

THE WHITE HOUSE

WASHINGTON

FEB 25 REC'D

February 25, 1994

MEMORANDUM FOR LARRY KATZ

FROM: PAUL DIMOND

SUBJECT: UNDER- AND UNEMPLOYMENT OF AFRICAN-AMERICAN
MALES

Thanks for your call this morning. Let me know how I can help in drafting a set of shorter term and long range options for consideration by Bob and Carol.

Enclosed for your review are two brief papers from Bill Dickens of the CEA and Bill Spriggs of NCEP with their take on these issues and their own sets of options, some of which were not discussed last night.

Could you also think about a couple of other options:

- combining an anti-discrimination campaign in employment (including the use of testers) with an affirmative education and networking campaign to connect qualified minorities with available jobs throughout the local labor markets?
- vigorous minority business promotion (where the statistics reflect a greater willingness to hire black males)?

At an appropriate point it might be worth exploring these issues with Duval Patrick, Drew Days, and Chris Edley (all of whom have substantial experience with employment discrimination and minority business issues), and with Tim Bates P6/b(6) who has done considerable work on the relationship between minority business and minority hiring).

On the issue of values and behavior, given the much higher employment rates for African-American males who are **married**, is there a sensible long-term strategy that would encourage marriage and discourage out-of-wedlock births? I know the cause and effect problems here, but if there is a way to influence this dynamic, it could benefit both parents and their children -- perhaps, helping to end welfare and black male unemployment as we know it? I recently had a conversation with Greg Duncan (the dean of poverty research, much like Richard Freeman is the dean of black employment research): he has moved from a defense of the efficacy of income redistribution in Europe and Canada to a much "tougher" opportunity and responsibility approach as the more effective means to reward work and to encourage upward mobility for all in the new, globally competitive new economy. In thinking through possible longer term strategies, it may be worth exploring these issues more fully with Bill Galston and Greg.

How to Address Inner-City Labor Market Problems

Bill Dickens, CEA

Although research has developed a fairly good picture of the causes of inner-city problems, our policies fall short of effectively addressing these causes. We have in place, or are developing, tools which might solve these problems, but unless we explicitly recognize the role these policies could play, and emphasize that role in our implementation, they will not be effective.

The Important Causes of Inner-City Labor Market Problems

Huge numbers of jobs were created in response to the increased labor supply of women and others over the last two decades. Why aren't jobs created for people who live in inner-cities? Research suggests that it is because the labor is not effectively supplied. There are three reasons for this:

- Studies show that the best way to get a job is through personal contacts -- to find a job good job it helps to know someone who has one. In areas of concentrated unemployment, too many unemployed people are forced to rely on the contacts of too few employed people.
- Schools and other social institutions in areas of concentrated poverty do not adequately prepare young people for work. Young people in these environments are likely to lack both formal skills (such as literacy and numeracy) and affective characteristics (how one should behave at work) necessary for employment.
- Employment and housing discrimination continue to limit opportunity and act as disincentives that keeps people from acquiring job skills. Recent studies using matched pairs of black and white testers have demonstrated the significance of hiring and housing discrimination.

The problem is not a lack of jobs in the inner-city -- few people work in their own neighborhoods. Studies consistently find no link between location of jobs and neighborhood unemployment rates. This is not surprising when one considers that areas of high and low unemployment are often across the street from each other. Programs which have attempted to provide transportation to jobs for inner-city workers have generally been failures. The few that have had limited success not only provided transportation, but also arranged job interviews (thus solving the problem of lack of connections).

What Can Be Done?

Two strategies have been shown to work:

- **Organize communities.** Highly organized communities -- such as Washington D.C.'s Kenilworth-Parkside -- have been able to overcome problems of crime and unemployment by concerted community effort. Community organizations directly address the problem of helping people prepare for work and also help organize employment services. Kenilworth-Parkside operates its own employment agency. Unfortunately, the success stories seem highly dependent on the energy of a few committed people (such as Kenilworth-Parkside's Kimi Grey), so it is not clear what we could do to encourage this on a large scale. Still, our policies should facilitate rather than hinder such initiatives.
- **Break Up Concentrations of Poverty.** Low income families are much better off when they are not economically isolated. Studies of Chicago's court ordered public housing desegregation, and differences in life outcomes between residents of high concentration central city public housing and low density housing show this. Integration into middle income communities solves both the problems of job contacts and job readiness. A wide range of housing, urban and labor market policies could be used to help break-up concentrations of poverty, including accelerating the growth of the housing vouchers program, and improving incentives for the private construction of mixed income housing. Such a "quiet" approach to housing desegregation could work where construction of public housing would be politically impossible.

These strategies would be complimented by two additional efforts:

- **Action to reduce the effects of discrimination.** More vigorous enforcement of anti-discrimination law is needed to increase the effects of other policies. Studies of who hires minority workers suggest that the development of more minority businesses would improve minority employment prospects.
- **Help People Make Connections.** The job placement company America Works shows that a short program of motivation, and training in basic job decorum, can effectively prepare long-term welfare mothers for successful employment at good companies. By initially offering workers to firms on a temporary basis America Works gives firms the opportunity to try workers out before they buy. These elements could be built into the welfare reform and any Administration jobs program. The development of other programs that could help connect people to the labor market -- such as school-to-work - - should be followed to be sure they serve the populations that need the connections most.

NATIONAL COMMISSION FOR EMPLOYMENT POLICY
1522 K Street, NW, Suite 300
Washington, D.C. 20006

(202) 724-1648

February 24, 1994

- Employed Discrimination
[Notes??]

MEMORANDUM FOR Paul Dimond
Director to National Economic Council

FROM: William Spriggs
Director-designate

RE: Disparate Unemployment Rate of Black Males

This is in response to our conversation, Tuesday, February 15. Since that conversation, Tony Carnevale and I have talked about this issue, and the NEC's concern as he understands it. I am very interested in this issue, and would want to be as involved as much as I can with it. I am very familiar with the scholarship in this area, and with the players representing the constituency. I hope there is room for me to play a role.

You asked for a brief memo outlining the problem of unemployment for African American males as I see it. Let me preface this with my belief that I think the problem as most often discussed has incorrectly been on the so-called "underclass." This focus is too narrow because the deterioration in labor market outcomes for African American males, particularly young adults, has been across the education, income and location spectrum. A solution aimed at only one end of the income distribution is therefore ignoring the broader trend. And, I believe the broader trend is the greater danger.

The disparity in African American and white male unemployment rates is not new. So a policy issue is to understand the persistence in the gap. Yet a more important policy question is why the gap in the economic fortunes of African American and white males grew in the 1980s. During the 1970s, the ratio of unemployment for adult male African Americans to whites was 2.2, and in the 1980s grew to 2.4. This was despite a dramatic increase in the educational attainment of African American men compared with whites.

A reason for the difference in the 1980s and 1970s may be found in the weaker relationship between the unemployment rate of adult male African Americans and general economic growth than is true for white males. My own work on this, using spectral analysis, shows that the correlation between quarterly unemployment rates and the quarterly growth rates of GDP are lower for African American men than whites for economic cycles of every length. This suggests a structural reason can explain the gap in unemployment rates.

Examining the growing disparity in wages for African American and white men, after controlling for differences in education and region, reinforces the argument for a structural reason. Studies using cross-sections of individuals from the Current Population Survey by William Rodgers (College of William and Mary), and John Bound (University of Michigan) and Richard Freeman (Harvard) show that the gap grew most for the starting wages of college educated men. An analysis of longitudinal data from the Panel Study for Income Dynamics by Steven Rose (here at the Commission) shows that for prime working-age, college-educated men, African Americans were almost twice as likely as whites to suffer a loss in income from the start to the end of the 1980s. Looking at high school graduates, David Howell (New School) found that from 1979 to 1989 the change in the industry and occupation mix of high school graduates was less unfavorable to young white males (ages 19-35) than to African Americans. Young white high school-educated men were much more successful in increasing their share of the dynamic sectors of the economy, while African Americans lost employment share in two of the three most dynamic sectors.

An argument can be made that the economy changed in the 1980s. That could be the case, based on the changes that occurred between the 1970s and 1980s in unemployment rates, and wages in the general economy. If the change is a structural change, then the data suggest that the change was accompanied by barriers that denied African Americans access to the new dynamic sectors of the economy. That would not be new. It would follow history, as in the economic transformation at the turn-of-the-century from agriculture to manufacturing.

I think that other reasons, most often connected to "underclass" issues are clearly insufficient in explaining the 1980s. As you and I discussed, the spatial mismatch theories appear hollow. First, the gap in unemployment between suburban blacks and whites, and central city blacks and whites are about the same. Second, that gap between the fortunes of inner-city and suburban blacks was constant during the 1970s and 1980s, with only some cyclical variation. So, there is little support that the growing gap between African American and white males is the result of central city woes.

The skill mismatch theories are not clearly better. The most alarming changes occurred within educational and skill groups. Further, the human capital of African Americans compared with whites improved dramatically from the 1970s to the 1980s. The most dramatic increase was among young workers. Dropout rates among African Americans declined dramatically, and standardized test scores made great improvements among high school graduates. Yet the gaps in earnings grew for the youngest African American cohort. There is some evidence, though not without controversy, that a possible explanation is that the returns to cognitive skills as measured by standardized test scores increased more rapidly than the average test scores of blacks. A difficulty with that explanation is that the earnings gap between black and white workers grew till the late 1980s, and then (during the recession) reversed itself.

with
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or
skills
employment skills
value?

Strategies assuming that the barriers are benign, and represent "statistical discrimination," beg too many questions. Most important, this does not answer why common perceptions of human capital differences would persist when human capital differences have narrowed dramatically.

Strategies assuming an "underclass" explanation will have difficulty because they assume human capital differences are the problem when those differences are so small, while the economic outcomes are so vastly different. Such a strategy ignores the work of Robert Haveman and Barbara Wolfe (University of Wisconsin), and Cecilia Rouse (Princeton) showing that African American youth are already significantly *more* likely than similar whites to finish high school, and having finished high school to attend college. Given the already higher drive by African Americans for more education, the higher unemployment rates for black college graduates (in 1993, for those under 24, black college graduates had an unemployment rate of 11.3% versus 5.7% for white college graduates, and 11.0% for all whites 16 to 24 not enrolled in school) may make it difficult to succeed in closing the college attendance gap. The dropout gap is already small, again because of the higher drive by African Americans for education. Closing that gap can best be achieved by closing income gaps among parents.

I think that an effective strategy is to expand along the work of David Howell. Identify those industry and occupations that are growing, and have declining shares of African American workers and target them for affirmative action efforts. Further, combine the technology policies of the Administration to those efforts. I fear that other policies not done together with this one will not attack the problem head-on, and may leave people disillusioned about the efficacy of federal efforts.

E X E C U T I V E O F F I C E O F T H E P R E S I D E

24-Feb-1994 04:31pm

TO: Rosalyn A. Miller
FROM: Elgie Holstein
 National Economic Council
SUBJECT: Dinner Tonight

R -- For Carol's information, following is the final list of participants for tonight's dinner. As per my discussion with Sylvia, Carol is referenced as co-hosting the dinner with Bob. Call me with any questions.

February 24, 1994

MEMORANDUM FOR RUBIN/RASCO DINNER PARTICIPANTS
MEMORANDUM FROM: ELGIE HOLSTEIN, NEC
SUBJECT: Participants List

Bob Rubin and Carol Rasco are hosting a dinner/discussion tonight in preparation for the G-7 Jobs Conference in Detroit. The subject of the discussion is black male unemployment. The dinner will be held in the Monticello Room of the Jefferson Hotel at 1200 16th Street, NW. Following is a list of expected participants.

