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HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 12/19/83 **Number:** 168854CA **Due By:**

Subject: Cabinet Council on Economic Affairs - December 20, 1983
8:45 a.m. - Roosevelt Room TOPIC: Rpt of Working Group on Reaching Full Employment

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☑	☐
Attorney General	☐	☑
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☑	☐
Transportation	☑	☐
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
______	☐	☐
______	☐	☐
______	☐	☐
Baker	☑	☐
Deaver	☐	☐
Darman *(For WH Staffing)*	☑	☐
Jenkins	☐	☑
Mc Farlane	☐	☑
Svahn	☑	☐
______	☐	☐
______	☐	☐
______	☐	☐
______	☐	☐
______	☐	☐
CCCT/Gunn	☐	☐
CCEA/Porter	☑	☐
CCFA/	☐	☐
CCHR/Simmons	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/	☐	☐

REMARKS:

The Cabinet Council on Economic Affairs will meet on Tuesday, December 20, 1983 at 8:45 a.m. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson ☐ Don Clarey
☑ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
456-2800

THE WHITE HOUSE

WASHINGTON

December 19, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Paper for the December 20 Meeting

The agenda and paper for the December 20 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider the Report of the Working Group on Unemployment and Unemployment Compensation. The Working Group will present one of the economic policy studies commissioned by the Council on June 30. The report focuses on youth unemployment. It reviews prior Federal youth employment and training programs, discusses this Administration's successful effort to restructure earlier programs, examines the impact of the Federal minimum wage on youth employment, and presents two issues for Cabinet Council consideration: a proposal for a national school-to-work transition program and extension of the Targeted Jobs Tax Credit program.

Attachments

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

December 20, 1983

8:45 a.m.

Roosevelt Room

AGENDA

1. Report of the Working Group on Unemployment and Unemployment Compensation (CM# 407)

THE WHITE HOUSE

WASHINGTON

December 16, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: THE WORKING GROUP ON UNEMPLOYMENT AND UNEMPLOYMENT COMPENSATION

SUBJECT: Economic Policy Study Number 7: Reaching Full Employment

The Cabinet Council on Economic Affairs requested on June 30 that the Working Group on Unemployment and Unemployment Compensation undertake a review of factors affecting the economy reaching full employment. This report is the first in a series of reports on unemployment which all build on earlier analyses by the Working Group. As the members of the Cabinet Council recall, throughout most of 1982, the Working Group undertook an exhaustive examination of the nature of modern day unemployment and of policy options designed to reduce unemployment. The results of this examination were presented to the Cabinet Council in a series of meetings during the last quarter of calendar year 1982. These presentations included an analysis of the dynamic character of unemployment and the heterogeneous nature of the population of persons unemployed at any point in time. The presentations also emphasized the importance of:

- o distinguishing between structural and cyclical unemployment; and
- o recognizing differences in the causes and consequences of unemployment among different demographic groups (e.g., youths, displaced workers, female heads of households, and other adults).

The Cabinet Council reviewed a wide range of policy options designed to address the problem of structural unemployment. A number of these options were adopted by the Administration, combined into a single package, and submitted to the Congress last March as the Employment Act of 1983. These initiatives included:

- o A youth differential minimum wage for summertime employment;

going nowhere
[illegible] prospects

- o Exemption of wages paid under the youth differential minimum wage from Federal Unemployment Insurance (UI) payroll taxes;

o An extension of the Federal Supplemental Compensation (FSC) program which provides additional weeks of unemployment benefits to individuals who have exhausted their entitlement to regular or extended unemployment benefits;

o A job voucher program for the long-term unemployed that would enable individuals eligible for the FSC program to receive their benefit in the form of a job voucher. A firm hiring the unemployed worker could use the voucher as a tax credit against his State or Federal unemployment insurance taxes;

o An increase in funding for the displaced worker program authorized under the Job Training Partnership Act (JTPA) of 1982 from $75 million in FY1983 to $240 million in FY1984; and

o A modification of the Federal Unemployment Insurance Program that would permit States to use a portion of their UI revenues for training unemployed workers.

Congress enacted two of the Administration's initiatives into law: the extension of FSC and the increased funding for the JTPA displaced worker program. Neither the job voucher proposal nor the youth differential minimum wage received serious attention by the Congress.

During the last five months, the Working Group has continued its analysis of unemployment and alternative options for reducing the rate of structural unemployment. The Working Group has concentrated its efforts in three distinct areas:

o An evaluation of the impact of past Federal programs on youth unemployment and an analysis of new initiatives designed to reduce the current high levels of youth unemployment;

o An examination of the nature of unemployment among displaced workers, that is, those workers who have allegedly lost their jobs due to technological change or import penetration; and

o A comprehensive look at the unemployment insurance program and at options for restructuring its payroll tax schedules to remove built-in employer incentives which have increased short-term layoffs.

The attached paper addresses the issue of youth unemployment. We begin with a brief review of changes in their rate of unemployment during the current economic recovery. The paper reviews the history of Federal youth employment and training programs implemented prior to this Administration, discusses this Administration's successful effort to restructure earlier programs, and examines the impact of the Federal minimum wage on youth employment. In addition, it presents two issues for Cabinet Council decision. The first issue is whether the Administration should support a proposal for a national school-to-work transition program modeled after Governor Pierre du Pont's Jobs for Delaware's Graduates program. The second issue is whether the Administration should support extending the Targeted Jobs Tax Credit program which expires at the end for FY1984.

Attachment

Youth Unemployment

This report of the Working Group reviews the recent record of unemployment, particularly youth unemployment; describes previous Administration efforts to reduce youth unemployment; and analyzes a new proposal to address youth unemployment and tax credit policy to encourage principally youth employment.

Recent Record of Unemployment

Since the recent recession ended in the fourth quarter of 1982, unemployment has declined dramatically. The unemployment rate among civilian workers peaked in December 1982 at 10.8 percent of the labor force. The Department of Labor reported that the unemployment rate in November 1983 was 8.4 percent.

Although unemployment among youths is high, they have also experienced some significant decline in unemployment.

	December 1982	November 1983
All youth (16-19)	24.5	19.9
White	21.6	16.8
Black	49.5	46.2

It is reasonable to assume that as the economy continues to grow strongly, the overall unemployment rate will continue to decline. However, part of the unemployment will remain even if the economy were operating at full capacity. This portion of unemployment is structural.

The Working Group has focused its efforts on developing options for reducing structural unemployment. There are two primary groups of structurally unemployed. First, youths often experience difficulty in obtaining employment because of, *inter alia*, lack of work history and job skills, and structural barriers such as the minimum wage. Second, workers who have permanently lost their jobs due to technological change and import competition are considered by many observers to be "displaced workers." These displaced workers often experience difficulty in obtaining employment during periods of low economic growth because of the lack of skills for available jobs and the need to relocate.

This paper addresses the issue of youth unemployment. A subsequent paper will address the issue of displaced workers.

Youth Unemployment Record

After the Korean War, the unemployment rate among youths (16-19 years of age) hovered between 11 and 12 percent. In the 1957-58 recession, that rate shot up to 15.9 percent and remained above 14.6 percent every year until 1966 when the Vietnam War buildup absorbed a substantial proportion of the youth population. While there was a slight decline in the youth unemployment rate during the late 1960's, the rate never fell below 12.2 percent. In the 1970's, the rate fluctuated between 14.5 and 19.9 percent.

The unemployment rate among black youths has always been significantly higher than that among white youths. During the 1960's, the rate among white youths peaked in 1963 at about 15.5 percent, while the rate among black youths peaked at about 30 percent. In fact, for the last two decades, the black youth unemployment rate has been roughly twice as high as the white youth unemployment rate.

Youth Employment Programs

The consequences of youth unemployment are different from those of adult unemployment. While unemployment among adults often results in significant financial loss and temporary economic hardship, unemployment among youths usually does not create severe financial hardship because most youths live in families in which they are not the primary wage earner.

Nevertheless, significant unemployment among youths can lead to serious long-term consequences. First, sustained unemployment can contribute to youths participating in antisocial or criminal activities. Second, the inability to develop good work habits and job skills during a person's formative years can result in less stable employment and diminished earning capacity during his or her adult years.

The first substantial Federal programs directed toward youth unemployment began during the Depression. Prior to the Depression, the government focused its efforts on filling labor shortages created by a short-term emergency and providing limited support for vocational skill training. In contrast, the New Deal programs emphasized not skill development, but job creation and programs to alleviate hardship. As a result, the Federal Government created numerous programs for youth employment, including the Civilian Conservation Corps and National Youth Administration. Most of the job creation programs were discontinued after World War II.

The 1960's and 1970's saw a revival of many of the programs started in the 1930's but with one significant addition: training. The first government program in the 1960's that addressed youth unemployment was the Manpower Development and Training Act (MDTA) of 1962 which authorized services to out-of-school youths on a very limited basis.

However, it was not until the Economic Opportunity Act (EOA) of 1964 that the Federal Government established categorical programs designed explicitly for youth employment. Several of these programs are still operating today, including:

- Job Corps - a residential program which provides intensive remedial education and skill training for disadvantaged youths who drop out of school.

- Neighborhood Youth Corps (NYC) - The NYC was actually three separate programs which provided summer jobs and work experience for in-school and out-of-school youths. The summer jobs portion was the predecessor of the Summer Youth Employment Program reauthorized under the Job Training Partnership Act (JTPA) of 1982.

Despite the programs' reported success, the youth unemployment problem appeared to worsen steadily. In 1965, the youth unemployment rate stood at 14.2 percent; by 1972, it had risen to 16.2 percent.

Dissatisfaction with the unemployment situation and the chaotic collection of employment and training programs led to a restructuring effort which resulted in the enactment of the Comprehensive Employment and Training Act (CETA) of 1973. CETA reauthorized funds to continue Job Corps as well the Summer Youth Employment Program.

Even under CETA, the youth unemployment situation continued to worsen. By 1975, the overall youth unemployment rate rose to 19.9 percent. Concern about the continued high rate led to the enactment of the Youth Employment and Demonstration Projects Act (YEDPA) of 1977. This Act amended CETA and added four new categorial youth employment and training programs. Between 1977 and 1982, $10.7 billion was spent on all categorical youth programs, serving between 6 and 7 million youths under age 22.

The youth unemployment problem has remained resistant to all Federal youth employment and training initiatives. While teenage unemployment declined to 16.1 percent in 1979, it rebounded to 23.2 percent in 1982.

<u>Reagan Administration Efforts to Reduce Youth Unemployment</u>

The Reagan Administration's major effort to reduce youth unemployment is embodied in the Job Training Partnership Act (JTPA) of 1982. Congress and the Administration worked together in 1982 to fashion JTPA which eliminated the New Deal-type programs and emphasized skill training. JTPA continues the Job Corps and Summer Youth Employment Program and makes youth a priority under the State block grant program.

In fiscal year 1984, Title II-A of JTPA provides $1.9 billion in grants to States for training, of which $754 million or 40 percent must be spent on youths. Under this title, about 400,000 economically disadvantaged youth will be trained. Title II-B reauthorizes the Summer Youth Employment Program, for which $725 million will be available in FY1984 and which will employ about 700,000 teenagers. Title IV-B reauthorizes the Job Corps program, for which $553 million will be available in FY1984 and which will train 80,000 youth.

The Administration is confident that JTPA will provide effective skill training leading to long-term productive employment for youths. By requiring that 70 percent of all funds be allocated to actual training, JTPA will assure that participants have a greater opportunity to receive training than participants in the CETA programs in which an average of only 18 percent of all funds was actually spent on training. Moreover, JTPA's close coordination with private sector employers through the Private Industry Councils (PICs) increases the likelihood that the training participants receive is relevant to jobs that are available in the market.

The minimum wage. One of the most important structural barriers to the ability of youths to gain valuable job skills is the minimum wage. Most young people entering the labor market have job skills that are well below those of older, more experienced workers. In a free market, young people could compensate for their relative lack of experience and skills by offering to work for a lower wage than more experienced workers. As they gain experience, they would be able to obtain more compensation. When the government intervenes in the market by requiring a minimum wage, it:

a) prevents employers from providing youths valuable work experience while paying them wages that are commensurate with the current value of their labor; and

b) prevents youth from obtaining an initial job and thus learning the job skills that are needed to earn more than the minimum wage.

There is strong empirical evidence supporting the argument that the minimum wage is a major contributor to the youth unemployment problem. Before the 1940's, there was no significant structural youth unemployment. In 1938, however, the Federal Government imposed a Federal minimum wage applying to firms engaging in interstate commerce which at the time meant that only manufacturing was affected. The minimum wage contributed to the decline in youth employment in manufacturing. However, other industries not covered by the Federal minimum wage such as retail trade and construction still provided employment opportunities for youths. Unfortunately, the increase in the minimum wage and expansion of its coverage to previously uncovered sectors during the 1960's and 1970's contributed to the continued high rate of youth unemployment, particularly among minorities.

To reduce the adverse effects of this barrier, the President last March submitted the Employment Act of 1983, in which he proposed a youth employment opportunity wage for youths under the age of 22. This youth opportunity wage would be:

a) $2.50 per hour, 25 percent below the regular minimum wage of $3.35 per hour;

b) effective from May 1 to September 30, which by itself would make it extremely unlikely that employers will substitute younger people for older workers. Moreover, the proposed legislation would explicity prohibit the displacement of current workers by those hired at the youth opportunity wage.

Given the employment opportunities for youths that would be created if a youth opportunity wage were in effect, the Working Group recommends that the Administration strongly support in the upcoming Congressional session legislation establishing the youth opportunity wage. The Working Group notes that the President recently indicated in an interview with editors of the Gannett Co. that he will press Congress again for establishing the opportunity wage.

<u>Issues for Cabinet Council Consideration</u>

In addition to the youth employment opportunity wage, there are two other issues affecting youth employment for Cabinet Council consideration. First, Governor du Pont has recently proposed that the Federal Government establish a <u>national school-to-work transition program</u> modeled after a demonstration started in Delaware and now replicated in several other States as the Jobs for America's Graduates program. A memorandum describing the proposal and outlining the options and their advantages and disadvantages is attached at Tab A.

Second, authorization for the Targeted Jobs Tax Credit expires December 31, 1984. A memorandum describing the credit and outlining the options available is attached at Tab B.

Attachments:	Tab A:	National School-to-Work Transition Program
	Tab B:	Targeted Jobs Tax Credit

TAB A

National School-to-Work Transition Program

Bell:
"impressive, but don't think we can afford"

Brock:
prog. to keep kids in school
= prefers job vouchers and youth different[ial]

Report/memo to Pres —
- Legis prop'l
- help JAG thru current sou[rces]

National School-to-Work Transition Program

Issue: Should the Administration propose legislation establishing a National School-to-Work Transition Program?

The Board of Directors of the Jobs for America's Graduates (JAG) program has asked the Administration to propose legislation creating a permanent National Jobs for America's Graduates program fully funded by the Federal Government. Members of the JAG Board of Directors include several prominent political figures including Governors Pierre du Pont and Lamar Alexander, Vice President George Bush, former Vice President Walter Mondale, and Senator Howard Baker. The Board proposes an initial year (FY1985) funding level of $300 million which the Board estimates will enable the program to serve 200,000 youths. The Board anticipates that annual funding would rise to $1 billion by FY1988, enabling the program to serve a total of 650,000 youths -- approximately 25 percent of all graduating high school seniors.

Background

JAG is an outgrowth of a program conceived by Delaware Governor du Pont in 1978 as a means of addressing high unemployment among workers under age 24 in his State. Jobs for Delaware's Graduates (JDG) was launched in the 1979-80 school year with $1.7 million from the U.S. Department of Labor (DOL) which matched State and foundation contributions. DOL has continued to support this program as a demonstration. It has proposed $2.5 million for the demonstration in FY1984, although the demonstration phase is coming to an end.

Based on the Delaware experience, the JDG model has been replicated through the Jobs for America's Graduates program in seven other States including Arizona, Massachusetts, Michigan, Missouri, Ohio, Tennessee, and Virginia.

The JAG model is designed to serve high school seniors who do not plan to pursue post-secondary school education and who a screening process indicates are likely to have difficulty finding a job after graduation. This screening process would involve objective testing and the subjective judgments of local school officials and the staff of the school-to-work transition program. There are no income eligibility criteria for student participants.

The program relies on strong State and local government and business support to provide it with visibility and access to private sector employers. The program places counselors and job specialists in local high schools to provide participating seniors with up to 60 hours of pre-employment guidance in job search techniques and job holding disciplines (i.e., work habits). The job specialists assist those participants who graduate in their job search in a ratio of about one for each 30-35 graduates. The job specialists also maintain contact with, counsel, and, if necessary, provide continuing job search assistance to the graduate for up to nine months after graduation. Participants who do not graduate from high school are not allowed to continue participation, a provision which encourages high school graduation among those who wish to receive help from the program.

Program Evaluations and Reviews

Based on field reviews, JAG claims an 88 percent positive termination rate. A DOL-sponsored study concluded that successful participants earned $0.38 per hour more than participants in a comparison group. The study found that successful participants were 10 percent more likely than those in the comparison group to be employed eight months after graduation. A study sponsored by JAG and conducted by Andrew Sum of MIT found a positive termination rate of 79 percent. The Sum study concluded that successful participants earned wages of $0.15 per hour higher than participants in a comparison group. Attached is a summary of research findings provided by Jobs for America's Graduates, Inc.

The Office of Management and Budget notes that the program statistics may be overstated. This is caused by several factors. First, the base used to calculate the positive termination rate does not include those participants who drop out of school and the program. Both positive terminations and the base include those who attend post-secondary school education or enlist in the military. Adjusting for these factors would result in about a 42 percent job placement rate (48 percent including the military).

Second, based on a field review, many successful job placements appear to include people who had been working in the same job which they held during school or the previous summer. Of those people who JAG claims found jobs, the same field review found that 75 percent were working in jobs they previously held. Moreover, two-thirds of those interviewed who were holding jobs reported that they got their job through their own efforts, rather than through referral by JAG.

Existing Authority for School-to-Work Transition Programs

There already exists substantial flexibility in the Job Training Partnership Act (JTPA) of 1982 for allowing States or localities to establish school-to-work transition programs modeled after JAG if they choose. Title I of JTPA states that Governors may encourage or even finance such programs in the following ways:

- o The State Job Training Coordination Councils established by section 122 of JTPA are required to recommend a Governor's Coordination and Special Services Plan. This plan may include "carrying out special model training and employment programs and related services (including programs receiving financial assistance from private sources)" (Section 121(c)(2)). [These model training and employment programs can include job search assistance programs.]

- o Section 123 authorizes the Governor to provide financial assistance to any State education agency responsible for education and training to provide services for eligible participants through cooperative agreements between the State agency, administrative entities in the JTPA service delivery areas, and local education agencies. This provision requires a dollar-for-dollar match by the State.

Title II of JTPA includes broad authority allowing localities to provide school-to-work transition services:

- o In Title II-A, sections 204 and 205 authorize a series of exemplary youth programs including a "school-to-work transition assistance program for . . . high school seniors who plan to enter the full time labor market upon graduation." While Title II-A places priority on high schools with large numbers of economically disadvantaged students, it allows up to 10 percent of participants (an estimated 100,000 nationwide) to be non-disadvantaged.

- o Title II-B -- Summer Youth Employment and Training Programs -- authorizes a variety of activities in addition to the traditional summer work experience programs. Other authorized activities include employment counseling, preparation for work, and job referral and placements.

JTPA amended the Wagner-Peyser Act to provide greater flexibility for establishing school-to-work programs through the Employment Service (ES). Section 8 of Wagner-Peyser requires the local ES to work with the Private Industry Council to develop the local ES plan. That plan is forwarded to the State Job Training Coordinating Council to assure that it is consistent with the Governors Coordination and Special Services Plan noted in Title I. This provides the Governors and local areas with additional opportunities to coordinate services to youths needing improved access to the labor market.

Option 1: Propose or Support Separate Legislation to Authorize a National School-to-Work Transition Program at $300 Million in FY1985 Escalating to $1 Billion in FY1988.

The national school-to-work transition program would be modeled after the JAG program.

Advantages

- Administration legislation would provide a visible initiative addressing the chronic problem of youth unemployment.
- This program would use the existing JTPA delivery system, emphasize business involvement, and adhere to JTPA's firm no-stipend policy.
- There is apparent bipartisan support for the program concept. (The current and former vice presidents are on the JAG Board of Directors as is the Senate Majority Leader.)

Disadvantages

- A high cost new initiative with escalating out-year costs is unnecessary. The new initiative duplicates existing JTPA and Employment Service authorities which allow States or localities to establish school-to-work transition programs and provide resources sufficient to cover their costs.
- This proposal would create a new categorical program at a time when the Administration has successfully enacted block grant legislation for employment and training programs.
- The JAG program has not as yet been systematically evaluated by the Department of Labor.

Option 2: Do Not Propose Legislation Authorizing National JAG Program and, instead, Encourage States and Localities to Use Existing Authority and Flexibility to Establish School-to-Work Programs Modeled After JAG.

This option continues to rely on the States and localities to use existing authority and flexibility under JTPA and Wagner-Peyser for implementing programs that meet their most pressing labor market problems. Although this option would not involve budget changes or legislative proposals, the Administration could launch a high-level publicity effort. For example, the President could encourage States and localities to adopt the program in a radio address and Administration officials could widely publicize the program. The Administration could point out to States and localities the specific provisions or funds in JTPA and Wagner-Peyser on which they can draw to establish school-to-work programs modeled after JAG.

In addition, the Secretary of Labor could encourage States to adopt the JAG model for school-to-work transition programs through the Department's information clearinghouse or technical assistance function. The Administration could distribute information about JAG through the normal clearinghouse and information sharing process as part of a program to apprise them of model programs assisting youths at the State and local levels.

Advantages

- This option would require no increase in Federal spending.
- It would preserve the integrity of JTPA and continue reliance on States and local areas for designing employment and training strategies.

Disadvantages

- Endorsement, publicity, and encouragement of the program may be perceived as an inadequate initiative attacking youth unemployment.
- Supporters of JAG may mobilize a bipartisan effort to enact legislation without Administration support.

Attachment: JAG Summary of Research Findings

Jobs for America's Graduates, Inc.

SUMMARY OF RESEARCH FINDINGS

Jobs for America's Graduates designed and implemented an extensive evaluation system to determine whether participation in JAG programs significantly enhanced the ability of high school graduates to successfully transition from school to work.

This research has found the following benefits for participants in the Class of 1982 when compared to comparison group members.

Employment Overall

- Participants were 54% more likely to be employed during the first three months following graduation.

- Participants were 67% more likely to be employed in the fall following graduation (November-December 1982).

Earnings Overall

- Participants earned nearly 86% more money during the first three months following graduation.

- Participants earned nearly $750 more during the first six months following graduation.

Race

- Minorities tend to benefit to a substantially greater degree than white participants on most measures of performance.

- Black participants were twice as likely to be employed than black comparison group members in the fall following graduation (109% more).

- Black participants earned 92% more money than black comparison group members.

Achievement

- Participants graduating with a C average were nearly twice as likely to have a job in the fall following graduation than comparison group members (97% more).

SUITE 304, 1750 PENNSYLVANIA AVENUE, N.W., WASHINGTON, D.C. 20006 (202) 638-2958

Family Income

- o Participants from low income families were more than twice as likely to be employed than comparison group members from low income families (125% more).

- o Participants earned more than twice as much money as comparison group members from low incomes (111% more).

Prior Work Experience

- o Participants with no prior work experience were nearly three times as likely to be employed than comparison group members (182% more).

- o Participants with no prior work experience earned nearly three times more money than comparison group members (185% more).

Recent studies have found that those young people who experience the greatest difficulty making the transition from school-to-work generally have the following characteristics:

- o come from the low income families

- o have little prior work experience

- o have low academic achievement

- o are members of a racial minority.

Jobs for America's Graduates, therefore, is found to serve best those who need it most.

"THE NATIONAL SCHOOL-TO-WORK TRANSITION ACT OF 1984"

A proposal has been made by a bipartisan nonprofit Board called Jobs for America's Graduates, Inc. to implement a national school-to-work transition program under the FY 1985 Budget. The Jobs for America's Graduates Board includes leading civil rights' officials, five Governors, Vice President Bush and leading educators, business and labor leaders. The Board has conducted demonstrations over the past four years in eight states with the support of the Reagen Administration and national grants from the U.S. Department of Labor.

In the past four years, nearly 15,000 youth have been served by JAG. 8,000 more young people are currently enrolled in approximately 150 high schools in 20 cities within the eight states. The program has operated throughout the most difficult days of the recession and has demonstrated an average 85% success rate. "Success" in JAG is defined as placement on the job, in the military or in full-time post-secondary training. Other results are indicated on the following paper.

The proposal by the Board of Directors is not to implement Jobs for America's Graduates. Rather, it is to implement a national school-to-work transition program along the following lines:

The proposal calls for $300,000,000 to be appropriated that would reach 200,000 youth in the first year (or approximately 8% of the graduating class of 1985). This is approximately one-half of the anticipated "at risk" population of the senior class graduating in 1985 across the nation.

Funding would be provided through either the Department of Labor or the Department of Education to the Governors and the State Job Training Councils authorized under the Job Training Partnership Act.

December 1, 1983

Local Private Industry Councils would be authorized to contract with the local education system to serve as the presumptive delivery agent to carry out the program. A performance standard of 60% success would be established in the first year, rising to 70% by year three. (This is significantly higher than the 41% of income for youth under JTPA).

The PICs would be authorized to seek other contractors, public or private, to carry out the program if the school system either refused to do the project or proved unable to meet the minimum performance standards.

Another fact of interest is that the $1,500 anticipated placement cost is approximately one quarter of the CETA Title II average. It ranks as one of the least expensive youth employment efforts. As proposed, the program would have no economic criteria for participation. The focus would be on prospective unemployment and actually be a prevention program. (In the JAG program, approximately 68% of the youth served were minorities and approxiamately 65% could be classified as disadvantaged under the prevailing federal criteria). The JAG program has proven itself to be most effective for those who are minority, poor readers and who have had no previous work experience -- those regarded as most likely to become unemployed.

If the proposal were approved by April 1, 1984, it would allow ample time to implement the program in the 1984-85 school year.

Wide-ranging research conducted over the past decade clearly indicates that school-to-work transition is the most effective and least expensive approach to youth unemployment since it avoids income support cost, utilizes existing facilities and reaches youth before they become unemployed for the first time.

The involvement of the Jobs for America's Graduates Board and the nearly 300 local leaders who participate on the Boards in the eight test site states, as well as its excellent track record, provides a major base of support for action in the Congress. The program has strong support by the AFL-CIO, the Council of Chief State School Officers, the Chambers of Commerce, the American Enterprise Institute, the National Governors Assocation and the Rockefeller and Ford Foundations.

Current funding for the JAG demonstration amounts to about $7,500,000. Approximately $2.5 million from the US DOL, $1.5 from various local JTPA sources, $1.5 million from state legislatures and the rest from private sector sources. Interestingly, two of the eight test sites are primarily funded by the private sector, including leading businesses and national foundations.

The ranking Republican and Democratic leadership on the appropriate committees in the House and Senate are enthusiastic about the program. However, the Board of JAG has withheld further discussions with the Congress until after the Administration makes its decision.

TAB B

Targeted Jobs Tax Credit

Hill pressure for ext. will be enormous - it will p[...]
DOL: recommend ext for one yr - DOL will [...] a good evaluation

Targeted Jobs Tax Credit

Issue: Should the Administration support an extension of the Targeted Jobs Tax Credit in the FY1985 budget?

Background

The Revenue Act of 1978 established the Targeted Jobs Tax Credit (TJTC) to replace the New Jobs Tax Credit enacted in 1977 as part of the Carter Administration's economic stimulus program.

The credit is designed to provide incentives to employers to hire persons from groups that have particularly high unemployment rates or other special employment problems. The credit is equal to 50 percent of the first $6,000 of first-year wages and 25 percent of second-year wages paid to each qualified individual. The tax credit for summer hiring of 16-17 year old economically disadvantaged youth is 85 percent of the first $3,000 in wages. Groups targeted by the credit include:

- o vocational rehabilitation referrals;
- o economically disadvantaged youths, ages 18-24;
- o economically disadvantaged summer youth employees, ages 16-17;
- o economically disadvantaged Vietnam-era veterans;
- o economically disadvantaged ex-convicts;
- o Supplemental Security Income recipients;
- o general assistance recipients;
- o disadvantaged youth, ages 16-19, participating in a cooperative education program; and
- o eligible work incentive employees;

The Administration opposed extending TJTC in early 1981, arguing that the tax credit had not opened up a significant number of job opportunities in the private sector for the target groups. Later that year with Administration support, Congress reauthorized and extended a modified TJTC until December 31, 1984. The reauthorized credit eliminated: 1) retroactive certifications under which employers could claim credits for employees already under their payroll; and 2) participation of cooperative education students who could find jobs without TJTC.

The Departments of Labor and the Treasury have reviewed the literature studying the effectiveness of the credit which suggests that the net employment effect of TJTC is inconclusive. Notwithstanding the inconclusive evidence regarding whether the program has significantly encouraged employers to hire more eligible individuals than they otherwise would have, Congress has expressed strong bipartisan interest in the program. Congress is constantly proposing the addition of new groups (UI exhaustees, small business hires, and displaced homemakers), raising the wage base (to $10,000), or increasing the credit for certain groups (to 65 or 75 percent depending on the group).

The Department of Labor has estimated that the population eligible for the credit is about 8.5 million people. Through the first three quarters of FY1983, about 250,000 people from the currently eligible groups were hired and subsequently certified by the Employment Service as eligible for the credit. