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JOB TRAINING VS. SON OF CETA
(S. 2036, H.R. 5320)

INTRODUCTION

The federal government has been committed to creating jobs and providing training for the unemployed for decades. Its most ambitious effort was the 1973 Comprehensive Employment and Training Act (CETA). Since that time Congress has given over $53 billion to CETA to move the disadvantaged into the economic mainstream. For all of this, chronic unemployment has been affected very little. Despite its laudable goals, CETA has come to symbolize wasteful government spending. Critics of the program argue that it either provides dead-end public sector jobs or provides training that fails to prepare its participants for existing employment opportunities. With the expiration of CETA this September 30, the U.S. has an important opportunity to reexamine past policies and develop a more effective plan to deal with chronic unemployment.

Proponents of government employment and training programs argue that these programs can offset the market's failures to produce enough training and other labor market services. Insufficient private sector training, it is argued, occurs because firms will not train workers who may change jobs and because workers may be unable to finance the training themselves. Government provided training opportunities, it is maintained, could compensate for this deficiency through an investment in "human capital".

Training programs that focus on structural problems may indeed improve the employability of their participants. Yet the unemployed ultimately must rely on an expanding economy to provide permanent jobs. To this end, the federal government must adopt fiscal, monetary and regulatory policies necessary for a healthy and growing economy. Ronald Reagan's original four point economic program of lowering government spending, reducing taxes, reforming counterproductive regulations and restoring a stable and deaccelerating monetary policy to reduce inflation is designed to do just this. The Administration has made some gains in this area; much more remains to be done.

What must not be done is to repeat the mistakes of the past. Congress is considering new legislation to replace the expiring CETA program. Two bills (S. 2036, H.R. 5320) are aimed at providing job skills to the long-term unemployed. Neither provides funding for public service jobs, the most criticized component of CETA. Both bills provide a greater role for the private sector in the planning process and authorize a training program for "dislocated workers" who have lost their jobs as a result of long-term changes in the economy. Despite similarities, the bills differ in important respects. The Administration-backed Senate bill grants state governors principal authority over the size and scope of local programs. In addition, it prohibits trainees in most cases from receiving wages or stipends for their participation. The House bill, on the other hand, looks distressingly like the son of CETA. It retains the CETA structure in which city and county governments primarily control local programs and financial support for needy individuals participating in training sessions. These provisions are precisely those which many experts feel have made CETA so ineffective and such a waste of money. The choice before Congress clearly is: real job training or son of CETA.

BACKGROUND[1]

The federal government has a long history in employment and training activities. During the Depression years of the thirties, it established massive public works and public service employment programs to assist millions of the unemployed. In the following decade, the Employment Act of 1946 explicitly committed the federal government to full employment, defining the federal role as one promoting "maximum employment and purchasing power." It was not until the early sixties, however, that the federal government, under President Kennedy, began taking an active role in employment and training programs. The principal objective of these programs has been to improve the competitive position of individuals in the labor market.

At first, these programs were directed at individuals whose skills had become obsolete because of rapid automation. The emphasis soon shifted, however, to the economically disadvantaged

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1 For a review of employment and training programs, see: Peter Germanis, "The Job Training Act of 1982," Heritage Foundation Issue Bulletin No. 84, May 6, 1982, pp. 3-7. Also: Janet W. Johnson, "An Overview of Federal Employment and Training Programs" in National Commission for Employment Policy, Sixth Annual Report to the President and the Congress, December 1980, pp. 49-139.

who had few marketable skills. The Emergency Employment Act of 1971 authorized the first major job creation program since the 1930s, known as the Public Employment Program (PEP). It renewed the federal government's commitment to the newly unemployed. Two years later, in an effort to turn over the control of job training programs to state and local governments, CETA was enacted.

CETA incorporated a wide array of programs to deal with joblessness. Its two basic approaches were direct job creation through public service employment (PSE) programs and skill training. Though federal job creation programs such as PSE have temporarily employed the disadvantaged, they have done so at a tremendous cost, without significantly improving the employability of their participants. To some extent, they merely have substituted PSE jobs for unsubsidized employment in the labor market.

The two major types of programs included under the rubric of skill training are on-the-job training (OJT) and classroom or institutional instruction. The Manpower Development and Training Act of 1962 was the first comprehensive federal manpower program and promoted on-the-job training, classoom training, remedial education, and job placement. The program's early efforts focused on retraining workers whose skills had become outdated by automation. Its emphasis soon shifted to minorities, the economically disadvantaged, and unemployed youth who lacked the basic skills for entry level positions.

