PSE job generates eligibility for future UI benefits. If this effect were excluded from the current estimates, increased expenditures for UI benefits would be between 1.4 and 2.2 percent of the cost of PSE jobs.
- d. See Table 1, footnote c.
- e. Direct federal savings are reductions in direct spending for PSE jobs. This estimate assumes that an annual average of 310,000 PSE jobs would be totally eliminated.
- f. See Table 1, footnote e.

Many policymakers have been surprised that the secondary budget effects--especially increased spending on other programs--are not larger. These effects are determined by what actually happens to the incomes of PSE job losers, rather than by the characteristics of persons eligible for PSE.⁷ For example, persons holding PSE jobs are less likely to be eligible for AFDC than persons in the total population eligible for PSE. Had the group actually employed in PSE jobs been representative of the total eligible population, the estimated increases in federal spending for public assistance and food stamps resulting from eliminating PSE jobs would have been twice as large.

Effects in 1981

Eliminating all PSE jobs would reduce federal tax revenues in 1981 by between \$81 million and \$127 million, or between 7 and 10 percent of the federal cost of the PSE programs. Approximately 55 percent of this revenue loss would consist of forgone employee and employer Social Security contributions, and the remainder would be forgone income taxes.

Spending for UI benefits would increase by between \$79 and \$177 million, or between 6 and 14 percent of the federal cost of the PSE programs.⁸ Approximately 20 percent of current PSE workers could have received UI benefits based on earlier employment and, for some of this group, eligibility would continue if they lost their PSE jobs. In addition, some participants would have become newly eligible for UI as a result of being employed in PSE jobs.

Federal spending for public assistance and food stamps would increase by between \$34 million and \$54 million, or between about 3 and 4 percent of the federal cost of the PSE programs.⁹ State

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7. See Chapter III for a discussion of the differences between the eligible population and those who actually hold PSE jobs.
 8. Estimates of the effect of the Administration's proposal on UI spending in 1981 (and in 1982) include all UI benefits for people losing their jobs in that year, even though some of the benefit payments may occur in the following year.
 9. All estimates assume that appropriations will be sufficient for full funding of the food stamp program. However, since this program is subject to the appropriations process, the Congress could choose to appropriate less.

and local spending for public assistance would increase by about \$25 million, or approximately 2 percent of the program cost.

Effects in 1982

Eliminating all PSE jobs would have the same relative effects on tax revenues and on spending for public assistance and food stamps in 1982 as in 1981, but as noted earlier, spending for UI benefits would decline in 1982. Specifically, federal revenues would decrease by between \$235 and \$371 million and federal spending for public assistance and food stamps would increase by between \$100 and \$157 million. State and local expenditures for public assistance would increase by about \$70 million. Spending for UI benefits would decrease by between \$18 and \$100 million, between approximately 0.5 and 3 percent of the cost of the PSE jobs.

OTHER FACTORS

Several other factors affect the estimates provided in this analysis.¹⁰ They include uncertainty associated with future economic conditions, possible long-term effects on participants' earnings, increased expenditures in federal programs that could not be considered in the analysis, and potential legislative changes to income assistance programs and the tax system.

Economic conditions influence the size of the decline in tax revenues and the increase in spending for other programs that would occur if PSE were eliminated. The estimates presented in this analysis could understate the secondary budgetary effects of eliminating PSE because the estimates are based on economic assumptions that may not totally reflect the situation now or in the future: both unemployment and inflation are currently higher than assumed in the analysis. On the other hand, if the economy improves substantially--as the Administration forecasts--then the estimates could overstate the secondary budgetary effects. On the revenue side, for example, both payroll and income tax receipts would be less than estimated above if PSE job losers were less able to obtain other jobs than expected--a likely event if

10. See Appendix A for a discussion of estimation methods and a comparison of the economic assumptions used in the analysis, the actual levels in 1980, and the current CBO projections for 1981 and 1982.

unemployment is higher than forecast. Similarly, if food stamp benefits (which are indexed to changes in food prices) increase at a faster rate than assumed, the secondary budget effects would be greater.

If current and potential participants in the programs would have experienced increased future earnings as a result of their participation, the long-run budget consequences of eliminating PSE jobs might be larger than the effects reported above. While there are no studies of the effects of the current PSE programs on future earnings of participants, one study of earlier CETA PSE programs suggests that those who held PSE jobs had higher subsequent earnings than they otherwise would have.¹¹

Eliminating PSE jobs might also affect other federal programs--such as housing assistance and education programs--that have not been considered in this paper. For example, if less income was received from PSE jobs by families living in subsidized housing, their rent payments--which are tied to income--would decline. Similarly, some college students might qualify for greater amounts of federal means-tested student assistance if other family members lost PSE jobs. The effects of eliminating PSE jobs on these programs, however, are likely to be small.

Similar factors could also contribute to larger secondary budget effects on state and local governments. Many states and localities would lose local tax revenues and could face an increased demand for social services. These secondary effects have not been incorporated in this analysis because of data limitations.