Administration Officials

Secretary of Commerce Ron Brown

Labor Department:

Larry Katz, Chief Economist

Bernard Anderson, Asst. Secy, Employment Standards Administration

National Economic Council:

Bob Rubin, Assistant to the President for Economic Policy

Gene Sperling, Deputy Assistant to the President

for Economic Policy

Paul Dimond, Special Assistant to the President
for Economic Policy

Domestic Policy Council:

Carol Rasco, Assistant to the President for Domestic Policy

Bill Galston, Deputy Assistant to the President
for Domestic Policy

David Ellwood, Assistant Sec'y for Policy & Evaluation, HHS

Other Guests

Richard Freeman, Harvard University

Harry Holzer, Michigan State University

Ronald Mincy, Ford Foundation, NY

Hugh Price, Rockefeller Foundation, NY

E X E C U T I V E O F F I C E O F T H E P R E S I D E

23-Feb-1994 05:40pm

TO: Sylvia M. Mathews
TO: Linda J. McLaughlin
TO: Rosalyn A. Miller

FROM: Elgie Holstein
National Economic Council

CC: Paul R. Dimond
CC: David J. Lane

SUBJECT: Thursday Dinner: Black Male Unemployment

Following is the final list of confirmed guests for the dinner tomorrow night on the subject of black male unemployment. Unfortunately, Secretary Reich will not be able to attend.

The count is 14.

Administration Officials -- Confirmed

Labor Department:

~~Secretary-Reich-~~

Larry Katz, Chief Economist, Labor Dept.

Bernard Anderson, Asst. Secy, Employment Standards Administration

National Economic Council:

Bob Rubin, Assistant to the President for Economic Policy

Bo Cutter, Deputy Assistant to the President for Economic Policy

Gene Sperling, Deputy Assistant to the President
for Economic Policy

Paul Dimond, Special Assistant to the President
for Economic Policy

Domestic Policy Council:

Carol Rasco, Assistant to the President for Domestic Policy

Bill Galston, Deputy Assistant to the President
for Domestic Policy

David Ellwood, Assistant Sec'y for Policy & Evaluation, HHS

Other Guests -- Confirmed

Richard Freeman, Harvard University
Judy Gueron, Manpower, Demonstration, and Research Center, NY
Harry Holzer, Michigan State University
Ronald Mincy, Ford Foundation, NY
Hugh Price, Rockefeller Foundation, NY

Ron Brown (will be late)

MEMORANDUM

TO: CAROL RASCO
BOB RUBIN
BILL GALSTON
GENE SPERLING

FROM: LARRY KATZ *LK*

SUBJECT: Background Materials related to Black Male Unemployment

DATE: February 18, 1994

In preparation for the dinner meeting tentatively scheduled for next week, I attach some background reading summarizing research on the black male employment problem and evaluations of the efficacy of programs to serve disadvantaged youth and adults. The following materials are included:

Lawrence Katz, "The Labor Market and the Disadvantaged," U.S. Department of Labor, testimony, December 1993.

Harry Holzer, "Notes on Young Black Male Employment," Michigan State University, February 1994.

Ronald Mincy, "Introduction," in R. Mincy, ed., Nurturing Young Black Males, Urban Institute, forthcoming 1994.

U.S. Department of Labor, Office of the Chief Economist, draft executive summary to "The Effectiveness of Training and Employment Services," February 18, 1994.

U.S. Department of Labor, Office of the Chief Economist, "Alleviating Unemployment Among the Disadvantaged: Using the CCC and other Public Jobs Programs of the New Deal as a Model for a New Jobs Initiative."

Harry Holzer, "Black Employment Problems: New Evidence, Old Questions," Michigan State University, November 1993.

Still in process of scheduling

Put in an event file I'll need it a few days in advance w/ this much to read

THE LABOR MARKET AND THE DISADVANTAGED

**Statement of Lawrence Katz
Chief Economist
U.S. Department of Labor
before the
Committee on Ways and Means
Subcommittee on Human Resources
House of Representatives
December 7, 1993**

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before your Committee today as part of your hearings on Children and Families at Risk in Deteriorating Communities. I am very pleased that you have provided me with the opportunity to discuss the causes and effects of recent adverse labor market trends affecting low-skilled workers. An understanding of the nature of the labor market conditions facing disadvantaged individuals is crucial to the formulation of effective policies to improve their employment and earnings prospects and to revitalize the economic and social conditions of high-poverty communities.

INTRODUCTION

The economic and social well-being of disadvantaged American youths and young adults -- those with limited education or skills, from poor families and impoverished neighborhoods, and from minority backgrounds -- has deteriorated substantially over the last twenty years.

- o The real wages of the young and less-educated plummeted, breaking the historic pattern of rising earnings for American workers at all skill levels. In the early 1990s the real hourly pay of recent male high school graduates was more than 20 percent below that of recent graduates twenty years earlier; the decline in pay of young high school dropouts has been even more extreme.
- o More and more disadvantaged young men and young women are "idle," not in school, working, or looking for work. Approximately 50 percent of out-of-school young Americans (those age 16 to 24 years) without a high school degree are currently not employed. And more than 70 percent of young black high school dropouts are currently not employed. Many of these out-of-school youths are persistently out of work and have the potential for being permanently lost to the legitimate economy.
- o The proportion of young men in trouble with the law has increased dramatically. Almost 700,000 young men from 16 to 34 years of age were incarcerated in 1989. Richard Freeman of Harvard estimates that approximately 50 percent of 18-34 year old, black male, high school dropouts had criminal records in the late 1980s. No other developed country faced such levels of crime among its youth (Freeman, 1991).
- o Homicide, drug abuse, and the AIDS epidemic are taking a rising toll on disadvantaged youths.
- o A smaller proportion of young disadvantaged Americans are marrying and forming families. Those that do are increasingly poor as are their children.
- o The low incomes, high joblessness, and social pathologies of young Americans mean that many have problems obtaining the basic necessities. Even during the late 1980s boom, the number of homeless families headed by young women grew, while the

weakened economy of early 1990s increased the proportion of the young dependent on food stamps and welfare.

Not every indicator of the lives of disadvantaged youths and young adults shows deterioration, but the overall picture is grim. A large proportion of the young women and young men who are the future of the country -- the workers of the 21st century -- are in trouble.

What caused the deterioration of the economic and social lives of disadvantaged young Americans? What must be done -- by youths and their families, by local communities, by employers, by the Federal government -- to restore the American dream to the disadvantaged? These are extremely hard questions involving complex individual and social behavior to which no one has definitive answers. In this testimony, I will try to briefly summarize what has been learned from research on how broad economic forces appear to have twisted the labor market against the less-skilled and the disadvantaged. I will then discuss how these labor market shifts have affected the economic and social conditions faced by young Americans in distressed communities and some of the implications for the design of strategies to improve these conditions. The Losing Generations report by the Panel on High-Risk Youth of the National Research Council, which will be discussed in detail by your panel of experts, provides a much more comprehensive picture of changes in the settings in which high-risk adolescents live and of what is known about how these changes have translated into deteriorating socioeconomic outcomes.

THE NATURE AND LIKELY CAUSES OF RISING WAGE INEQUALITY

Family income inequality increased substantially in the United States over the last twenty years especially during the 1980s. The real incomes of the bottom forty percent of families were no higher at the end of a long economic expansion in 1989 than were the incomes of the bottom forty percent of families a decade earlier. In contrast, the incomes of the upper 20 percent of families were almost 20 percent higher in 1989 than those of analogous families in 1979. These differences did not narrow in the early 1990s.

The enormous disparities in the fortunes of American families in recent years largely have been associated with labor market changes that have increased overall wage inequality and altered the wage structure in favor of more-educated and more-skilled workers. Recent broad changes in the U.S. wage structure can be summarized as follows:

- o From the 1970s to the early 1990s wage dispersion increased in the United States to levels greater than at any time since 1940. The hourly earnings of a full-time worker in the 90th percentile of the U.S. earnings distribution (someone whose earnings exceeded those of 90% of all workers) relative to a worker in the 10th percentile (someone whose earnings exceeded those of just 10% of all workers) grew by 20 percent for men and 25 percent for women from 1979 to 1989. The gap increased further in the early 1990s.
- o Pay differentials by education and age increased. The college/high school wage premium doubled for young workers with weekly wages of young male college graduates increasing by some 30 percent relative to those of young males with twelve or fewer years of schooling. In addition, among workers without college degrees the wages of older workers rose relative to those of younger workers. The only earnings differential that fell was that between men and women, which dropped by 10 percent or so in all education and age groups in the 1980s.
- o Wage dispersion increased within demographic and skill groups. The wages of individuals of the same age, education, and sex, working in the same industry and occupation, were more unequal in the early 1990s than ten or twenty years earlier. Much of this increase took the form of greater wage differentials for "similar" workers across establishments in the same industry.

In summary, both one's labor market "connections" and one's formal educational qualifications appear to matter more for one's earnings today than in the past. Those from disadvantaged backgrounds are increasingly handicapped in the labor market on both of these fronts. Since these changes in the wage structure occurred in a period of stagnation in overall real wage growth, the less-educated and less-fortunate suffered substantial real earnings losses relative to analogous individuals one or two decades earlier. The sharp rise in educational wage differentials started in the early 1980s. But the pattern of overall rising wage inequality, rapidly expanding within group inequality, and declining real earnings for the less-skilled has been apparent for twenty years.

What explains rising wage inequality in the United States? Most researchers conclude that the major cause of rising wage inequality and increased educational wage differentials since the 1970s is a strong secular shift in relative labor demand favoring more-educated workers and those with

problem-solving skills (e.g., Bound and Johnson, 1992; Freeman and Katz, 1993; Katz and Murphy, 1992; Levy and Murnane, 1992; and Murphy and Welch, 1992). This relative demand shift has been the result of technological changes favoring more-educated labor inside almost every sector in the economy and sectoral shifts in employment away from sectors that have traditionally provided high-wage opportunities for less-educated workers. The supply side also played some role in the 1980s as the historic downward trend in the relative supply of less educated young workers weakened, due to the decrease in the rate of growth of the college graduate share of workers, and an influx of immigrants with less than a high school education. The decline in unionization also appears to have contributed to a widening wage gap between more- and less-educated workers.

Shifts in relative labor demand against the less-skilled are generally viewed as the key to understanding rising wage differentials. In fact, for many years the industrial and occupational distribution of U.S. employment shifted in favor of college graduates relative to non-college workers and in favor of women relative to men. Employment fell in goods-producing sectors that employ many blue-collar males and expanded in professional, medical, and business service sectors that employ many college graduates and in service industries that hire relatively many women. The loss of high-wage, blue-collar jobs in goods-producing sectors may account for as much as one-quarter to one-third of the increase in the college/high school wage differential for males during the 1980s (Blackburn, Bloom, and Freeman, 1990; Bound and Johnson, 1992). One should not, however, exaggerate the role played by the shift in employment from goods to services. Most of the change in the job structure occurred within detailed industries, where firms increased their usage of more-educated workers relative to less-educated workers. These changes largely reflect changes in technology and the organization of work.

The increased internationalization of the U.S. economy has also contributed to changes in labor market conditions for more- and less-skilled workers. In the 1980s, trade imbalances augmented the nation's implicit supply of less-educated workers, particularly those with less than a high school education (Borjas, Freeman, and Katz, 1992). Many production and routine clerical tasks can be more

easily transferred abroad than in the past. But one also should not overstate the role played by globalization. The increased implicit supply of less-educated workers arising from trade deficits perhaps accounts for as much as 10 to 15 percent of the rise in the college/high school wage differential from the late 1970s to the mid-1980s. By contrast, balanced expansion of international trade in which growth in exports matches the growth of imports has had fairly neutral effects on relative labor demand.

Probably the most critical factor raising demand for more skilled workers relative to less skilled workers is technological change that favors skills. In the 1980s, the increased use of microcomputers and computer-based technologies shifted demand toward the more-educated. In manufacturing increases in the relative employment of more-educated workers were positively correlated with investment in computer technologies and R&D intensity (Berman, Bound, and Griliches, 1994). A substantial wage premium for workers who use computers on their jobs explains a substantial part of increases in the college wage premium (Krueger, 1993). Whether because of computerization or other causes, the pace of within-sector relative demand shifts favoring more-skilled workers accelerated in the 1980s (Berman, Bound, and Griliches, 1994; Katz and Murphy, 1992).

But demand shifts are not the whole story. If changes in demand were all that drove wage differentials between more and less educated workers, those differentials would have risen in the 1970s. In that decade, as in the 1980s, relative demand shifted toward college graduates against less educated workers (though there was no trade deficit in the 1970s), but educational differentials actually fell in the 1970s.