The classroom kind of skill training has improved the employability of the disadvantaged. While such training has provided needed skills, such as basic literacy and computation and communication skills, it has had less success than on-the-job training programs.

In terms of earnings gains and job placement, OJT programs have been the most successful employment and training efforts. For example, in 1977, those who had been enrolled in OJT the previous year earned $839 more compared to workers who had not enrolled in federal programs. By contrast, those who only had classroom training earned $347 more, while PSE resulted in $326 more; those in "work experience" programs, consisting mainly of make-work jobs, actually earned $187 less than a comparison group which participated in no CETA activities.[2] OJT also appears to boast CETA's most successful job placement rate. In 1980, OJT program participants went on to find jobs 63 percent of the time compared to a 43 percent placement rate for those who studied job skills and a 34 percent rate for nonoccupational training.[3] The average cost of placement in PSE was about 2 to 3 times higher than under training programs. In 1980, it cost from $17,000 to $22,000 for each PSE worker placed in unsubsidized employment compared to only $5,000 to $11,000 per

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2 William J. Lanouette, "Life After Death--CETA's Demise Won't Mean the End of Manpower Training," National Journal, February 6, 1982, p. 242.

3 Ibid.

placement of training programs.[4]

Though on-the-job training is clearly the most effective strategy, ironically it has been the least used. The most common, classroom instruction, has enjoyed only moderate success. PSE and work experience programs, which grew considerably during the seventies, are the least effective in generating private sector employment opportunities.[5]

Under CETA, most of the funds are allocated to "prime sponsors"--either state, county and municipal government consortia of local governments. The prime sponsors, in turn, hire subcontractors--companies, colleges, universities, technical schools, and community organizations to operate the training and work programs. As the failure of programs such as PSE became more and more apparent, private sector involvement was increased. In 1978, private industry was given a statutory role with the development of Private Industry Councils (PICs) to improve coordination of job training programs with local labor markets. Over half of each council's membership must come from the local business community, with the remainder drawn from labor, educational institutions and local governments. Much of the criticism of CETA has been its failure to coordinate its employment and training efforts with the private sector. The PICs can design and implement training programs but cannot run them. Their role thus far has generally been advising the prime sponsors.

JOB TRAINING LEGISLATION

The House and Senate have both passed job training bills to replace the expiring CETA program. They disagree over such key provisions as the level of control (state vs. local) and whether participants should receive payment. The Senate bill (S. 2036) is a compromise measure with the Administration, which itself had introduced a bill earlier this year (S. 2184). The Senate bill passed unanimously on July 1. The House bill was approved on August 4 by a vote of 356-52. The differences in the two bills will be reconciled in a House-Senate conference committee after the Labor Day recess.

AUTHORIZATION AND ALLOCATION OF FUNDS

Both bills authorize federally funded employment and training programs. Neither gives a specific spending level, but calls for "such sums as may be necessary." These funds are to be divided among several programs such as employment and training

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4 Office of Management and Budget, Fiscal Year 1982 Budget Revisions: Additional Details on Budget Savings, April 1981, p. 236.

5 In fiscal 1980, they claimed about \$3.8 billion or 41 percent of the total \$8.9 billion in CETA outlays. At the Administration's request, Congress eliminated the PSE program last year.

services for the disadvantaged, the displaced worker, Job Corps and others, with most going to the disadvantaged. The House bill originally had a price tag of $5.4 billion for fiscal 1983, but this was dropped to accomodate one of the Administration's major objections. The Job Corps program was the only one that retained a specific authorization amount of $650 million in the bill. Funding for the Senate bill was estimated by its sponsors to be about $3.8 billion for fiscal 1983, but the Congressional Budget Office estimates that actual outlays would only be about $2.7 billion. Both bills exceed the proposed funding level of $2.4 billion in the Administration's original bill, but are well below what CETA spent during its peak years.