Finally, the estimates provided in this analysis are based on the tax laws and on the PSE and transfer programs as they existed in 1980--all of which may be changed by the Congress. In fact, under current law, the food stamp program and the Social Security

11. Another factor to be considered is whether the same effects on the future earnings of participants in PSE programs could be achieved through different approaches that might be less expensive. This same study suggests that training programs, which have a lower federal cost than PSE jobs, offer similar results in terms of future earnings. See Westat, Inc., Impact on 1977 Earnings of New Fiscal Year 1976 CETA Enrollees in Selected Program Activities (Westat, 1980).

payroll tax rate will change before 1982. Authorization for the food stamp program expires at the end of 1981 and changes are not yet final. Under current actions, however, the food stamp program would be reduced. The Social Security tax rate will increase from 6.13 percent in 1980 to 6.65 percent in 1981 and 6.7 percent in 1982. If the higher rates had been used, the estimates of forgone Social Security tax revenues from eliminating PSE jobs would have been slightly higher, by less than 1 percent of the federal cost of the PSE programs. In addition, the Congress is modifying other programs such as AFDC that would be affected by eliminating PSE jobs. If further restrictions in eligibility or reductions in benefits were adopted for these programs, the estimated effects on federal spending would be smaller for the same reduction in PSE jobs. In the case of programs in which state and local governments share the cost with the federal government, such as AFDC, similar effects on state and local spending would occur.

CHAPTER III. THE EFFECTIVENESS OF LEGISLATED CHANGES IN ELIGIBILITY FOR PSE JOBS

While state and local governments that administer public service employment (PSE) programs authorized under the Comprehensive Employment and Training Act (CETA) must follow federal guidelines when they decide on the types of jobs to offer and whom to hire, the actual results may differ from those intended by the Congress. For example, the federal government's eligibility criteria have attempted to restrict PSE jobs to economically disadvantaged persons, but since the Congress has appropriated enough funds to serve less than 5 percent of the total eligible population, state and local governments have been able to exercise considerable discretion in choosing participants. How they have responded to changes in eligibility rules may, therefore, carry lessons for federal programs outside of the employment area that also provide funds to localities in amounts sufficient to serve only a small proportion of those eligible.

This chapter analyzes the extent to which the legislated changes in eligibility designed to target PSE jobs toward the economically disadvantaged have actually resulted in more PSE jobs for them. To understand the process by which differences arise between those eligible for PSE jobs and those actually participating in the programs, the last section compares three populations--persons eligible for PSE jobs, economically disadvantaged United States Employment Service (ES) applicants, and persons who obtain PSE jobs.

HOW PSE PROGRAMS HAVE EVOLVED

CETA was created in December 1973 as an alternative to existing employment and training programs that were both centralized and categorical. A prime motivation for creating a decentralized, comprehensive system was the belief that state and local governments would know best how to meet their local needs. Since 1973, however, federal restrictions and regulations have increased for all CETA programs, including PSE. A principal reason for this is that state and local governments often did not serve the most disadvantaged. In addition, some federal funding was being used to supplant monies state and local governments would have provided had no federal programs existed--often referred to as fiscal substitution.

Since 1973, changes in the PSE programs have shifted the focus from areas with high unemployment to persons in economically disadvantaged groups, primarily by changing the eligibility criteria.¹ Originally unemployment was emphasized, but later factors such as low income and the receipt of public assistance benefits were included. With these changes, economically disadvantaged persons have become a higher proportion of the eligible population. Three reasons this has occurred are:

- o Unemployed persons--persons who are actively looking for work--are not necessarily poor; hence, focusing only on unemployment did not always include the most economically disadvantaged groups.
- o Persons in the most disadvantaged families are often not categorized as unemployed because they are not technically in the labor force--that is, they are not actively seeking jobs; consequently, they were not always included when the only criterion was unemployment.
- o The changes in criteria cut the size of the eligible population primarily by eliminating people whose incomes were above certain limits (such as the Bureau of Labor Statistics' Lower Living Standard).

Although the eligibility criteria have focused more on the disadvantaged, the proportion of participants who are economically disadvantaged has not necessarily increased in the same way. Eligibility changes in 1976 had relatively little effect on the overall characteristics of those hired for PSE jobs largely because the criteria applied only to some jobs. Changes in 1978 were more successful, although most economically disadvantaged groups still do not hold PSE jobs in proportion to their numbers in the eligible population.

CHANGES BEFORE THE 1978 CETA REAUTHORIZATION

The PSE programs in effect when the Congress acted in 1976 to target a higher proportion of PSE jobs toward the economically disadvantaged were created in the initial CETA legislation and in

1. For summary tables on all PSE programs and their eligibility criteria, see Appendix B.

the 1974 amendments to it. The 1973 CETA legislation authorized a PSE program under Title II, but only for areas having substantial unemployment. Participants were all attached to the labor force because they had to be either unemployed at least 30 days or underemployed. Underemployed persons were those employed persons whose family incomes--excluding public assistance--were below the Office of Management and Budget (OMB) poverty line.²

In 1974, in response to increasing unemployment throughout the country, the Emergency Jobs and Unemployment Assistance Act authorized an additional PSE program under Title VI, referred to here as Title VI(a). This program was also to serve only unemployed and underemployed persons, but operated in all geographic areas, regardless of local unemployment rates.³ A total of 20.5 million persons were eligible for PSE jobs under either the Title II or the Title VI(a) criteria, but less than 1 percent could actually hold PSE jobs in 1975 because of limited funds.⁴

The first attempt to target jobs towards the economically disadvantaged occurred in 1976, when the Emergency Jobs Program Extension Act amended Title VI. (The amended version is referred to here as Title VI(b).) This program limited eligibility for some PSE jobs to persons in families receiving benefits from the Aid to Families with Dependent Children (AFDC) program, whether or not they met the unemployment criteria and to other unemployed low-income persons. Two concerns prompted the Congress to make these changes. First, those persons who had been receiving PSE jobs were less disadvantaged than either the average eligible person or the average participant in the training programs that were also funded under CETA. Second, some PSE funds were being used to support jobs that state and local governments would have paid for themselves had no federal monies been available.