One reason for the difference in the trend in wage differentials between the 1970s and the 1980s is found on the supply side of the market. In the 1970s the relative supply of college graduates grew rapidly, the result of the baby-boom cohorts who enrolled in college in the late 1960s and early 1970s in response to high rewards to college-going and fear of being drafted for the Vietnam War. The growth of supply overwhelmed the increase in demand for more educated workers, and the returns to college fell. In the 1980s, by contrast, the growth of the relative supply of graduates

diminished, due to baby-bust cohorts and the lower return to college-going of the 1970s. Katz and Murphy (1992) estimate that the growth of the relative supply of "college-equivalent" to "high-school equivalent" workers declined from a 5 percent annual rate from 1971 to 1979 to a 2.5 percent annual rate from 1979 to 1987.

Immigration into the United States in the 1980s also potentially contributed to rising inequality by bringing many less educated workers into the labor market. The skill distribution of new immigrants to the United States in the 1980s was bimodal. Many immigrant workers came with college degrees. But many from developing countries came with little formal schooling, which may have adversely affected the market for native-born Americans with limited schooling, those who failed to graduate from high school (Borjas, Freeman, and Katz, 1992). Immigration did not have a major effect on overall changes in the wage structure but it probably added a small increment to the poor outcomes for non-immigrant Americans without high school degrees.

In sum, sizeable and accelerated demand shifts favoring the more-educated and reduced growth in the relative supply of the more-educated combined to increase wage inequality in the 1980s. The massive college-education-wage premium of the 1980s and early 1990s has contributed to a sharp increase in college enrollment rates in recent years despite sharply rising tuition costs. This will accelerate the growth in the relative supply of college graduates in the future, but relative demand shifts against the less-educated are likely to continue at a rapid rate.

Even in the United States, where market forces have great leeway to determine wages, institutional factors also played a role in raising inequality. A major institutional factor that affected the U.S. wage structure is the decline of unionism. Consider, for example, what happened to young blue collar men in the 1980s. The proportion who were in unions fell by some 15 percentage points while the percentage of young white collar men in unions was roughly constant (and low). Thus 15% of the less skilled lost the 20-25% wage advantage associated with unionism, the lower dispersion of wages found in union work places, and the greater provision of pensions and other fringe benefits under unionism. Some researchers estimate that by itself the precipitous 1980s drop in the union share of

the work force explains one-fifth of the rise in wage differentials or overall dispersion among men (Blackburn, Bloom, and Freeman, 1990; Freeman, 1993; Card, 1992).

Strong shifts in relative labor demand favoring the more-skilled have created pressures towards rising skill differentials and wage inequality in all advanced industrial countries. During the 1980s, the countries with the most decentralized wage-setting systems and least structured pathways from school-to-work for non-college individuals – the United States and the United Kingdom – had exceptionally large increases in wage inequality and wage differentials by skill. Most other developed countries had only moderate or slight increases in wage inequality (Freeman and Katz, 1993).

Two broad types of national strategies were associated with little increase in skill differentials and overall wage inequality in the 1980s. The first is the European model of greater institutional role in the wage setting process through increases in minimum wages and extensions of the terms of collective bargaining agreements to firms not directly involved in such agreements. Strategies of this type succeeded in the early 1980s in preventing the wage structures from widening by much in Italy and France. But these policies do not directly deal with changing demand for skills and can run into serious economic difficulties over the long run. Policies that limit market wage adjustments without directly addressing changed market conditions can prevent wage inequality from increasing, but risk stagnant employment growth, persistent unemployment for young workers (as in France), and/or a shift of resources to an underground economy to avoid wage regulations (as in Italy).

The second national strategy combines some institutional wage interventions with education and training systems that invest heavily in non-college workers. Germany and Japan are exemplars in training. German and Japanese firms appear to treat college-educated and non-college workers as much closer substitutes in production than do U.S. or British firms, reducing the effect of similar technological changes on relative skill demand and lowering pressure for wage structure changes in these countries compared to the United States.

But no advanced industrial nation has been able to generate all three of the following outcomes over the last fifteen years: (1) prevented rising wage inequality, (2) improved the real wages

of less-educated workers who remain employed, and (3) avoided sharp increases in unemployment. Nevertheless, a lesson from the differences in national experiences appears to be that policies to buffer the earnings of the less educated either by tax incentives or institutional wage-setting seem to work best when accompanied by policies that augment their skills as well. Systematic policies to make work pay combined with better defined pathways from school-to-work and more investment in the skills of non-college graduates may have the potential for improving both the wage and employment prospects of those without college degrees.

HOW LABOR MARKET CHANGES HAVE AFFECTED THE DISADVANTAGED

The deteriorating economic position of young Americans from disadvantaged backgrounds is due in part to the massive changes in the U.S. and global economy that have worsened the prospects for less-educated and less-skilled workers in the labor market. The days when high school dropouts or even high school graduates could expect to move directly into good-paying factory jobs for life are over. Labor market prospects depend much more on problem solving skills and on one's ability to directly work with customers in the expanding service economy.

These labor market shifts have had a particularly adverse effect on disadvantaged young males. The real wages and employment rates of young, less-educated males have fallen dramatically over the past quarter-century. This deterioration has been true for white and Hispanic males, but it has been even worse among black males. It has shown up in terms of both increased unemployment and decreased labor force participation. The nonemployment rate for 20-to-24 year old nonwhite males increased from 22 percent in 1964 to 42 percent in 1992. Much of this decline involves persistent joblessness--individuals are essentially jobless 52 weeks out of the year. We have a growing class of persistently non-employed individuals.

The shift in relative labor demand against blue-collar work and against less-educated workers has disproportionately affected young disadvantaged males. Slow economic growth and weak labor markets (relative to those of the 1950s and 1960s) throughout much of the last twenty years have

further limited opportunities both in the entry-level positions and for upward occupational mobility for disadvantaged young workers. Those in the inner city have been further hampered by a shift in employment opportunities into the suburbs.

Economic changes (especially labor demand shifts away from manufacturing and generally weak labor markets) may have started the downward cycle for disadvantaged youth, but the resultant joblessness has in turn contributed to social changes in urban communities (increases in crime, violence, and drug abuse; the lack of "middle class" role models; and breakdowns in the traditional family) that now make it very difficult to deal with the labor market problems in inner cities. This problem is not unique to U.S. urban areas. Persistent joblessness associated with industrial decline in the North of England appears to be connected to increased crime, drug use, and violence and a rapidly expanding "underclass" in formerly stable working class areas. Similar phenomena have been observed in high unemployment parts of southern Spain and Italy.

A stronger economy, rapid private sector employment growth, and tighter labor markets are a necessary condition for improving job prospects for young black men and other disadvantaged groups in America's inner cities, but the extent of the problems and the experience of the boom of the late 1980s suggest economic growth by itself unassisted by policies designed to specifically deal with the problems of high poverty areas may not be sufficient to reverse recent trends (Blank and Card, 1993; Cutler and Katz, 1991). Extremely tight labor markets in the late 1980s in places such as Boston and New Jersey temporarily improved employment prospects for disadvantaged workers, but did not make a substantial dent into reversing trends towards increasing violence, neighborhood disintegration, and persistent poverty. Economic reversal in Northeast at the start of the 1990s reinvigorated a vicious downward trajectory.

Adverse economic shocks have disrupted the family and community institutions that have traditionally enabled disadvantaged youth to respond to improvements in legitimate economic activities. Youths in areas of concentrated poverty lack information about job market opportunities and lack networks through which they can gain referrals to an employer from someone trusted by the

that employer. The problem of missing networks is especially important for young black males given the rising fraction of this group with criminal records. Incarceration and probation appear to have long-term adverse effects on the employment of young men (Freeman, 1991). Even those young black males without criminal records are further disadvantaged by the rising prevalence of criminal involvement since employers appear more reluctant to give them a chance (Kirschenman and Neckerman, 1991).

IMPROVING THE LABOR MARKET PROSPECTS FACED BY THE DISADVANTAGED

Besides a strong macroeconomy, sound policies of investments in communities, education, and training are also needed to improve economic and social conditions in high poverty areas. The Administration has started this process with the Empowerment Zone initiative, the Youth Fair Chance initiative, and an expansion of the Job Corps. Furthermore, broader policies concerning life-long learning such as the school-to-work initiative, reform of student loans, National Service, the comprehensive worker adjustment program, and one-stop career centers can potentially play an important role in improving labor market prospects for disadvantaged individuals. The School-to-Work Opportunities Act, by developing a national framework for the development of a School-to-Work Opportunities system in every State to provide our non-college-bound youth with the academic and technical skills needed to obtain well-paying jobs, is an especially important initiative for improving the prospects of disadvantaged youth. The continuing shift of labor demand against the less-skilled means that opportunities for the disadvantaged to improve their skills are crucial to improving their labor market prospects.

If progress can be made to reduce persistent joblessness, other social problems will be much easier to handle. In designing policies aimed at communities with concentrated poverty, I would suggest that we build upon lessons learned from research in the following areas:

1. Targeting programs directly on high-poverty areas. Government programs aimed at the poor typically are spread across the entire country, with no special targeting on areas of concentrated poverty. However, it is possible to use Census tract data to specifically target funds to high-poverty urban neighborhoods and rural areas. The new empowerment zone legislation does this, as does DOL's Youth Fair Chance program. The importance of neighborhood spillover effects and peer influences strongly suggest that one may receive a greater "bang for the buck" by using concentrated investments that affect entire peer groups and have the possibility of really changing community norms towards work and family.

2. The effectiveness of job training for adults. Random assignment evaluations of welfare-to-work programs and JTPA suggest that moderately intensive job training programs can have positive earnings impacts on adult men and women. The net impacts on earnings of these programs are statistically significant but modest. This suggests that job training should be part of an overall strategy for fighting poverty, but needs to be combined with other interventions to make work pay if we hope to boost individuals out of poverty.

3. The difficulty of effectively serving youth and the need for broad and intensive services. Random assignment evaluations of youth training programs have often been disappointing, suggesting that it is very difficult to turn around the lives of disadvantaged youth. It is possible that community-wide interventions--such as empowerment zones, Youth Fair Chance--could affect community values and peer pressure, and thus have a much larger impact on youth than typical job training programs that attempt to affect one youth at a time. Experiences with innovative programs suggest that intensive programs with broad ranges of services are most effective for youth. The youth program that appears to have the strongest positive effects, the Job Corps, is an intensive residential program that changes the youth's

environment and provides basic skills training, occupational training, work experience, social skills training, and job placement services.

4. The Importance of community-wide values regarding work and family. The recently expanded Earned Income Tax Credit and the Administration's proposed Health Security Plan should go a long way towards making work pay. The Administration's dramatic expansion of the tax credit will increase the value of the credit to 11 million working families with children. We need to find complementary ways to boost the returns of working so as to tilt the trade-off between working and not working for disadvantaged young males towards work.

Furthermore, to develop policies to reduce inner-city poverty, we must come to grips with incentives for crime relative to the incentives for legitimate work. Given the extremely high costs of the crime (including the costs of imprisonment, the costs of operating the criminal justice system, the loss of potentially productive citizens, the costs of crime to victims), policies that make crime less attractive and legitimate work more rewarding for disadvantaged youths are likely to have a large social payoff. These include policies to improve the labor market skills of the disadvantaged, law enforcement policies, and those that deal with the rehabilitation of first-time offenders.

Of course welfare reform is another important component of the agenda. I defer to my colleague from the Department of Health and Human Services, Assistant Secretary Bane, for a detailed analysis of the principles behind the Administration's welfare reform effort. But let me quickly reemphasize a couple of points. A crucial element is that work must pay so that those moving off welfare are rewarded for their efforts. Second, the labor market returns to education and training have risen to extremely high levels, and many forces of economic change are working to reinforce these trends. Training and job search assistance also appear to payoff for welfare recipients. Thus access to education and training opportunities and employment services is a crucial part of refocusing the welfare system on work and jobs.

CONCLUSION

Mr. Chairman, I would like to thank you for providing me with this opportunity to discuss the labor market problems faced by disadvantaged Americans and especially those residing in areas of concentrated poverty. One can interpret the important role played by community values towards work, peer influences, and neighborhood institutions to the prospects for those in distressed communities in either a pessimistic or an optimistic manner. The pessimistic interpretation is that while stronger macroeconomic performance improves the situation in distressed communities, changes in aggregate economic conditions by themselves do not appear to be able to fully reverse the current cycle of poverty and deprivation. The optimistic interpretation is that we may greatly underestimate the effectiveness of policies that make work pay, change attitudes towards work, and improve skills and labor market connections through our individualistic approach to policy evaluation. Policy resources concentrated in distressed areas that affect peers and family members and systemic changes that alter neighborhood institutions and community values may have large multiplier effects working through peer, family, and neighborhood spillovers that lead to much larger impacts than one might predict from standard approaches to program evaluation. I look forward to continuing our dialogue on how to design a comprehensive strategy to alleviate the labor market problems faced by disadvantaged and low-skilled individuals.

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Harry J. Holzer
Michigan State U.
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NOTES ON YOUNG BLACK MALE EMPLOYMENT

I. General Research on Labor Market Outcomes

What We Know

The following factors appear to be major determinants of employment and/or earnings problems of young black males relative to those of young whites:

- 1) Declining demand for the less-skilled, both between industries (decline of manufacturing) and within;
- 2) Lower education levels and lower cognitive skill levels among blacks within education groups;
- 3) Lower and less stable work experience among blacks;
- 4) Spatial problems (i.e., employer relocations away from inner-city areas), compounded by transportation difficulties and information/perception limitations among young inner-city workers;
- 5) Discriminatory employer attitudes, who complain about both the skills and work ethic among blacks and who especially fear young black males;
- 6) Opportunities for participation in crime (and perhaps other causes of relatively high reservation wages among some, even though a large fraction of the unemployed report a willingness to accept minimum-wage employment).

Some Remaining Questions

On the employer side of the market, we still have limited understanding of exactly which jobs are currently available to young and less-educated black males, and why many employers seem so reluctant to hire them. In particular:

-To what extent are employer perceptions of poor work attitudes and performance among young black males real or illusory? To what extent do these explain lower employment rates or turnover/limited wage growth? Even if they are real on average, statistical discrimination is strongly suggested. Since so little is known about potential worker productivity at the time of hiring, such statistical hiring practices may be sensible from the employer's viewpoint. There is also some growing evidence of "customer discrimination" in some places - i.e., limited hiring of blacks when customers are primarily white in various retail trade and sales/service positions.

But to the extent that racial gaps in workplace performance (even within educational and occupational categories) are real, it may be more appropriate for us to focus on these gaps and how they might be narrowed.

It is quite possible (though difficult to demonstrate conclusively) that workplace performance of young blacks may be negatively affected by the (mutually reinforcing) negative attitudes towards each other of employers and black workers.

-Exactly which recruiting and screening activities of employers limit the hiring of young blacks? How do these vary by sector of the economy, wage level or workplace location? How

important are reliance on referrals from acquaintances/current workers, the application/interview process, experience criteria, references, etc.? What role is played by subjective judgments as opposed to measurable characteristics? How important are suspicions of criminal activity, and to what extent are these verified?

On the worker side of the market, we could use more knowledge about the following:

-How do basic cognitive skills, social/interactive skills, experience and attitudes actually affect the workplace performance of young blacks? To the extent that gaps in average workplace performance may be real, what are their exact causes in terms of worker background and characteristics?

- To what extent are the adjustments of blacks to the "new" labor market (in terms of improving their skills, travelling further to seek and accept employment, etc.) limited by gaps in their information/perceptions about these changes? The alternative hypothesis is that young blacks accurately perceive the high costs of adjustment relative to the limited benefits which they would obtain.

- To what extent are the employment prospects of those who have engaged in criminal activity limited by their own lack of interest in work? How many participants in such activity might actually accept low-wage work if available? How does this change as they age, and how does it depend on incarceration/conviction history?

-Are there other dimensions of job search behavior besides reservation wages and search effort that limit employment prospects? There is little evidence of relatively low search effort among young blacks in the workforce. But are there other indications of "discouragement" or ineffective search behavior?

II. Recent Evidence from the Multi-city Study

The surveys of employers and workers in the four-city study funded by the Ford and Russell Sage Foundations are designed to answer at least some of these questions. Some new evidence is available at this time for Detroit. Though the findings are quite preliminary, and we don't even know the extent to which they will be replicated in the other cities, a few merit some discussion.

-Despite diminishing overall job availability, job vacancy rates are relatively high in the central-city due to high turnover - both quits and discharges. The high turnover rate there seems only partly accounted for by wages, occupations, etc. (though declining wages in recent years may have accentuated the turnover problem). In the household data, turnover differences (or those in employment durations) between young whites and blacks exceed those observed for nonemployment durations. } e

Furthermore, we observe comparably high turnover rates among suburban firms that hire many blacks - even those with black supervisors. The turnover rates also imply that work experience for blacks may not generate the kind of future wage growth or employment that we generally associate with such experience.

-The ratio of black hires to black applicants at the firm level is lower for black males than for black females, lower for both in the suburbs than in the central-city, and lower for blacks than for whites more generally in both places. Worse discrimination against black males and in the suburbs is strongly suggested, as average skill needs in the relevant jobs do not appear to be higher. Interesting patterns emerge across occupational categories, with black male applicants still preferred (relative to black females) in blue-collar jobs and black females preferred in clerical and service jobs. Reluctance to hire blacks is relatively greater in sales jobs in the suburbs but in clerical jobs in the central-city, suggesting customer preferences in the former and perceived skill problems in the latter.

-Black search and application activities across the suburban areas are uneven. Tendencies of blacks to search/apply for jobs is partly accounted for by distance from the central-city and by worker transportation costs (i.e., access to cars). But it is also correlated with perceptions among blacks of local friendliness towards them (gauged in the housing market section of the household survey).

-Once blacks are hired in the suburbs, their wages and occupation levels are relatively better than in the central-city. This seems partly due to differences in the personal characteristics of those who commute v. those who don't, partly due to the characteristics of jobs in each place (i.e., more middle-level jobs and more manufacturing in the suburbs), and perhaps partly to the "crowding" of blacks in the central-city labor market relative to labor demand there.

-Employer tendencies to hire young blacks might well be limited by their strong reluctance to hire those with criminal records and by other employer criteria. The latter include strong preferences for those with specific job experience (negatively correlated with tendency to hire blacks), references, and more than short-term work experience. Government training programs and GED's appear to have some stigmatizing effects as well.

-Economic rewards to education and also to performance of specific tasks, such as numerical activity and use of computers, seem to be rising for young blacks and whites.

Taken together, these results indicate that improving black access to parts of the suburban labor market, reducing hiring discrimination in that market, and raising their skill levels as well as certain personal credentials would significantly improve their employment rates. But the high turnover rates for young blacks and the firms that hire them indicate problems in worker performance and/or racial attitudes that should affect the employment and future earnings prospects of those workers, and may reinforce employer reluctance to hire young blacks.

III. Policy Implications

The above research findings suggest some fairly clear policy implications at a broadly defined level. These include:

- 1) Improving education levels and basic skills through the schools and post-school job training;

2) Raising early private sector work experience, perhaps by smoothing the "school-to-work" transition with programs that link schools and employers and by improving job placement services;

3) Raising "mobility" to suburban employers by combining transportation assistance with job placement and counselling;

4) Raising EEO monitoring of and pressures on suburban employers;

5) Raising overall labor demand with employer wage subsidies or tax credits as well as with public sector employment;

6) Perhaps providing employee wage subsidies as well to enhance the relative attractiveness of low-wage jobs.

We might categorize option 1) as being the most long-term in scope (particularly the part dealing with the schools), while the others are more short-term. Furthermore, options 2)-4) would be of most use for those with less severe labor market difficulties, while options 1), 5) and 6) deal with those whose difficulties are relatively more severe (e.g., high school dropouts, criminals, and the long-term unemployed).

Of course, the problem with much of this is that the newer approaches have only been tried at various local settings and have not been seriously evaluated, while most of the older approaches have not proven to be cost-effective in the past.

Examples of the latter include the long list of government training programs that generally appear to have been ineffective for young males (or costly) in the past. These include STEP (Summer Training and Employment Program) for high-school students;

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Supported Work and JobStart for out-of-school students; and JTPA programs for youth. The Targetted Job Tax Credit might also be added to this list, along with state-level Enterprise Zones and costly Public Service Employment jobs.

But on the brighter side, some programs do seem to be cost-effective, such as Job Corps (suggesting that comprehensive services and intensive focus may be needed to overcome the huge disadvantages that many young males face) . If we measure success by short-term job acceptance rather than long-term earnings effects, other programs (such as the Youth Incentive Entitlement Pilot Project) indicate that we can raise employment rates by providing government jobs.

The stigmatizing effect of government training might be avoided altogether by instead providing young males with private training vouchers (along with counselling for how best to use them); while the stigmas associated with the TJTC might possibly be avoided by more generous (higher subsidy rates and ceilings) and more broadly defined tax credits for employers who hire these workers. For instance, we might link the subsidy to the hiring of employees with personal residences in certain urban areas rather than personal or family disadvantage; though some qualitative evidence suggests that even the former can be stigmatizing. Pilot projects and careful evaluation are clearly in order before these are pursued on a large scale.

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School-to-work programs and school-employer linkages have already received plenty of attention at the Department of Labor, so

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there is no need to repeat the options and (lack of) evidence here. Public job-placement activities (such as through the Employment Service) have never been very widely used or successful in the US, though there have been interesting proposals for (and some local experience with) linking central-city schools to regional data centers (such as metropolitan-wide Private Industry Councils).

In considering any of these approaches, we must remember the high turnover rates observed in Detroit and the negative results of Supported Work demonstrations for young males - i.e., mere job placement and work experience, especially if it is short-term and unstable, may not generate significant future employment or earnings benefits for seriously disadvantaged black males (though it may be of greater help to the less-disadvantaged, whose work experiences may be more stable).

A variety of "mobility" strategies that combine public transit or van pools with job placement have been tried in Chicago, Philadelphia, Milwaukee, Detroit and other places. Some evaluations may be underway; Mark Hughes (currently at Public/Private Ventures in Philadelphia) is the person who follows these most closely. If we define "mobility" more broadly to include aiding residential relocations to suburban areas, we have the fairly positive employment effects of the Gautreaux experiments as well (though these involved primarily female household heads and focus on housing rather than labor markets).

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Finally, one might mention mentoring programs (Ronald Mincy, Ford Foundation) and other approaches that focus more directly on adolescent/teen social environments and behaviors. But I assume these are beyond the scope of Labor Department policy.

THE EFFECTIVENESS OF TRAINING AND EMPLOYMENT SERVICES

Executive Summary

The role of education, training, and employment services programs have grown in recent years. Education and skill levels have become increasingly important in determining a workers level of earnings, and employment services have taken on increasing importance because workers who lose their jobs are having more difficulty finding new ones.

In responding to these trends, it is important to review what we know about the effectiveness of training and employment services in this country. An impressive body of evaluation literature is now available to help us do this; this literature provides valuable lessons about which programs and approaches do work, and which do not.

This review summarizes the best evidence that is available from this literature on the actual post-program impacts of these services on employment, earnings, and educational achievement. We rely to the extent possible on studies that use a random assignment approach which examine the independent impact of program participation on future earnings. The lessons learned can be used as guideposts in ongoing policy decisions.

Section 1: First Jobs for Youth

Section 1 of the paper examines what we know about facilitating the acquisition of first jobs by youth who are new entrants to the labor market. We also discuss several programs that have attempted to help high school students at risk of dropping out.

The majority of programs for in-school youth who are at risk of dropping out have not been rigorously evaluated in a manner that would allow one to determine their long-term impacts on high school graduation and future employability. However, those evaluations that have been conducted demonstrate clearly that educational interventions can raise at least the short-term scholastic achievement of disadvantaged youth. The record on improving high school graduation is more mixed--

- o The Summer Training and Employment Program provides remedial academic education and summer jobs to disadvantaged youth aged 14 to 15. At the end of two summers in STEP (with some support services provided over the intervening year), students had shown significant improvements in academic

achievement due to the program. But when STEP graduates were re-examined several years later they showed no significant improvements in high school graduation rates. Summer interventions alone do not seem sufficient to address all of the barriers facing disadvantaged youth.