PROGRAM ELIGIBILITY

The Senate and the House proposals concentrate on the hard-core unemployed whose lack of education and basic job skills are barriers to entry into the labor market. The new legislation would restrict eligibility to the economically disadvantaged, which would include those living at or below the poverty level or less than 70 percent of the lower living standard established by the Labor Department's Bureau of Labor Statistics (BLS).[6] The Senate version also includes those receiving cash welfare or who are members of families receiving such payments under a federal, state or local program or are receiving food stamps. The House bill excludes the provision for food stamp recipients, but broadens the eligibility requirements somewhat by adding not only families that actually receive cash welfare payments but also: 1) those whose families would have been eligible for such assistance in the preceeding six month period, 2) disadvantaged foster youth who are supported by state and local governments and 3) handicapped persons who would qualify individually as needy even though their families may not be poor. The Senate measure mandates that 50 percent of the funds be used for individuals under the age of 25; the House targets 50 percent to persons 16 to 21 either in or out of school.

Both bills exempt up to 10 percent of the participants from the income test if they face serious barriers to employment. Examples of this include those with a limited command of the English language or those who are displaced homemakers, teenage single parents, older workers, veterans, ex-offenders, alcoholics or addicts. The House provides these services regardless of income, while the Senate imposes an income cap for all but the handicapped and displaced workers of the higher of 250 percent of the poverty level or 175 percent of the BLS lower living standard.

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6 The BLS lower living standard is basically just an alternative to OMB's measure of the poverty level. The BLS measure adjusts for differences in the cost-of-living across geographic regions.

Both measures authorize a separate program for "displaced" workers.[7] They also reauthorize national programs for Indians and migrant and seasonal farm workers as well as the old Job Corps program.

Before reaching its compromise with the Senate, the Reagan Administration had wanted to target funds only to those most in need -- beneficiaries of the Aid to Families with Dependent Children program and out-of-school youth between the ages of 16 and 25. The Senate bill broadened somewhat the eligibility standards but preserves the Administration's basic goal. The House bill, however, defines eligibility much more loosely. Example: it does not differentiate between those actually receiving public assistance and those "eligible" for such aid, nor does it concentrate funds to the non-disadvantaged, i.e., those facing serious employment barriers, at the lower income levels. While the eligibility conditions in the Senate bill are restrictive enough to ensure that those facing the most severe economic hardship remain the primary beneficiaries of a job training program, the House bill may affect adversely those most in need by distributing the funds across a broader target group.

Both bills provide considerable funding to youth. This aims at alleviating the high teenage unemployment rates, particularly among minorities. Their lack of education and training makes them the least able to compete in the labor market.

The two bills also allocate potentially sizeable sums for training displaced (or dislocated) workers. While there may be a general consensus that the economically disadvantaged are an appropriate group on which to focus employment and training assistance, the case is not as obvious for "mainstream" workers who lose their jobs as a result of structural changes in the economy. In fact, a study for the National Commission for Employment Policy concludes that there is little support to warrant federal assistance for displaced workers.[8]

The findings from this report reveal that the size of the dislocated worker population is relatively small. The mere fact that a worker is dislocated, moreover, is a weak indicator that an unemployed person will "suffer long periods of unemployment, special difficulties becoming reemployed, or extreme economic hardship while unemployed." In terms of education, the study finds that dislocated workers are more likely to possess a high

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7 The displaced, or dislocated, worker refers to the unemployment who have earlier experienced relatively stable work histories, high skill levels, and high wages. Their unemployment is largely a result of structural changes in the American economy.

8 See Marc Bendick, Jr. and Judith Radlinski Devine, "Worker Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" in National Commission for Employment Policy, Seventh Annual Report: The Federal Interest in Employment and Training, 1981, pp. 175-226.

school diploma than the economically disadvantaged, and naturally are very likely to have higher incomes. In the year before their unemployment, dislocated workers received higher levels of compensation than the disadvantaged and were more likely to be recipients of unemployment compensation and/or have other family members who are employed. As a result of their higher education and income levels, displaced workers are more capable of financing their own retraining. Finally, if dislocated workers do experience unusually long periods of unemployment, it generally reflects "past and present affluence rather than past or present distress." Two contributing factors to any prolonged spell of unemployment for these workers are their immobility resulting from homeownership and the financial incentives to remain unemployed inherent to the various unemployment insurance programs.

This is not to say that displaced workers do not suffer. Providing such workers assistance, however, raises very serious questions of equity and efficiency. Given the federal government's limited public resources Congress should be focusing its efforts solely on the most disadvantaged. To the extent that funding is provided to dislocated workers, it should be restricted to those with the greatest difficulties, e.g., the long-term unemployed. Otherwise, Washington may find itself paying for services that are not needed or that could have been financed by the participants themselves.