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2. Various types of income have been excluded in determining eligibility for jobs provided under all the PSE programs. For more details see Appendix Table B-2, footnote a.
 3. Under Title VI(a), if the unemployment rate in the local area was greater than 7 percent, a person would be eligible after 15 days of unemployment rather than 30 days as elsewhere.
 4. If the unemployment rate had exceeded 7 percent throughout the country, the total number of eligible persons would have increased to 23.0 million persons.

The Title VI(b) criteria added 4.1 million newly eligible persons who were members of families receiving benefits from the AFDC program and who had not been eligible under the previous unemployment criteria because they were often not in the labor force. Approximately 3.9 million more unemployed members of other low-income families were also eligible for jobs under Title VI(b), but they did not represent a net expansion in eligible persons because they had already been eligible under Title VI(a).

Under the new eligibility criteria, the newly eligible persons were substantially poorer and contained more women and minorities than previously eligible groups, precisely because they were disproportionately likely to be receiving AFDC (see Table 3). Among all those eligible under Title VI(b), average family income was only \$8,324 compared to \$17,651 under Title VI(a).⁵

Nevertheless, since the newly eligible group represented only 20 percent of the total eligible PSE population, the overall effect of the changes was limited. Indeed, all those who became eligible under Title VI(b), including those eligible previously, were only one-third of the total eligible population. Consequently, the average family income for all those eligible under either Title VI(a) or VI(b) was essentially unchanged--\$16,828.

Despite the limited effect of the 1976 amendments on the total population eligible for all PSE jobs, more than half of all PSE jobs should have been filled by persons meeting the more restrictive Title VI(b) eligibility criteria. The amendments required that all new Title VI jobs, as well as half of any vacancies occurring in existing jobs, be filled by persons meeting the Title VI(b) criteria. In fact, appropriations grew so fast that, by March 1978, about 430,000 out of 740,000 PSE participants should have met the more restrictive Title VI(b) criteria.⁶

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5. Average family income from sources other than public assistance and unemployment compensation also differed. Under Title VI(a), it was \$16,631, compared to \$5,663 under Title VI(b). (All income figures are presented in 1980 dollars to facilitate comparisons.)
 6. Appropriations in May 1977 increased the number of persons enrolled in PSE jobs by about 40,000 persons each month, raising total PSE enrollment from about 300,000 in May 1977 to a peak of approximately 755,000 in April 1978.

TABLE 3. PERCENT DISTRIBUTION OF THE CHARACTERISTICS OF PERSONS ELIGIBLE FOR CETA PSE PROGRAMS UNDER THE ELIGIBILITY CRITERIA BEFORE THE 1978 CETA REAUTHORIZATION

	PSE Program ^a			
	Total Title VI(a)	Total Title VI(b)	Additional Title VI(b)	Total Titles VI(a) or VI(b)
Total (thousands)	20,464	7,963	4,064	24,529
Members of Families Receiving Transfer Payments ^b				
Public Assistance	19.6	91.9	100.0	32.9
Public Assistance or Food Stamps	31.0	95.7	100.0	42.4
Receiving Unemployment Insurance Benefits ^c	41.5	15.7	3.1	35.2
Sex				
Male	50.2	27.8	20.2	45.2
Female	49.8	72.2	79.8	54.8
Raced				
White	73.5	50.0	50.1	69.7
Nonwhite	26.5	50.0	49.9	30.3
Age ^e				
Less than 22	27.0	25.6	23.9	26.5
Between 22 and 44	55.3	58.9	57.9	55.7
45 and over	17.7	15.5	18.2	17.8
Education				
Less than 12	36.5	54.5	55.7	39.7
12 years and over	63.5	45.5	44.3	60.3

SOURCE: CBO estimates from the Census Bureau's March 1978 Current Population Survey (CPS) modified to represent 1980.

NOTE: All estimates of the eligible populations represent the number who would have been eligible at some time during 1980 under the particular eligibility criteria. These estimates are designed to facilitate consistent comparisons among the eligible populations before and after reauthorization.

- a. Title VI(a) refers to persons eligible under the criteria enacted in 1973 or 1974. Title VI(b) refers to persons eligible under the criteria in the Emergency Job Programs Extension Act of 1976. Additional Title VI(b) refers to persons eligible under Title VI(b) who had not been eligible under Title VI(a).
- b. Includes all transfer payments received by the families of eligible persons. Public assistance includes Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and state general assistance (GA).
- c. Includes benefits received only by eligible persons.
- d. White excludes Hispanics; nonwhite includes blacks, Hispanics, and others.
- e. Estimates only include persons between the ages of 16 and 64 inclusive.