- o California's Partnership Academies are small-scale, highly intensive career-focused programs aimed at high school youth at risk of dropping out. They appear to have significantly increased the rate of high school graduation among these youth. It is not yet known which elements of the Academies -- the increase in resources devoted to the students or the strong vocational focus of the programs -- were responsible for these positive results.

There are also evidence available on several subsidized employment programs for in-school youth. In essence, these programs appear to have been successful in greatly increasing employment among disadvantaged youth during the period that the subsidized job is provided. Thus, subsidized jobs for youth do not simply substitute for jobs that would have been available without the subsidy. But the story on post-program impacts is less clear, and somewhat negative.

Economists have estimated that the Summer Youth Employment Program (SYEP), which provides summer jobs to disadvantaged youth, greatly increased employment rates among disadvantaged minority youth in sites where jobs were provided. The Youth Incentive Entitlement Pilot Project (YIEPP), which guaranteed full-time summer jobs and part-time school year jobs to disadvantaged youth who stayed in school, appeared to have roughly doubled the employment rates among disadvantaged youth at program sites. But researchers estimated that this increased employment under YIEPP did not lead to increased rates of high school graduation for program participants. Also, employment prospects after the subsidized jobs ended seem to have shown little or no improvement.

There is a great deal more evidence available on employment and training programs for disadvantaged out-of-school youth such as high school dropouts. Several general lessons can be drawn--

- o Vocational skills training for disadvantaged youth can work. But it must be long-term, high intensity, or very well implemented. Short-term (3 to 6 month), low-intensity skills training for youth under CETA and JTPA has generally been unsuccessful in raising employment or earnings. In contrast, the Job Corps, a high-intensity program lasting about a year that provides a combination of basic education and job training to disadvantaged 16 to 24 year olds in a residential setting appears to be quite successful. Job Corps participation appears to significantly increase

earnings and educational attainment while reducing the incidence of serious crime among graduates. Although Job Corps training costs 4 to 5 times what JTPA training does, the additional investment per participant appears to more than pay for itself.

The Jobstart demonstration tested various approaches to short-term, moderately intensive training for youth at 13 different sites. No significant positive results were found for 12 of the sites, but one program, the San Jose Center for Employment and Training (CET) did show very strong positive effects, improving annual earnings for participants by over \$3,000. CET is marked by its emphasis on vocational skills training, with basic academics taught within the context of vocational instruction. It is also distinguished by very close connections to the local labor market. The CET example shows that short-term youth training can work, but only if it is very well implemented.

- o Subsidized work experience for disadvantaged youth has produced substantial gains during the period of subsidized employment, but seems to produce little or no positive benefits after the work experience is completed.
- o Job search assistance for disadvantaged youth does seem to produce moderate but short-term benefits. Program participants show earnings gains 6 months to a year after program entry, but a year or two after the program they have earnings and employment no higher than similar youth who hadn't participated. This indicates that job search assistance simply speeds the process of getting a job.

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A number of programs have addressed the special needs of young single mothers, attempting to help them complete their education and improve their employment prospects. These programs have generally shown positive but modest results.

- o The LEAP program used a strategy of welfare grant reductions and bonuses for teenage mothers on AFDC to encourage high school attendance. The program was successful in significantly improving enrollment and attendance.
- o Project Redirection provided educational, health, and welfare benefits to poor teenage single mothers. The program produced no gains in high school graduation rates, but participants did show some increases in the likelihood of employment and declines in welfare reciprocity. They were also somewhat more likely to enroll their children in Head Start. Overall, the program results were positive but disappointingly modest.

Section 2: Jobs for Adults With Little or No Labor Market Experience

Section 2 summarizes the evidence on employment and training programs for disadvantaged adults with little or no recent labor market experience. While many economically disadvantaged adults have extensive employment experience, there are many -- welfare recipients, ex-criminals, or simply those who are down on their luck -- who are coming off long periods of unemployment. There are a number of programs designed to help these adults reintegrate themselves into the labor market.

Training programs for disadvantaged adults have generally been successful in improving earnings significantly, and have tended to be cost-effective investments for society. However, they have not seemed to produce earnings gains sufficient to lift trainees out of poverty.

The two major Federal programs for disadvantaged adults generally, the Comprehensive Employment and Training Act (CETA), active from 1975 to 1981, and the Job Training Partnership Act (JTPA), which has operated from 1982 to the present, have both been estimated to produce significant earnings gains for adult participants. The success of these relatively short-term programs for adult participants is a marked contrast to their ineffectiveness for youth.

The evidence for JTPA training is especially good, since it relies on a large-scale experimental evaluation. This research found that JTPA participants at the sites studied earned an average of \$850 more due to program participation during the second year after program graduation, an average increase of 10% to 15% over what they would have earned without the program. Since JTPA training is relatively short-term (4 to 6 months) and not particularly expensive, these earnings gains were substantially greater than the costs invested to produce them.

Many training programs are targeted specifically at the special needs of poor single parents. Some are voluntary training courses, while others are broadly required for all recipients of Aid to Families with Dependent Children (AFDC) benefits.

A number of voluntary programs have had marked success in improving the earnings and employment of single parents. Two programs that used a supported work approach, which provides subsidized employment combined with extensive support services, produced average earnings gains of about \$1,500 to \$2,000 annually during the first and second years after program exit. Although the program gains faded somewhat, improvements in earnings were lasting -- program participants showed significant earnings gains 8 to 9 years after exit from one supported work

program. Both programs were found to be cost-effective.

Conventional voluntary classroom and vocational training models have had a more mixed record of success with single parents. The Minority Female Single Parent (MFSP) Demonstration tested different training models at four different sites. Only one site, the San Jose Center for Employment and Training (CET), showed positive impacts on earnings and employment. During the fifth year after graduation CET participants earned about \$1,000 more than comparable non-participants, a 15% advantage¹.

'Welfare to work' programs mandate training, education, and/or job search for AFDC recipients. There have been numerous evaluations of these programs, which have tended to find that--

- o The programs are generally been successful in producing significant but modest positive effects on earnings and employment and slight declines in welfare reciprocity. Average earnings gains generally range from \$200 to \$600 annually, with somewhat smaller declines in average annual welfare income.
- o Even with these modest improvements, welfare-to-work programs have generally been cost-effective, with reduced welfare payments and increased tax receipts outweighing program costs.
- o So far, more work-oriented programs have been somewhat more successful than programs emphasizing basic education.

Although welfare to work seems to be a worthwhile investment, the earnings gains from these training programs alone are generally much too small to lift families out of poverty.

Another group of adults with special needs are prisoners and ex-offenders. A study by a Harvard labor economist found that a substantial proportion of less educated males had criminal records, and these men faced great barriers to labor market success. Two types of programs currently try to help ex-offenders reintegrate themselves into society -- 'boot camps' for first-time offenders, and vocational training, education, and work experience programs for prisoners.

'Boot camp' programs are generally designed for first-time non-violent offenders as an alternative to regular incarceration. Most boot camps do not include a strong education or job training component, relying instead on hard physical work and military-style discipline. Current evidence seems to show that these

¹ Note that CET was the same program that showed positive results for disadvantaged youth. See above.

programs have not been particularly effective in reducing recidivism rates where they have been tried. There is ongoing research in this area, though, and the question is not yet completely settled.

The record on vocational training, education, and work experience for prisoners is somewhat more encouraging, although still very mixed. Current research provides some evidence that when they are well implemented these programs can have a modest but significant negative effect on recidivism. Studies of Unicolor, the work experience/training program active in Federal prisons, a vocational training program for state prisoners in South Carolina, and a Wisconsin basic education program all found significant drops in recidivism due to participation. The Unicolor study also found a significant increase in post-prison employment for program participants. However, many studies of employment and training programs for prisoners have found no effects at all.

Section 3: Educational Institutions

Section 3 discusses research on the effectiveness of two important educational institutions -- the adult basic education system and post-secondary education (2 and 4 year colleges and universities) -- in raising the future employment and earnings of those who participate in them.

These institutions are not explicitly part of our government employment services system, but they play a critical role in it. Government programs rely on such schools for many of the actual training services at the local level, so evidence on their effectiveness is directly relevant to the success of government training. For example, the bulk of long-term training for displaced workers is carried out through community colleges, and many welfare-to-work programs emphasize adult basic education in their curricula.

There is some sketchy evidence available on the outcomes of adult basic education programs. One study has found that mastery of basic mathematics in the 12th grade leads to large increases in wage rates. However, this positive effect of basic education is delayed -- graduates show increased earnings 6 years after leaving high school, but no difference in earnings at the 2 year point. This indicates that results from basic education may take considerable time to become evident.

Other studies have examined the impact of GED receipt. GEDs are the major basic education credential available to adults. Unfortunately, the GED appears to have more of a credentialing than a training effect. Most GED recipients study for just a few weeks in preparation for the test, which is not enough time to truly improve skills. Thus, the GED appears to certify pre-

existing skills differences, not serve as a mechanism for improving skills. This hypothesis is supported by the finding that once pre-existing differences are corrected for, adults show little or no gain in earnings or employment due to GED receipt. The majority of the earnings gains that do result appear to come from the increased access to higher education that the GED provides.

There is extensive evidence available on the benefits of post-secondary education for its graduates. The impacts of higher education appear to be very positive, and have been steadily increasing over the past 20 years. Current research has reached some general conclusions about the nature of these impacts--

- o A year of post-secondary education is estimated increases earnings in the range of 5% to 10%, and these earnings increases last throughout one's career. Some studies have shown even greater impacts. This impact estimate corrects for differences in pre-existing ability levels between those who do and do not go to college.
- o Economists have calculated that the income returns per year of credits completed are similar for 2-year community colleges and 4-year colleges. This is despite the fact that community colleges provide mostly vocational education and 4-year schools provide a more academic background.
- o Substantial earnings increases result regardless of whether or not students complete their degrees.
- o Both younger and older students gain significant income boosts from participating in higher education.

SECTION 4: New Jobs: Re-Employment Programs For Dislocated Workers

Section 4 analyses the evidence on our experience with reemployment services for dislocated workers. Many dislocated workers have great difficulty in finding new jobs that pay wages even close to what they earned on their previous job. This section discusses both the effectiveness of both training and other reemployment services in helping these unemployed workers.

A rich variety of re-employment programs for dislocated workers have been tried, ranging from conventional training programs to bonuses paid upon receipt of a new job. Although many of these approaches are still experimental and are being used only in a few pilot programs, there is evaluation evidence available on all of them. In sum, the evidence indicates:

- o Job search assistance targeted at dislocated workers who are

likely to be unemployed for a long period speeds the process of obtaining a new job. Reductions of .75 to 4 weeks in time receiving Unemployment Insurance (UI) benefits have been found, and the resulting savings were more than enough to pay for the program's costs.

- o In general, an emphasis on early intervention seems to be useful. Early intervention was one of the keys to the successful job search assistance experiments for UI recipients, and an evaluation of the JTPA training program for dislocated workers found that those localities which aggressively marketed services to workers early in their spell of unemployment were more successful in finding jobs for clients.
- o Self-employment assistance programs significantly improve an unemployed worker's chance of starting a successful new small business, and improve their overall likelihood of employment. However, self-employment is not a viable option for the majority of dislocated workers.
- o Re-employment bonus programs, which pay a bonus to an unemployed worker when they find a new job, create small but significant reductions in UI receipt.
- o The evidence on training programs for dislocated workers is uncertain. Short-term training has so far been found to be ineffective for dislocated workers, but more research is called for in this area.

There is no reliable direct evidence on the effectiveness of long-term training for dislocated workers. However, the evidence on the impact of community college education summarized in Section 3 above indicates that dislocated workers can expect income gains of from 5% to 10% per year of long-term community college training.

This evidence is very relevant since the majority of long-term training programs for dislocated workers contract with local community colleges to provide vocational education. Dislocated workers in training are generally older students returning to school, and generally take courses without receiving degrees. The findings in Section 3 show that this type of student can expect substantial returns for community college education.

**ALLEVIATING UNEMPLOYMENT AMONG THE DISADVANTAGED:
USING THE CCC AND OTHER PUBLIC JOBS PROGRAMS OF THE
NEW DEAL AS A MODEL FOR A NEW JOBS INITIATIVE**

The sheer lack of suitable job opportunities appears to be an enduring obstacle to employment for many Americans. The overall official unemployment rate is much higher, on average, than it was several decades ago, as is the rate of long-term unemployment. Moreover, double-digit unemployment can be found in many pockets of the country and is endemic in our nation's inner cities.

Joblessness among U.S. males has increased particularly dramatically over the past quarter century. The nonemployment rate for prime age males was almost twice as high during the expansion of the late 1980s as it was during the expansion of the late 1960s. Virtually all of the trend toward rising male joblessness is accounted for by rising unemployment and nonparticipation among less-educated and low-wage individuals.

Increases in persistent joblessness have been most pronounced among young black males living in America's inner cities. Approximately 40 percent of out-of-school black males aged 16-24 are currently out of work. In some inner cities, 60 percent or more of less-educated, young black males are nonemployed. William Julius Wilson and others have hypothesized that increased joblessness among black males is a driving force behind the decline in two-parent families among inner city blacks and accompanying high rates of poverty, welfare dependency, violence, crime, and drug abuse in urban America.

The employment problems of disadvantaged individuals in today's inner cities are similar in scope to the employment problem faced by the nation as a whole during the Great Depression. As part of the New Deal, President Roosevelt started a number of public jobs programs aimed at getting money into the hands of desperately poor families. Collectively, these programs were quite substantial both in terms of the number of persons served and the proportion of GNP and the federal budget spent on them. Many buildings, bridges, roads, airports, and national and State parks still exist today that were constructed by these public jobs programs. Over the years, there has been an enduring appeal to the concept of putting unemployed persons to work in useful public works projects.

This paper describes the New Deal public jobs programs and options for developing analogous policies to address the problems of persistent joblessness, particularly among disadvantaged groups. The paper begins with a brief summary of the nature of the problem. It then discusses the design and operation of the New Deal programs; efforts over the years to re-establish these programs; current public employment efforts at the federal and state level; the potential role of a new public jobs programs in relation to the joblessness of disadvantaged Americans; and issues and options related to re-establishing national public employment programs.

I. The Problem of Persistent Joblessness among the Disadvantaged

The absence of job opportunities is more than a transitory phenomenon for many workers. Overall, the national unemployment rate has averaged 6.6 percent in the 1990s, which is lower than its 1980s average, but is about 2 percentage points higher than its average in the 1950s and the 1960s. Much of the increase in unemployment is accounted for by a rise in the amount of long-term unemployment (i.e., individuals experiencing unemployment for 27 weeks or more).

Concern about the enduring lack of employment opportunities is especially concentrated among particular regions of the country or particular groups of workers. West Virginia stands out as an entire state where unemployment consistently stands at double-digit levels, but double-digit unemployment is common throughout the Appalachian region and in many of the nation's inner cities as well. While Americans are quite geographically mobile and migration from declining to expanding areas is a hallmark of U.S. labor market adjustment, many find it difficult to escape the inner city, and less-educated workers face diminished earnings prospects throughout the nation.

Among particular groups of workers, there has been a marked deterioration in the labor market faced by less-educated and less-skilled males over the past 25 years.¹ This deterioration has been true for white and Hispanic males, but it has been concentrated among black males. It has shown up in terms of both increased unemployment and decreased labor force participation. Much of this decline involves persistent joblessness--individuals are essentially jobless 52 weeks out of the year. We have a growing class of persistently non-employed individuals. These same groups with substantial declines in employment rates have also experienced dramatic declines in real hourly wages over the last twenty years.

Table 1 illustrates the declining rates of employment of black males. As the table shows, employment for black males has fallen sharply since the late 1960s. Employment rates for white males have also dropped during this period, but much less markedly. Large declines in employment are also apparent over the same time period for out-of-school black teenagers.

¹Although white collar unemployment became a larger problem in the United States during the early 1990s, more educated and skilled workers are better able to adjust to labor market changes than are the less skilled who lack the education, training, and connections to take advantage of emerging labor market opportunities. Despite continued corporate downsizing, managerial and professional employment is coming back and has expanded at a moderately brisk pace over the past year.

Table 1

Employment Rates among Black and White Males, 1954-92

Age	Blacks and Other Non-Whites					Whites				
	1954	1964	1977	1981	1992	1954	1964	1977	1981	1992
20-24	.76	.78	.61	.58	.58	.78	.79	.81	.77	.76
25-54	.86	.88	.82	.79	.78	.94	.94	.91	.91	.88

There are a number of factors that may have contributed to this decline in the employment as well as the real and relative wages of black men, particularly young black men, since the late 1960s:

- o There has been a shift in relative labor demand against blue-collar work and against less-educated workers; these shifts had a disproportionately adverse effect on blacks, and especially on black males. The decline in manufacturing hit young, black males in the midwest hardest of all.
- o Slow economic growth and weak labor markets throughout much of the last twenty years have limited the opportunities in the labor market for young black males.
- o The large influx of women into the labor force in the last 30 years may have decreased the competitive position of young black males in the labor market. Robert Topel of the University of Chicago has presented some suggestive but far from conclusive evidence indicating that the problems of less-skilled males appear to have been greater in regions with a more rapid increase in female labor force participation. But many potential omitted factors could drive this correlation.
- o There has been a shift in employment opportunities out of central cities and into the suburbs.
- o Inner-city public schools have not responded adequately to the changing economic structure of our country. Not enough success has been made on preventing youths from dropping out of school despite the large decline in the number of low-skilled manufacturing jobs that previously provided decent earnings to male high school dropouts.
- o Many successful professional and working class blacks have moved out of inner cities, leaving behind high concentrations of the poor--a process which

may have removed the influence of many positive role models and "enforcers" from the inner city and, inadvertently, assisted the erosion of social norms concerning work and family responsibilities.

- o There has been a decline in Federally funded employment and training programs for disadvantaged workers and youth in the 1980s, thus taking away a buffer to the lack of job opportunities for disadvantaged individuals in America's inner cities.
- o There was a decline in the intensity of affirmative action pressure and anti-discrimination activities during the 1980s --and this may have eroded to some degree the labor market position of young black college graduates.
- o The end of the Cold War and the downsizing of the military has also reduced a major avenue for upward mobility, education, and training for black males.

Economic changes (especially labor demand shifts away from manufacturing and weak labor markets) may have started the downward cycle for black males, but persistent joblessness has in turn contributed to social changes in urban communities (increases in crime, violence, and drug abuse, and breakdowns in the traditional family) that now make it very difficult to deal with the labor market problems in inner cities. This problem is not unique to U.S. urban areas. Persistent joblessness associated with industrial decline in the North of England appears to be connected to increased crime, drug use, and violence and a rapidly expanding "underclass" in formerly stable working class areas. Similar phenomena have been observed in high unemployment parts of southern Spain and Italy.

A stronger economy, rapid private sector employment growth, and tighter labor markets are a necessary condition for improving job prospects for young black men and other disadvantaged groups in America's inner cities, but the extent of the problems and the experience of the boom of the late 1980s suggest economic growth by itself unassisted by policies designed to specifically deal with the problems of high poverty areas may not be sufficient to reverse recent trends. Extremely tight labor markets in the late 1980s in places such as Boston and New Jersey temporarily improved employment prospects for disadvantaged workers, but did not make a substantial dent into reversing trends towards increasing violence, neighborhood disintegration, and persistent poverty.

Besides a strong economy, sound policies of investments in communities, education, and training are also needed to improve economic and social conditions in high poverty areas. The Administration has started this process with the Empowerment Zone initiative, the Youth Fair Chance initiative, and an expansion of the Job Corps. Furthermore, broader policies concerning life-long learning such as the school-to-work initiative, reform of student loans, National Service, and the comprehensive worker adjustment program can

potentially play an important role in improving labor market prospects for disadvantaged individuals. Welfare reform is another important component of the agenda.

Two key policy issues remain regarding the persistent joblessness of many disadvantaged Americans:

1. Is direct job creation (either through public works or public service employment) a necessary supplement to training and education programs? Can it raise demand for disadvantaged individuals and thereby reduce overall joblessness and increase incomes in high-poverty communities in a manner consistent with promoting work and responsibility? Such programs can also produce socially beneficial outcomes such as more and improved parks, reforestation, and other public works and social services.
2. What other broad initiatives aimed at disadvantaged youth are necessary to raise their aspirations, increase their educational attainment, and make them competitive for jobs that pay enough to support a family? Do we need large new federal investments in inner-city elementary schools and secondary schools? In helping disadvantaged youth learn about, apply for, and enroll in college? In expanding sports and recreation programs in inner-city neighborhoods? In reforming job training programs (especially JTPA Title II) to provide more comprehensive services to youth?

Even with the Administration's other initiatives, some direct job creation may be necessary to make sure that jobs exist at the end of training programs. Direct job creation--particularly if targeted towards high poverty communities--may be able to keep joblessness down and also get money into poor neighborhoods. If progress can be made to reduce persistent joblessness and maintain tighter labor markets in high poverty areas, other social problems will be much easier to handle. The combination of private sector oriented policies such as Empowerment Zones and Community Development Banks can be combined with jobs programs to make a truly comprehensive approach at improving the situation for the disadvantaged.

II. Public Jobs Programs of the New Deal

While there were several federal work relief programs in operation during the Great Depression, the most notable programs were the Civilian Conservation Corps (CCC), the Works Progress Administration (WPA), the Public Works Administration (PWA), and the National Youth Administration (NYA). Of these, the CCC is generally regarded as the most popular and successful, while the WPA was by far the largest.

1. The CCC put young men from poor families to work in conservation projects on our country's public lands. Work projects included reforestation, fighting forest

fires, building national and state parks, fighting floods, and soil conservation. Many national and state parks now in existence were originally built by the CCC, and many buildings and cabins constructed by the CCC in these parks still exist today. The National Arboretum here in Washington D.C. was developed in large part by the CCC.

The CCC was in operation between 1933 and 1942. It was an entirely residential program operated out of work camps. The Army was responsible for food, shelter, and discipline at the work camps, while agencies such as the Forest Service, Interior Department, and Soil Conservation Service were responsible for the work projects. The Department of Labor was responsible for recruitment.

The CCC had a peak enrollment of 500,000, but an enrollment of between 250,000 and 300,000 was more typical. This was quite a large program. By contrast, the current Job Corps program has an enrollment of 40,000.

For the first five years of the program, enrollment was limited to young men ages 18 to 25 living in families on relief rolls. In 1937, legislation changed the age group to 17 to 24 and allowed unemployed men from non-relief families to enter the program. Initially, local woodsmen and carpenters were opposed to the creation of the CCC, thinking it would cost them work. But this opposition was muted by hiring them as work supervisors in the program. Five percent of work slots in the program were reserved for hiring adult men as work supervisors.

While the main purpose of the CCC was to get money to poor families, the program also aimed at conducting useful work. Thus, large proportions of the program funds went towards maintaining residential camps necessary for conducting work in wilderness areas, skilled supervision, and materials and supplies. Roughly 45 percent of program funds went to enrollee wages. By contrast, over 80 percent of funds in the Public Service Employment (PSE) programs of the 1970s went to employee wages. But the 1970s programs are remembered as being much less successful than the CCC.

2. The WPA was the New Deal's largest work relief program. It provided federal funds for work projects operated by State and local governments. Unlike the CCC, the WPA was a non-residential program. Persons had to be at least 18 years-old to enter, but there was no upper age limit. Eligibility for the program was based on family need, but persons did not have to be on direct relief to participate. However, at one point, the WPA's deputy director reported that 95 percent of enrollees came from relief rolls. Enrollment was limited to one person per poor family. The program peak enrollment was 3.3 million, and typically had an enrollment of over 2 million.

The WPA conducted a wide variety of work projects, but it put most people to work doing manual labor on construction projects. Work projects included building sidewalks, street curbs, school athletic fields and stadiums, parks, playgrounds, swimming pools, water lines, and landing fields. Non-construction WPA projects included sewing clothes, serving school lunches, teaching literacy, and canning food. The WPA also sponsored projects for writers and artists, as well as local orchestras. Eighty-eight percent of federal WPA funds were spent on wages, although State and local governments could supplement the federal funds with their own money for materials and supplies. These State and local funds enabled the WPA to conduct construction projects, and meant that for many WPA projects much less than 88 percent of funds went towards wages. Over its existence, the WPA built or reconstructed 617,000 miles of new roads, 124,000 bridges and viaducts, and 35,000 buildings. Notable projects included the construction of New York's Central Park Zoo, the Philadelphia Art Museum, and La Guardia Airport.