ALLOWABLE ACTIVITIES

Under the Senate bill, allowable training activities include on-the-job training (for which employers receive reimbursement for up to 50 percent of the wages to eligible employees to compensate them for their training costs and the lower productivity of the trainees), basic and remedial education, work preparation, job search training and other job training activities that prepare the economically disadvantaged for and place them in employment. The Senate measure also calls for supportive services such as transportation, health care, child care, meals, temporary housing and other reasonable expenses for participants who cannot afford to pay for them and without them would not be able to participate in the program. Other restrictions limit states to spending no more than 30 percent for administrative and support services, although individual programs within a state could exceed the ceiling for such costs. In addition, the bill prohibits using job-training funds for public service employment and for paying wages, allowances and stipends to participants.[9]

The House bill also provides a wide range of training and supportive services, but eases considerably the financial restrictions imposed by the Senate version. The House legislation

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9 The bill does grant an exemption to this ban on wages for the Summer Youth Employment and Training program. The House bill does the same.

performance standards and sets fiscal control standards and monitors states.

The House bill rejected the Senate plan making job-training basically a state-controlled program with business groups primarily responsible for planning and operating local programs. Instead, the House bill generally retained CETA's prime sponsor structure. Under CETA, a local government had to have a population of at least 100,000 to qualify as a prime sponsor; the House bill merely increases this to 150,000. Areas with fewer than 150,000 which served as prime sponsors under CETA could continue to be eligible through fiscal year 1988 if they establish joint PICs to serve a labor market meeting the 150,000 requirement. In addition, the governor can designate one or more service delivery areas for portions of the state not served by local prime sponsors.

Prime sponsors must establish a PIC and appoint its members. Membership of the PIC would be the same as under the Senate bill, but the House bill stipulates that at least half of the private sector representatives are to come from small businesses, while the Senate only requires the PIC to include representatives from small businesses. Under the House bill, the PIC and the prime sponsor prepare the job training plan together. This includes determining the use of funds, choosing the administrative entity and selecting the mix of services to be provided. If the PIC wants a staff to assist in preparing the plan, the prime sponsor can make the funds available out of allowable administrative costs, but the prime sponsor can decide whether or not the PIC can have a staff at all. The prime sponsor submits the plan to the Secretary of Labor, with the states only given the right to review and propose modifications.

The House bill requires the state to establish a State Employment and Training Council (SETC) composed equally of four groups: 1) business representatives, including PICs; 2) representatives of state legislatures and individuals from interested agencies; 3) local government officials; and 4) people eligible for the program themselves, the general public, and public interest groups. This council is to be chaired by a public member. Its responsibilities include developing a state coordination plan, reviewing local plans for consistency with it and making recommendations to improve the effectiveness of these programs.

Under the House bill, the Secretary of Labor rather than the governor approves local plans. The Secretary also designates prime sponsors, administers the Job Corps and other national programs and monitors the performance of prime sponsors.

The Senate bill reflects the Reagan pledge to return programs to the states and the private sector. It would replace the prime sponsor structure with one that enhances the role of states in determining the size and scope of programs within their state, although in most cases they would not actually run them. This relatively simple structure contrasts sharply with CETA's system of about 476 prime sponsors that, in turn, hire about 55,000 subcontractors to administer the training and work programs. This system has been difficult to manage and quickly became a source of local political patronage.

Local governments generally have developed their programs independently of the state government. This lack of coordination frequently has precluded development of a comprehensive plan that matches the skills of program trainees with available positions throughout the state. States more so than the federal government can judge the needs of local labor market areas. Under the Senate bill, the governor, with the help of a business-dominated state council, sets the general policy objectives for the planning process and can review local plans with the final authority for approval or disapproval. Decentralizing job-training programs so that local and state governments are responsible for their administration and planning is likely to make them much more efficient.

The House bill ignores these considerations and retains the present prime sponsor structure with its direct federal-to-local funding system, while only slightly expanding the state's role in program coordination. The training programs would be developed by the prime sponsors and the PICs on the basis of guidelines established by the Secretary of Labor, who would also have the responsibility of final approval or disapproval. The states would be limited to reviewing and proposing modifications in the plan.