The overall characteristics of PSE participants did not change substantially after the 1976 amendments. Since the restrictive eligibility criteria did not apply to all PSE jobs, some participants were switched among programs to circumvent full compliance with the federal intent. Moreover, two Department of Labor studies in 1978 estimated that 10 to 25 percent of those holding Title VI jobs were not actually eligible.⁷ Two factors contributed to the high proportion of ineligible participants. First, the regulations--including financial liability for state and local governments that allowed ineligible persons to hold PSE jobs--were relaxed in order to expand the PSE programs rapidly. Second, participant selection was often based on information supplied by the applicants, which was not always fully verified.⁸

CHANGES IN THE 1978 CETA REAUTHORIZATION

The CETA Amendments of 1978 made further changes to focus the PSE programs more on the disadvantaged. After the 1976 amendments PSE participants were still less disadvantaged than the entire eligible population and some fiscal substitution persisted. Other problems included fraud and abuse--often associated with ineligible participants--and low rates of movement from PSE jobs into unsubsidized jobs.

The 1978 reauthorization changes again emphasized low income and receipt of public assistance in the eligibility criteria for the two PSE programs, but this time all jobs were covered, not just a portion of them.⁹ These changes decreased the total number

7. See William Mirengoff and others, CETA: Assessment of Public Service Employment Programs, National Academy of Science (1980), p. 95.

8. Ibid., p. 83.

9. The 1978 reauthorization included two PSE programs--one under Title II-D to serve low-income persons with structural employment problems and one under Title VI to serve low-income persons in periods of high unemployment. For jobs funded under both titles, eligibility criteria are stricter than in previous programs, wages are lower, the length of time PSE jobs can be held is limited, and prime sponsor liability for funds spent for ineligible participants is increased. For more details, see Appendix C.

of persons eligible for PSE jobs by 45 percent--from 24.5 million persons to 13.4 million persons--primarily by eliminating those with higher incomes. As a result, state and local governments now have less ability to choose participants who are not economically disadvantaged.¹⁰

Under the new criteria, members of families receiving public assistance are eligible without meeting any unemployment requirement.¹¹ Low-income persons are also eligible if they are unemployed, although specific requirements vary slightly between the two programs.¹² Solely being unemployed or underemployed is no longer sufficient to establish eligibility.

The total eligible population, which changed dramatically after the 1978 reauthorization, now resembles more closely the group previously eligible under Title VI(b) (see Table 4). Average family income of the eligible population is significantly lower than before reauthorization--\$9,114 compared to \$16,828.

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10. Furthermore, mandating lower wages means that jobs are more likely to be ones for which the disadvantaged are qualified. Since low-paid jobs are less attractive, fiscal substitution should also decline. At the same time, if these jobs do not contain useful training, transitions into the unsubsidized sector are more difficult and the long-run effects of the PSE jobs on participants' earnings are likely to be smaller.
 11. This description of the eligibility criteria is based on the Department of Labor regulations used by state and local governments to determine participant eligibility. For Title II-D, the law and the regulations are the same. For Title VI, however, the regulations do not require public assistance recipients to be unemployed although the law strictly applied would require them to be unemployed.
 12. In particular, persons in families with incomes (excluding public assistance and UI benefits) below the OMB poverty line or 70 percent of the Lower Living Standard are eligible under Title II-D if they have been unemployed for at least 15 of the preceding 20 weeks, whereas under Title VI a higher income cutoff--100 percent of the Lower Living Standard--and a shorter period of unemployment--10 of the preceding 12 weeks--apply. The 1980 OMB poverty line for a nonfarm family of four was \$7,450, whereas the Lower Living Standard for an urban family of four was \$12,585.

The proportion of eligible persons who are members of families receiving public assistance increased from about one-third to over 85 percent, so more women and nonwhites are now included.

TABLE 4. PERCENT DISTRIBUTION OF CHARACTERISTICS OF ALL PERSONS ELIGIBLE FOR CETA PSE PROGRAMS UNDER THE ELIGIBILITY CRITERIA BEFORE AND AFTER THE 1978 CETA REAUTHORIZATION

	Before Reauthorization ^a		After Reauthorization
	Titles VI(a) or VI(b)	Title VI(b)	Titles II-D or VI
Total (thousands)	24,529	7,963	13,402
Members of Families Receiving Transfer Payments ^b			
Public Assistance	32.9	91.9	86.2
Public Assistance or Food Stamps	42.4	95.7	90.9
Receiving of Unemployment Insurance Benefits ^c	35.2	15.7	16.4
Sex			
Male	45.2	27.8	35.8
Female	54.8	72.2	64.2
Race ^d			
White	69.7	50.0	58.0
Nonwhite	30.3	50.0	42.0
Age ^e			
Less than 22	26.5	25.6	25.0
Between 22 and 44	55.7	58.9	48.4
45 and over	17.8	15.5	26.6
Education			
Less than 12 years	39.7	54.5	54.2
12 years and over	60.3	45.5	45.8

SOURCE: See Table 3.

NOTE: See Table 3.

- a. See Table 3, footnote a.
- b. See Table 3, footnote b.
- c. See Table 3, footnote c.

- d. See Table 3, footnote d.
- e. See Table 3, footnote e.

The 1978 reauthorization clearly moved the PSE programs in the intended direction since a higher proportion of those now holding PSE jobs are members of disadvantaged groups (see Table 5). Median family income of participants dropped--from \$6,917 to \$5,954--and the proportion of participants in families receiving public assistance increased, from about 22 to 30 percent. At the same time, the proportion who had received unemployment insurance benefits before accepting a PSE job decreased, from about 24 to 21 percent.¹³ These changes mean that new participants are significantly more likely to be female and nonwhite, because they are more likely to be poor and to be receiving public assistance. Similarly, the proportion of people under 22 years of age and the proportion with less than a high school education increased slightly.

DIFFERENCES BETWEEN PARTICIPANTS AND PERSONS ELIGIBLE FOR PSE JOBS

Although the 1978 reauthorization changes brought a higher proportion of disadvantaged persons into the PSE programs, participants generally continue to be less disadvantaged than the eligible population as a whole. This occurs because some groups are more likely to apply for PSE jobs than others, and because certain types of applicants are more likely to be hired. Because no data are available on applicants who are not selected for PSE jobs, information about economically disadvantaged United States ES applicants--most of whom are eligible for PSE jobs--is used to suggest which groups are likely to apply for PSE jobs.

13. The changes in eligibility criteria were not necessarily the only cause of these shifts. The fact that the economy improved somewhat between 1978 and 1979 may have contributed to the decline in the percent of participants who had received UI benefits during the year before they acquired PSE jobs. On the other hand, the increase in the proportion of persons in families receiving public assistance and food stamps might have been even larger had unemployment rates not declined.

TABLE 5. PERCENT DISTRIBUTION OF THE CHARACTERISTICS OF NEW ENROLLEES IN CETA PSE PROGRAMS BEFORE AND AFTER REAUTHORIZATION

	Before ^a	After ^a	Difference in Percentage Points
Members of Families Receiving Transfer Payments^b			
Public Assistance	21.8	29.6	+7.8
Food Stamps	25.1	35.5	+10.4
Receiving of Unemployment Insurance Benefits^c			
	24.2	20.5	-3.7
Sex			
Male	62.9	51.7	-11.2
Female	37.1	48.3	+11.2
Raced^d			
White	69.4	54.1	-15.3
Nonwhite	30.6	45.9	+15.3
Age			
Less than 22	23.6	27.3	+3.7
Between 22 and 44	65.0	62.6	-2.4
45 and over	11.4	10.2	-1.2
Education			
Less than 12 years	27.7	30.5	+2.8
12 years and over	72.3	69.5	-2.8

Median Family Income (In 1980 dollars)	6,917	5,954	+963

SOURCE: Unpublished data from the Department of Labor's Continuous Longitudinal Manpower Survey (CLMS).

- a. The last two quarters of 1978 are used to represent the period before reauthorization and the last two quarters of 1979 are used to represent the period after, since the reauthorization changes were fully implemented by April 1979.
- b. Includes all transfer payments received by families of participants during the year before acquiring a PSE job. Public assistance includes Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and state general assistance (GA).
- c. Includes benefits received only by the participant during the year before acquiring a PSE job.
- d. See Table 3, footnote d.

Women, persons in families receiving public assistance, and those with less than a high school education are all underrepresented both among ES applicants and among PSE participants compared to the eligible population (see Table 6). Both lower application rates and hiring rates probably occur because these groups are likely to have less work experience than others.

Among those who are eligible for PSE jobs, about 60 percent are women who also receive public assistance. The presence of children and the possibility of losing other benefits, such as Medicaid, probably result in their lower job application rates. In addition, employers may be reluctant to hire such women if they believe that the presence of children may lead to greater tardiness and absenteeism. Moreover, eligible men are generally more experienced since they are more likely to be in the labor force than eligible women. In fact, PSE job participants more closely resemble the portion of the eligible population that is unemployed. Lower educational attainment does not seem to be related to hiring decisions for women receiving public assistance since their education levels are similar to those of other eligible persons.

In contrast, nonwhites are more likely to apply at the Employment Service than whites, yet less likely to obtain PSE jobs.¹⁴ Nonwhites who are eligible for PSE jobs are somewhat more likely to be receiving public assistance and less likely to have completed high school than whites, although both of these factors are usually associated with low application rates. This difference may be explained partially by the lack of alternative job opportunities for nonwhites and partially by the mandatory work registration requirements for some public assistance programs. Nonwhites' lower educational attainment may be one reason why they are less likely to obtain PSE jobs.

14. The difference cannot be explained by the mix of men and women in the two racial groups--61 percent of the eligible whites are women compared with 68 percent of the eligible nonwhites. Similarly, different degrees of attachment to the labor force do not explain the difference--nonwhites make up 44 percent of the unemployed persons who are eligible and 42 percent of the total eligible population.

TABLE 6. PERCENT DISTRIBUTION OF CHARACTERISTICS OF THOSE ELIGIBLE FOR PSE JOBS, EMPLOYMENT SERVICE APPLICANTS, AND PARTICIPANTS IN PSE PROGRAMS

	Eligible Population ^a	Employment Service Applicants ^b	PSE Participants ^c
Receiving Public Assistance ^d	86.2	44.8	29.6
Sex			
Male	35.8	46.7	51.7
Female	64.2	53.3	48.3
Race ^e			
White	58.0	48.4	54.1
Nonwhite	42.0	51.6	45.9
Age ^f			
Less than 22	25.0	27.8	27.3
Between 22 and 44	48.4	60.2	62.6
45 and Over	26.6	12.0	10.2
Education			
Less than 12 years	54.2	53.3	30.5
12 years and over	45.8	46.7	69.5

a. See Table 4.

b. Based on unpublished data of all economically disadvantaged applicants to the United States Employment Service (ES) during 1980.

c. See Table 5.

d. Refers to 1980 for the population eligible for PSE jobs; refers to the year before acquiring a PSE job for participants; refers to any time during which the person was registered at the ES office for ES applicants. The public assistance variable for ES applicants is different since it refers to the person not the family, and may refer to any time during which the person is registered as an ES applicant. This difference could cause an underestimate of the proportion of ES applicants in families receiving public assistance. On the other hand, the ES data include mandatory work registrants who may not actually want work. This bias works in the opposite direction. The net effect of these two factors is unknown. In addition, ES data are not available on receipt of unemployment insurance and food stamps.

e. See Table 3, footnote d.

f. For the eligible population and ES applicants, these figures refer to persons between the ages of 16 and 64 inclusive. Most participants are also between these ages although the data do not include upper- and lower-bounds.

PSE participants have about the same age distribution as those in the ES applicant pool but the age groups have varied ES application rates. Persons between ages 22 and 44 seem more likely, and those over 44 less likely, to apply for PSE jobs, whereas those under 22 appear to apply in proportion to their numbers in the eligible population. One factor contributing to these differences may be the lower proportion of those between 22 and 44 who receive public assistance and the higher proportion of those over 44 who receive such benefits. In other words, the former are less likely to have alternative sources of income than the latter.

APPENDIX A. ESTIMATION PROCEDURES

The estimates of the effects of eliminating public service employment (PSE) on other federal tax and transfer programs were derived in the following way:

- o First the March 1978 Current Population Survey (CPS) was selected as a data base. It was updated to 1980, and detailed information on cash and in-kind benefits and federal taxes was added.
- o Second, participation in the PSE programs was simulated, based on eligibility criteria for the programs and on known characteristics of actual participants.
- o Third, the effects on federal tax revenues and on federal benefit programs of the elimination of PSE jobs were estimated for 1980.
- o Fourth, the 1980 estimates were modified to reflect anticipated inflation in 1981 and 1982.

Each of these procedures is discussed in more detail below.

SELECTING AND ENRICHING THE DATA BASE

The March CPS provides an appropriate data base because it contains detailed information on the demographic characteristics, employment status, and incomes of individuals and families in the preceding year. The 1978 CPS was selected because it was the most recent one available at the time this study began.

The March CPS had to be modified in three ways, however. First, data on some sources of income (such as public assistance and food stamps) had to be adjusted to correct for underreporting and nonreporting. The Micro Analysis of Transfers to Households (MATH) model was used to correct these incomes.¹

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1. For a detailed description of the procedures used to create the 1980 data base, see Pat Doyle and others, Creation of 1980 and 1984 Data Bases from the March 1978 Current Population Survey, vol. I, Mathematica Policy Research (1980).

Second, the MATH model was also used to simulate families' federal income tax liabilities and individuals' Social Security payroll tax contributions, which are not collected on the CPS.

Third, the data were adjusted for anticipated demographic and economic changes between calendar year 1977 and fiscal year 1980, using demographic projections published by the Bureau of the Census in 1977 and the economic forecast made by the CBO in January 1979. These two sources were the most current information available. As Appendix Table A-1 indicates, the CBO's economic projections for 1980 were reasonably accurate, although they understated inflation.

APPENDIX TABLE A-1. MAJOR ECONOMIC INDICATORS FOR 1980: COMPARISON OF THE CBO JANUARY 1979 FORECAST AND ACTUAL 1980 FIGURES

	January 1979 Forecast for 1980	Actual 1980 Figures	Difference (Forecast Minus Actual)
Real GNP (percent change from previous year)	1.7	-0.1	1.8
Employment (thousands)	97,669	97,358	311
Unemployment Rate (percent)	6.8	6.8	0
Consumer Price Index (percent change from previous year)	8.0	13.5	-5.5

SOURCE: Congressional Budget Office.

SIMULATING PSE ELIGIBILITY AND PARTICIPATION

Since persons holding PSE jobs and their incomes from those jobs are not identified in the CPS, they were estimated in three steps: identifying the group of survey respondents who were eligible for PSE jobs, simulating participation in the PSE programs, and determining both the duration of employment in a PSE job and the wages paid for each simulated participant.

The population eligible for PSE was estimated using the program eligibility rules and information from the modified CPS. In particular, family income, whether or not the family received public assistance, and individual employment status were used to simulate eligibility.²

Participants were selected by a random method based on different probabilities of participation that depended on their demographic characteristics and whether they had received benefits from other programs. These probabilities were calculated using the Department of Labor's Continuous Longitudinal Manpower Survey (CLMS) data on persons who obtained PSE jobs after the most recent changes in the programs.³ The CLMS data were also used to estimate the duration of employment in PSE jobs. Wages paid for PSE jobs, which varied by the geographic location of the simulated

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2. Estimates of eligibility were based on income and employment status during 1980, although actual program eligibility is based on shorter time periods. Consequently, these estimates may understate the size of the eligible population. This underestimate would be larger for Title VI--which has a three-month accounting period--than for Title II-D--which has a six-month accounting period. On the other hand, other factors may have caused the estimates to overstate the size of the eligible population. The direction of the net bias is not known, although it is probably not large.
 3. The CLMS contains detailed information on the income and employment of a sample of persons entering CETA programs each quarter. Information on individuals who obtained PSE jobs during the last two quarters of 1979 were used to determine the probabilities that eligible persons with specific characteristics would be chosen for PSE jobs in the simulation.

participant's residence, were based on Department of Labor area wage adjustment indexes.⁴

After total earnings from each PSE job were calculated and included in the individual's income, the MATH model was used again to simulate the amounts that would be received from federal benefit programs and the amounts of taxes that would be paid.⁵ Increased earnings could affect both benefits paid to the individual holding the PSE job and benefits paid to the entire family.

ESTIMATING THE EFFECTS OF ELIMINATING PSE IN 1980

The two versions of the modified CPS--with and without simulated participation in PSE jobs--were then compared. In this way, an estimate was made of the changes in tax revenues and in expenditures for public assistance and food stamp benefits that would occur if PSE jobs were eliminated. Estimates of the effects of eliminating PSE jobs on spending for Unemployment Insurance (UI) benefits were based both on the modified versions of the CPS and on Department of Labor estimates of UI spending for former PSE workers in 1981.

ESTIMATING THE EFFECTS OF ELIMINATING PSE IN 1981 AND 1982

To estimate the effects of eliminating PSE jobs in 1981 and 1982, the analysis for 1980 was adjusted to reflect continued inflation, but increased unemployment could not be taken into account. Inflation, based on the CBO's March 1981 economic projections, was assumed to increase by 11.8 percent in 1981 and by 9.7 percent in 1982. The same projection forecasts an unemployment rate of 7.9 percent in 1981 and 7.8 percent in 1982, compared with the 6.8 percent unemployment rate used in the analysis. Since higher unemployment would reduce the likelihood that PSE job losers would find other jobs, the estimates presented in this paper are likely to understate the actual loss in tax revenues and the increase in spending for federal benefit programs that would result from eliminating PSE jobs.

4. The mandated CETA average wage, which was \$3.68 an hour in 1980, was adjusted using area adjustment indexes published in the Federal Register, September 28, 1979.
5. For a detailed discussion of these procedures, see Kevin M. Hollenbeck, "Technical Documentation for the Estimation of Federal Offsets Resulting from an Expanded Public Service Employment Program" (submitted to the CBO, February 25, 1981; processed).

APPENDIX B. CETA PSE PROGRAMS AND ELIGIBILITY CRITERIA: BEFORE
AND AFTER THE 1978 CETA REAUTHORIZATION

The first table in this appendix summarizes the Acts of Congress that have established CETA PSE programs and briefly describes their objectives. The second table outlines the specific eligibility criteria for each PSE program.

APPENDIX TABLE B-1. SUMMARY OF CETA PSE PROGRAMS, 1973-1978

Title	Act, Date Passed	Objective
<u>Before the 1978 CETA Reauthorization</u>		
Title II	Comprehensive Employment and Training Act (CETA) of 1973 December 28, 1973	Jobs for unemployed and underemployed persons in areas of substantial unemployment (unemployment rate of 6.5 percent or more)
Title VI(a)	Emergency Jobs and Unemployment Assistance Act of 1974 December 31, 1974	Jobs for unemployed and underemployed persons
Title VI(b)	Emergency Jobs Program Extension Act of 1976 October 1, 1976	Half of any vacancies in existing Title VI jobs, and all new Title VI jobs for low-income unemployed persons and persons in families receiving benefits from Aid to Families with Dependent Children
<u>After the 1978 CETA Reauthorization</u>		
Title II-D	CETA Amendments of 1978 October 27, 1978	Jobs for low-income unemployed persons and persons in families receiving public assistance
Title VI	CETA Amendments of 1978 October 27, 1978	Jobs for low-income unemployed persons and persons in families receiving public assistance when the unemployment rate is above 4 percent