During most of the WPA's life, there were no restrictions on how long a person could remain in the program. Enrollees did, however, have to accept private sector jobs if they were available. Legislation in 1939 required that anyone in the WPA for over 18 months had to leave the program for 30 days. At that time, it was estimated that 17 percent of all enrollees had been in the program 3 years or more. In New York City, 42 percent of enrollees had been in the program for over three years.

3. The PWA differed from the WPA in that it funded federal, State, and local construction projects conducted through private contractors. Due to the use of private contractors, funds were not directed at the poor but rather more generally at increasing employment. Thus, the PWA was a public works program rather than a public jobs program. The PWA preceded the WPA, and once the WPA was established a division of responsibility was established whereby the WPA would concentrate on light construction and service projects and the PWA would conduct heavy construction through private contractors. The Grand Coulee dam was built by the PWA. The PWA's peak enrollment was 540,000.

4. The NYA included work programs for both in-school and out-of-school youth. These were relatively cheap, non-residential projects. Most jobs were part-time. The NYA can be seen as the antecedent of the Neighborhood Youth Corps of the 1960s and the current Summer Youth Employment Program, although it is unclear whether these latter programs were designed in any way based on the NYA experience. Peak enrollment was 808,000.

Some observations on these depression-era programs include the following:

- o President Roosevelt and Congress understood that direct income support was cheaper than work relief. Estimates were that work relief was 37 percent more expensive than direct relief. Nonetheless, the President and Congress decided to go with work relief because of a general loathing for simply paying out cash welfare to persons. There were people at the time who argued that direct relief could serve more people.
- o Besides providing income support, public jobs programs can also produce useful work. There was within the Roosevelt Administration a recognized trade-off between these two goals. The conflict between these goals was evident in decisions on how selective to be in hiring workers, what projects to conduct, whether to use private contractors, how much funds would be spent on supervision, and how much funds could be spent on equipment, materials, and supplies. Within the Administration, there were advocates of both the income support and the useful work goals. The different work relief programs varied in the emphasis placed towards each goal. The WPA was aimed mainly at income support, and a high proportion of its funds went to wages for the participants. By contrast, the PWA and CCC spent a much greater proportion of their funds than the WPA on supervision, equipment, and materials.
- o Combined, the New Deal work relief programs employed about 4 million people a year out of a total population of less than 130 million. This would be the equivalent of employing 8 million people today in public service employment. The WPA's \$1.36 billion annual budget made up over 10 percent of the federal government's budget and over 1 percent of the country's GNP. An equivalent expenditure relative to GNP today would amount to a public works program costing more than \$60 billion a year.

III. Previous Efforts to Re-Crete Public Jobs Programs

The New Deal public jobs programs were discontinued with the need to mobilize the armed forces for World War II. As the end of World War II approached, President Roosevelt spoke in his 1945 State of the Union address about an American Economic Bill of Rights and his plan for continued public works projects. However, no major public jobs programs were enacted at the end of the war.

As part of the War on Poverty, the Neighborhood Youth Corps was established in 1964. The program included year-round components for both in-school and out-of-school youth, as well as a summer component. The focus of all three components was to provide work experience for economically disadvantaged youth ages 16 to 21. The in-school program provided part-time jobs for 15 hours a week, while the out-of-school program provided

full-time jobs. Like the Job Corps, the program originated in the Office of Economic opportunity, and then was switched the Department of Labor.

The Neighborhood Youth Corps was a fairly large program. In FY 1968, for example, the in-school component had an enrollment of 135,000 youth; the out-of-school component had an enrollment of 63,000 youth; and the summer program employed 340,000 youth. The Department of Labor continues to run both year-round and summer programs aimed at disadvantaged youth, but the focus of the year-round programs has shifted away from employment to job training for out-of-school youth and preparing in-school youth for the labor market.

Also during the War on Poverty in the 1960s, large-scale public employment was proposed to address the high levels of unemployment among inner-city adult males. Secretary of Labor Willard Wirtz argued strongly for a major public jobs program, and the Kerner Commission on the 1967 Riots recommended a program that would create 1 million public sector jobs in three years. In 1971, a public jobs program was established by Congress, and operated under various designs and at varying funding levels for the remainder of the 1970s.

In the meantime, there were several attempts in Congress to re-create the CCC. Bills to re-create the CCC were introduced in 1947, 1950, 1957, 1959, and 1963. In 1964, Congress established the Job Corps, in large part based on the CCC concept. The legislative history of the Job Corps suggests that Congress intended to establish a training program in the Job Corps contract centers, and to establish a work program like the CCC in the Job Corps conservation centers. But the conservation centers developed into construction training programs rather than work programs.

In 1970, Congress established the Youth Conservation Corps (YCC) as a summer program for 16-19 year-olds operated by the Interior Department and the Forest Service. In 1975, a state component was added to the YCC. In 1977, Congress enacted the Young Adult Conservation Corps (YACC) as a year-round program for 16-23 year-olds as part of the Carter Administration's Youth Employment and Demonstration Projects Act (YEDPA).

Like the summer YCC program, YACC had separate components operated by Interior, the Forest Service, and the States. Unlike YCC, funds for YACC were allocated through the Department of Labor and DOL retained an administrative function over the program. The program was funded at roughly \$225 million a year, with an enrollment of about 20,000.

In many respects YACC replicated the CCC. However, it was a much smaller program than the CCC, and was designed and operated much more cheaply than the original CCC. While the CCC was entirely residential, YACC was required by legislation to be 25 percent residential--but it never quite reached that figure. While the CCC spent only

45 percent of its funds on enrollee wages, DOL first required YACC to spend 60 percent--and later 70 percent--of its funds on enrollee wages. This sharply curtailed the supervision, materials, supplies, and equipment that could be used by the program--and thus the scope of the work projects.

Both YCC and YACC fell victim to the budget cuts started by President Carter and carried through by President Reagan.

IV. Public Service Employment in the 1970s

The Public Employment Program (PEP) was signed into law in 1971, and was funded at roughly \$1 billion a year. At its peak, it provided employment for about 185,000 persons. Most jobs were created in local and State government agencies. Eligibility was open to anyone unemployed for a week or more, was working less than full-time involuntarily, or working full-time at wages that provided less than a poverty-level income. Sixty-four percent of participants were white, 72 percent were male, only 26 percent were high school dropouts, 31 percent had some post-secondary training or education, and only 12 percent were welfare recipients. The average wage was \$2.87 an hour, when the minimum was \$1.60 an hour.

In 1973, the Comprehensive Employment and Training Act (CETA) was passed, and PEP was replaced by a public service employment (PSE) program aimed at structural unemployment. Funds were to be disbursed to areas of unemployment of 6.5 percent or more. In late 1974, Congress added to CETA a countercyclical PSE program. The legislation for both of these programs specified that at least 90 percent of funds be used only for wages and employee benefits of participants. In June of 1975, enrollments stood at 280,000 for both of these programs combined. The jobs in these PSE programs were mainly in State and local government agencies, and participants were mainly white, male, and high school graduates. Only 36 percent were economically disadvantaged.

Amendments to these PSE programs in 1976 were aimed at reducing the fiscal substitution of locally paid workers with federally subsidized workers. These amendments restricted eligibility to persons who had been unemployed 15 of the previous 20 weeks, and required that in the countercyclical program all newly hired workers beyond the number needed to sustain State and local governments at their existing PSE level be assigned to special projects that would last no more than one year. During the spring of President Carter's first year in office, Congress authorized another \$4 billion for PSE programs. Enrollment in these programs increased from 300,000 in May 1977 to 755,000 in April 1978. Also during this period, the proportion of job slots going to community based organizations increased greatly to 25 percent of the program.

There was a large difference in the types of people hired for the State and local government "sustainment" slots and those hired for the one year special projects in local

governments and CBOs. Enrollees in special projects were more likely to be minority, high school dropouts, and welfare recipients.

Job slots in the sustainment component of PSE tended to be in the areas of property maintenance, public works, street repair, aides in police and fire departments, and park maintenance. Special project slots also included work in park and street maintenance, but more generally were in social service positions such as teacher's aide, health aide, child care, social work, drug counseling, recreation aide, school lunchroom aides, library assistants, hospital attendants, and clerks in social welfare agencies. In 1977, the average wage paid in sustainment positions was \$4.50 and the average wage in project jobs was \$4.32. The minimum wage at that time was \$2.30. In 1978, slightly less than 10 percent of PSE participants were AFDC recipients.

In 1978, amendments to CETA further tightened eligibility requirements, lowered the limits on what PSE workers could be paid, and required job training to be provided to participants. Also during this period, the Carter Administration planned to use public service employment as a key part of its welfare reform initiative. The idea was to provide heads of AFDC households with minimum-wage PSE jobs, but the Carter welfare reform initiative did not become law.

Funding for PSE declined sharply in 1979 and 1980, and in 1981 the Reagan Administration terminated the program. In FY 1980, 85 percent of PSE participants had incomes below the poverty line at intake, and 17 percent were welfare recipients. As more disadvantaged persons were served by PSE, the wages paid in real terms declined. While in 1977 jobs in the sustainment component of PSE paid almost double the minimum wage, the average PSE wage in 1980 was only 26 percent higher than the minimum wage of \$3.10 an hour.

It is difficult to derive a cost per slot figure for PSE programs under CETA--the programs fluctuated so much from year to year that a steady state was never achieved. Based on restrictions on how much could be used for purposes other than wages and employee benefits, a rough estimate is that the cost per slot was around \$10,000 in 1980. Adjusting for inflation, this would amount to about \$17,250 today. However, pegged instead to changes in the minimum wage--which has not kept up with inflation, this would amount to about \$13,200 per slot. If we paid only the minimum wage, the equivalent PSE job today would cost \$10,600 a slot (\$8,840 of which would be in wages).

Observations about the CETA PSE programs that are relevant today are as follows:

- It is feasible to mount a large public service employment program in a short period of time, and potential PSE slots do exist in State and local governments and community based organizations. The \$4 billion (the equivalent of \$9 billion today) PSE program operated in 1977 had over 700,000 enrollees.

- The CETA PSE program differed fundamentally from the depression-era CCC and WPA programs in that CETA simply incrementally added workers to existing programs. CETA was a public service employment program, not a work projects program. CETA did not build new parks or roads as the CCC or WPA did. This explains why the CETA PSE programs were so relatively cheap. They involved minimal extra supervision, equipment, and materials. Re-creating the CCC today, with some of the light and medium construction that it did in building State parks, would probably cost about \$20,000 per slot (assuming \$8,840 in wages would constitute roughly 45 percent of expenditures per slot). WPA projects varied greatly, and would probably range in costs today from \$10,000 to \$25,000 per slot. CETA PSE programs were much cheaper. The lack of explicit and visible projects created by CETA also made it more difficult to defend than the WPA or CCC in the face of anecdotes concerning make-work jobs, fraud, and abuse.

V. Current Programs

State and local Conservation Corps. While federal funding for YCC and YACC ended during the 1980s, interest in conservation and service corps continued in State and local governments. The premier State conservation program is the California Conservation Corps. The California CCC is the closest thing going to replicating the old CCC. The California program has 18 residential centers spread across the State, plus non-residential satellites to these centers. The program has an enrollment of 2,000 youth and a budget of over \$50 million. Work projects include reforestation, stream clearance, fighting forest fires, fighting floods, and trail development. The California CCC would likely be the model for any efforts to re-create the original CCC. Evaluations of the residential component of the California CCC have found that it has been successful at producing in-program earnings gains for out-of-school youth, but it does not appear as successful in terms of long-term gains as the Job Corps, a residential work-experience program with a much stronger educational component.

Overall, there currently are 75 year-round or summer service and conservation corps operated at the State or local level. The combined budgets of these programs are \$180 million, and roughly 20,000 youth participate in them each year. (These programs on average are cheaper than the California CCC because they are almost exclusively non-residential and many are summer-only programs).

Summer Youth Employment and Training Program. The Department of Labor continues to operate a large summer youth employment program each year. This past summer approximately \$1 billion was spent on the program, and 656,000 youth ages 16-21 were served. This represents the largest existing public service employment program operated by the federal government. Funds are distributed on a formula basis to local

areas, which then administer the program. Places of work include public schools, government agencies, hospitals, and non-profit organizations.

An evaluation of the 1993 program conducted by Westsat found that enrollees were conducting real and productive work, and learning the work ethic. There was little evidence of "make-work" projects. Both employers and youths were enthusiastic about the program.

The study also found that there was a shortfall in available job slots in almost all local areas, and that more youth could have been served if more funding had been available--indicating that disadvantaged youth do want to work if given the chance. Expanding the summer youth employment program--and extending its educational component year-round--could be a useful complement to a new public service employment initiative.

National Service. The President's new National Service initiative will provide for a modest expansion of State and local service and conservation corps programs. The expansion will not be all that great, as the National Service initiative will have a budget of only \$500 million a year, and much of this will go towards the educational trust and to a variety of programs other than the service and conservation corps.

Re-establishing the CCC could fit in exactly with what the Administration's goal of expanding the national service concept. Conservation corps programs provide youth and young adults with an opportunity to work towards improving the environment. The California Conservation Corps, for example, pushes the notion that corps members are there to serve the State of California. Conservation corps programs also allow youth who have not gone on to college a chance to do national service--a good balance to many service programs aimed mainly at college graduates. A public jobs program for adults based on the WPA could similarly be tied to national service themes.

VI. A New Public Jobs Program in Relation to the Joblessness of the Disadvantaged

A new jobs program aimed at disadvantaged individuals could be targeted specifically on high-poverty areas. Targeting a public jobs program on high-poverty neighborhoods would keep the costs of the program manageable, while at the same time allowing us to serve a sufficient proportion of the area's population to have a potential impact on community values regarding work and the family. A program targeted on high-poverty communities could reach a significant proportion of both the black and the Hispanic poor. Overall, 58 percent of the black poor and 43 percent of the Hispanic live in 20 percent or higher poverty areas, and perhaps 25 percent of the black poor live in 40 percent or higher poverty areas.

Such a program could make a significant dent in nonemployment among youths in depressed areas, potentially having a positive effect on social mores about work.

Assuming that 75 percent of enrollees in a public jobs program would be males and that almost all enrollees in these programs would be between 18 and 34 years-old, a public jobs program of 240,000 slots would serve slightly more than an estimated 10 percent of non-employed males in this age group in these geographic areas.

Restricting the public jobs programs to 30 percent or 40 percent poverty areas would much more sharply focus them on minority groups. For example, in 20 percent poverty areas, roughly 41 percent of the population is non-Hispanic white, 38 percent is non-Hispanic black, and 19 percent is Hispanic. In 40 percent poverty areas, 26 percent of the population is non-Hispanic white, 47 percent of the population is non-Hispanic black, and 22 percent is Hispanic. A public jobs program of 240,000 slots targeted on 40 percent or higher poverty areas could serve over a third of non-employed males ages 18-34 in these areas.

An issue regarding the use of public jobs to fight joblessness in high poverty areas is that a large proportion of enrollees may need to stay in public jobs over several years. Evaluations suggest that most existing job training programs have only a marginal impact on the long-term employment levels of enrollees.² There is little reason to believe that public employment programs would have a larger impact than job training on subsequent employment rates. But a large scale jobs program in high poverty areas can potentially keep labor markets tighter and improve employment prospects for other residents and for those leaving the programs.

It may be possible to design a public jobs program that provides for natural transitions to private sector jobs by focusing on jobs involving skills that may be in demand in the private sector. If we targeted public jobs to such occupations, enrollees could over time make a transition to the private sector. Nevertheless, it should be kept in mind that it is very difficult to make accurate projections of this type.

VII. Design Issues Regarding Re-Creating Public Jobs Programs

1. Scale. Should the Administration be interested in developing jobs programs analogous to the CCC and/or the WPA? At what funding levels? Each has its comparative advantages. A CCC-type program would give youth and young adults a more intensive residential experience, which is more likely to have a long-term impact on their lives. A WPA-type program would be relatively less expensive and thus able to serve more people. It is more appropriate for persons over 25 than the CCC.

²The gains from traditional training programs, such as JTPA Title II, appear to be more substantial for disadvantaged adults than for disadvantaged youths. More intensive programs with a variety of services appear more effective for youth.

The CCC would be a complement, rather than a substitute, for the Job Corps. Even with its proposed expansion over the next several years, the Job Corps will serve each year less than 4 percent of the 2.4 million economically disadvantaged youth between the ages of 16 and 21. The Job Corps and the CCC would attract slightly different populations of youth--the Job Corps being more appealing to youth interested in training, the CCC more appealing to youth who want to work outdoors and perform national service.

It would cost about \$5 billion a year to replicate the CCC at its 1930s level; \$800 million a year to replicate it at the 40,000 enrollment level of the Job Corps; and \$400 million a year to replicate it at the 20,000 enrollment level of the 1970s YACC program. It would take \$6 billion a year to replicate the WPA at an enrollment level of 500,000; and \$1 billion to replicate it at an enrollment level of 80,000.

2. Cost versus Quality of Work Projects. Non-residential CCC could be operated as cheaply as \$12,000 per slot and WPA programs could be operated as cheaply as \$10,000 per slot. To do so, however, would require sacrificing any attempt to make these quality programs with quality work projects.

3. Public Works versus Public Jobs. This is the distinction between the depression-era PWA and WPA programs. It is possible to increase employment by investing in public works projects, and then letting private contractors bid to do the work. This is aimed at increasing employment levels generally. Public jobs programs directly target the work to particular groups, such as youth, the unemployed, or the poor. Both types of programs can have a role in public policy.

4. Eligibility. There are several options for deciding who should be eligible for CCC and WPA programs. They could be restricted to the economically disadvantaged, to high school dropouts, to AFDC recipients and the fathers attached to these families, or left untargeted. Modern-day CCC programs--including the YCC, YACC, the California CCC, and most current State and local conservation corps--are left untargeted. This enables these programs to avoid placing any stigma on enrollees and to stress to enrollees that they are there to serve the public good. At the same time, these programs tend to attract a population that is comprised of 50 to 60 percent high school dropouts.

5. Geographic Targeting. A possible way to target CCC and WPA programs to the poor but to avoid stigmatizing enrollees would be to geographically target these programs to residents of 20 percent or 40 percent poverty areas. Applicants would then not have to show proof of poverty-level income, yet we would still be reaching the population in greatest need in both urban and rural areas.

6. Youth versus Adults. We would need separate programs for youth and adults. We cannot just shove youth into a program designed for adults. Research strongly suggests that programs designed for adults are not effective for youth. A CCC-type program makes sense for youth, possibly with a residential component and an urban non-residential component. Experience with YACC suggests that residential programs work best when dealing with a fairly narrow age range of participants--say the 18 to 23 year-old age range served by the California CCC. Non-residential WPA programs could be aimed at adults.

7. Residential versus Non-residential. CCC programs can be operated more cheaply in a non-residential setting, but much of the appeal of the old CCC was its residential setting. Most likely, residential programs such as the Job Corps and the CCC have a much greater chance of turning around a young person's life than non-residential programs. The difference in cost between residential and non-residential programs are not as great as one would suspect, in that typically room and board is taken out of the paycheck of residential enrollees. This is true in the California CCC and was true in YACC. Evaluations have also shown that non-residential CCC-type programs appear less successful for youth than residential CCC-type programs.

8. How Long Enrollees Can Stay in the Program. At first thought, it would appear to make the most sense to limit the length-of-stay in CCC and WPA programs to perhaps a year. However, many inner-city and rural males may have very dim prospects of finding private sector employment, and limiting the length-of-stay in these programs will only result in giving these persons a one-year reprieve out of poverty. The programs may be more effective if persons have the possibility of staying in these programs somewhat longer. Long stays in a WPA program could be avoided by restricting the jobs funded by the program to occupations with large projected job growth, thus making for a natural progression to private sector jobs. The program could also require that enrollees rotate into a two-week job search assistance program every six months as a way of moving people into private sector jobs.

9. Possible Role of The Army. The Army had a significant role in the original CCC in being in charge of the discipline and logistics of the work camps. The Army has not had a role in modern-day CCC programs, but perhaps with the end of the Cold War it does now make sense to involve the Army in these programs. The Army could take on the same role in residential CCC camps as it did in the 1930s, and surplus Army Corps of Engineers equipment could be used to enable the program to conduct larger construction projects than were done under YACC in the 1970s.

10. Availability of Work Projects. The Interior Department and the Forest Service have a backlog of work projects more than sufficient to provide jobs for a

CCC program at any level at which we could afford to fund it. Reforestation has many ecological benefits, and for all practical purposes, there is an almost unlimited number of jobs that could be created in this area. There is much rehabilitation work that needs to be done in our National Parks. New State Parks could be developed, trails could be built and maintained, and cabins and shelters constructed. There will also be much conservation work as a result of the great floods this year in the Midwest.

WPA projects could most appropriately be designed around putting enrollees to work in high-growth occupations which can directly lead to private sector placements. Gardening and landscaping is a high growth occupation, and there is much need in our cities for tree planting and park development. The construction trades are high-growth occupations, and there is substantial need in inner cities for housing rehabilitation and the construction of moderate-income homes. As was done in the 1930s, opposition by skilled workers can be countered by hiring these workers as foremen.

11. Avoiding Claims of Waste and Abuse. How can we make sure that a new jobs program is not hit with claims of waste and abuse? Such claims--for the most part, exaggerated--eventually came to define the CETA PSE programs. Avoiding such claims was a major concern of the National Service staff in designing their program. To maintain political support for a public works or public service employment program, we will need to keep close track of concrete accomplishments by such a program (e.g. trees planted, miles of road constructed, major projects completed, elderly served, etc.). This will be necessary to counteract anecdotes of fraud and abuse that will inevitably occur.

12. Relation to Welfare Reform. Public jobs programs can address welfare dependency both by employing welfare recipients and by attempting to get at one of the main causes of long-term welfare dependency--male joblessness. It is likely that under the Administration's proposed plan to limit AFDC receipt to two years, a public jobs program will be developed for recipients who reach their time limit on AFDC and still cannot find work. There will remain a need to deal with the conditions of inner-city poverty and male joblessness that many believe are strongly linked to much long-term welfare dependency.

13. Political Interest. There currently is some political interest in re-establishing public jobs programs. In January, Senators Boren, Daschle, Inouye, Levin, Pryor, Reid, and Simon introduced a bill to establish a jobs program similar in design to the WPA. In the last Congress, Senator Simon introduced a large guaranteed public jobs program. Senator Wofford was instrumental in starting the Pennsylvania Conservation Corps when he served as Secretary of Labor and Industry prior to becoming Senator, and he has promoted re-establishing the CCC. Congressman Wendell Ford has advocated for a large public works programs. In

1983, the House passed legislation to create an American Conservation Corps funded at \$300 million a year. The Senate subsequently passed a much toned-down version, but it was vetoed by President Reagan. Mickey Kaus, the journalist and social critic, has also proposed a large public works program as a way of dealing with inner-city poverty. Re-establishing the CCC could be tied to the clean-up of the Mississippi River flood. The California CCC is an impressive program, and Administration officials may want to visit it to see what a national CCC could look like.

14. Example Proposals. Re-establish the CCC at a 40,000 enrollment level (making it an equivalent program in size to the Job Corps) and the WPA at an enrollment level of 200,000, and restrict these programs to residents of 20 percent or higher poverty areas. Assuming that 75 percent of enrollees would be males and that almost all enrollees of these programs would be between 18 and 34 years-old, we would be serving slightly more than 10 percent of the non-employed males in this age group in these geographic areas. The cost would be \$800 million a year for the CCC and \$3 billion for the WPA. If the programs were operated at the same scale but restricted to residents of 40 percent or higher poverty areas, over a third of the non-employed males between 18 and 34 years-old in these areas would be served. This would be approaching a scale large enough to dramatically change social and economic conditions in these target areas.

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