PICs were established under CETA to give businesses an opportunity to develop employment and training programs to serve the disadvantaged. As a practical matter, however, they have been mainly used in an advisory capacity, presenting CETA prime sponsors the views and recommendations of the local business community. Although it may be too early to assess how effective PICs have been, it appears that they have in many cases not elicited the active participation of the business community and have failed to produce a meaningful "public-private partnership."[11]

A major objective of the Senate bill is to strengthen private sector involvement which, after all, is responsible for about 80 percent of all the jobs in this country. The Senate gives the PIC the sole responsibility for developing the local training program, designating the service providers and certifying the training institutions, with local elected officials given the opportunity for review. The House bill, on the other hand, does not give the private sector enough role in the

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[11] See Committee for Economic Development, "Employment Policy for the Hard-to-Employee: The Path of Progress," June 1982, pp. 5-6.

policy-making process. It gives the PIC joint, rather than sole, responsibility with the prime sponsor for preparing the training program plan. This weakens the role of the business community and complicates the planning process.

There are two other key differences between the Senate and House bills. The Senate requires the private sector provide the majority on the state job training council while the House version gives business and industry only 25 percent representation. In addition, the Senate bill gives the PIC the sole authority in hiring a staff to assist in the preparation of a training program, while the House version allows the PIC to do so only with the approval of the prime sponsor. This may hamper the decision-making process if it precludes the PICs from hiring independent staffs.

The issue of how much control should be given the private sector is important. Unless business has a very active role, trainees probably will not get the type of training that prepares them for unsubsidized employment in their communities. Private employers more effectively can direct the training programs toward the development of skills that will allow trainees to find jobs upon completion of the program. While the Senate bill recognizes this, the House measure does not and perpetuates much of the alienation felt by the private sector in the area of job-training program development under CETA. This will waste the taxpayers' money, and do little to improve the employability of the participants themselves.

PERFORMANCE STANDARDS

Both bills propose to base funding in part on performance standards geared to program outcomes. Under the Senate bill, the Secretary of Labor would set minimum performance standards contingent upon program expenditures relative to program outcomes in terms of earnings gains to participants and reductions in cash welfare payments. The House bill would require the Secretary to establish national performance standards on the basis of the placement and retention rates of participants in unsubsidized employment, earnings gains and income support costs. If these criteria are not met for two years, the governor can make whatever changes necessary to improve program performance. If a prime sponsor does not fulfil the performance standards during two consecutive years, the Secretary of Labor may choose another prime sponsor for the job.

The Senate bill embodies the Administration's New Federalism approach by not only granting states more responsibility in the planning and administration of training programs, but also by holding them responsible for the outcome. The House bill, on the other hand, sets national standards and designates responsibility for performance to the prime sponsors. Though strict performance standards are important, they may, regrettably, lead program administrators to concentrate on those easy to train and with good chances of getting jobs, rather than the most disadvantaged.

CONCLUSION

The Senate's job training bill is a long-overdue first step in reforming CETA. By creating a concrete training program, it prepares its participants for existing private sector positions rather than acting as a temporary income maintenance scheme as in the past. In particular, the increased participation of the private sector should enhance the program's chances of success. Because business leaders would play a much greater role, training programs would be geared to the skills most in need. This would improve the chances of program participants obtaining employment in the private sector when completing their training. Because 70 percent of the funding would go to training, in contrast to a much smaller percentage under CETA, individuals are more likely to be prepared for employment once the economy improves.

The House bill, though a modest improvement over CETA, still retains many features of the discredited program. It fails to decentralize many of the job-training functions, thereby reducing the probability that the participants will receive the services they need. The House measure also preserves many of CETA's income support elements, thus diverting needed money from training activities.

As promising as the Senate's training program proposal is, it alone cannot resolve the unemployment problem. Even Secretary of Labor Raymond Donovan admits that "unless the jobs are out there, you can train all you will" without affecting unemployment. The fundamental reason for today's high level of unemployment is the slow rate of economic growth experienced in recent years. President Reagan's original economic program was designed to stimulate sustained economic growth that would create more jobs, make incomes higher and reduce dependency on the government for income support. For this to work, spending must fall and claim a shrinking share of GNP. Similarly, marginal tax rates must be reduced beyond the point where it merely offsets inflation-induced tax bracket creep and the already legislated increase in the Social Security payroll tax.

If given a chance, the Reagan economic program will create the kind of sustained, non-inflationary economic growth which will at last eliminate much of the nation's chronic unemployment. Given a chance, the private sector could provide training and employment for many of the unemployed, but this is extremely difficult because of such institutional barriers as minimum wage laws and occupational licensing restrictions. In this situation, some government job training program is advisable. The question before the Congress is whether this program is to be a son of CETA or an effort emphasizing training and private sector involvement.

Peter Germanis
Schultz Fellow