APPENDIX TABLE B-2. ELIGIBILITY DEFINITIONS FOR CETA PSE PROGRAMS

Title	Eligibility Definition ^a
<u>Before the 1978 CETA Reauthorization</u>	
Title II	<p>To be eligible, a person had to be:</p> <ul style="list-style-type: none"> (1) unemployed for at least 30 days prior to application; <u>or</u> (2) underemployed, which was then defined as a person who: <ul style="list-style-type: none"> (a) was a member of a family whose income during the previous three months on an annualized basis was less than or equal to the Office of Management and Budget (OMB) poverty criteria; <u>and</u> (b) <u>was</u> working part-time but seeking full-time work; <u>or</u> was working full-time.
Title VI(a)	<p>To be eligible, a person had to be:</p> <ul style="list-style-type: none"> (1) unemployed 30 days or more; <u>or</u> (2) underemployed (as defined above). <p>In areas of excessively high unemployment (7 percent or more) the required duration of unemployment was reduced to 15 days.</p>
Title VI(b)	<p>To be eligible, a person had to be:</p> <ul style="list-style-type: none"> (1) a member of a family that was receiving AFDC; <u>or</u> (2) (a) unemployed 15 of the 20 weeks immediately prior to application; <u>or</u> unemployed at the time of application and <u>ineligible</u> for further unemployment compensation benefits; <u>and</u> (b) a member of a family that was receiving public assistance <u>or</u> a member of a family whose income during the previous three months on an annualized basis was such that the family income was less than or equal to the OMB poverty cutoff; <u>or</u> the family income was less than or equal to 70 percent of the Bureau of Labor Statistics' Lower Living Standard (LLS).

SOURCE: Based on regulations published in the Federal Register, October 18, 1977, and April 3, 1979.

(Continued)

APPENDIX TABLE B-2 (Continued)

Title	Eligibility Definition ^a
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After the 1978 CETA Reauthorization

- Title II-D To be eligible, a person has to be:
- (1) a member of a family receiving public assistance;
 - or
 - (2) (a) unemployed at the time of application and 15 of the 20 weeks immediately prior to application; and
 - (b) a member of a family whose income during the previous six months on an annualized basis was such that:
the family was eligible for public assistance; or
the family income was less than or equal to 70 percent of the LLS; or
the family income was less than or equal to the OMB poverty criteria.
- Title VI To be eligible, a person has to be:
- (1) a member of a family that has been receiving public assistance for at least 10 of the 12 weeks immediately prior to application; or
 - (2) (a) a member of a family whose income during the previous three months on an annualized basis was less than or equal to 100 percent of the LLS; and
 - (b) unemployed at the time of the application and at least 10 of the 12 weeks immediately prior to application.

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- a. Some types of income have been excluded from family income in determining eligibility for PSE jobs. Before reauthorization, family income excluded public assistance payments. After reauthorization, however, these calculations also exclude unemployment compensation. (Some other sources of income, such as workers' compensation and inheritances, were excluded before reauthorization and are also excluded now. These income sources are difficult to identify for estimation purposes and are generally small for persons who are eligible for PSE.)

APPENDIX C. THE 1978 CETA REAUTHORIZATION CHANGES IN THE PSE PROGRAMS

This appendix presents further detail on changes in the public service employment (PSE) programs in the 1978 Comprehensive Employment and Training Act (CETA) reauthorization. The following section discusses wage requirements, limits on the length of time a person may hold a PSE job, prime sponsor liability for ineligible participants, and differences between the Title II-D and the Title VI PSE programs.

For the first time, the 1978 CETA legislation included detailed limits on the wages that PSE participants could earn from both CETA and non-CETA sources. The maximum allowable wage from CETA funds remained at \$10,000 but in addition the average wage paid for PSE jobs from CETA funds could not exceed \$7,200 in 1979, to be adjusted each year to account for changes in wages.¹ Moreover, the reauthorization substantially restricted wage supplementation from non-CETA sources. None is allowed under Title II-D and at most \$1,000 per job is allowed under Title VI.²

The reauthorization changes also included limits on how long a person may hold a PSE job, restricting each participant to no more than 18 months in a PSE job. Before reauthorization, there were no such restrictions and approximately one-third of the participants held their jobs for more than 18 months.

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1. In addition, each year the national average is adjusted to provide local average wages that take into account local wage differences. The mandated average was amended in December 1980 so that the base is now \$8,000, rather than \$7,200. This change was not incorporated in the current estimates since it was only recently passed. It is not likely to have a substantial effect on wages paid for PSE jobs since the Administration imposed a hiring freeze on both PSE programs in March 1981.
 2. For any prime sponsor, the total wage supplementation for jobs provided under Title VI cannot exceed 10 percent of its allocation. For any PSE participant, wage supplementation may not exceed 10 percent of the maximum allowable wage, or \$1,000 per job.

The Department of Labor now holds prime sponsors more responsible for funds paid to ineligible participants, regardless of who certifies them.³ Prime sponsors are now liable for payments to all ineligible participants, if the prime sponsors have not complied with the act. Before reauthorization, prime sponsors were partially liable if they had actually determined eligibility, but were not liable if the Employment Service had established eligibility.

Because the Title II-D and Title VI programs were to help low-income individuals facing different types of employment problems--structural versus countercyclical--they have different allocation formulas, training requirements, accounting periods, and limitations on projects. The Title II-D allocation formula includes both the number of adults in low-income families and measures of unemployment, whereas the Title VI allocation formula is based only on unemployment variables. Twenty-two percent of Title II-D funds must be spent on training in 1982, whereas only 5 percent of Title VI funds must be spent on training. The Title II-D program has a six-month accounting period, whereas the Title VI program has a three-month income accounting period. Title II-D has no requirement for short-term projects, whereas at least 50 percent of all Title VI funds must be used to support jobs in projects that will end within 18 months.

3. Prime sponsors are state and local governments that administer CETA programs.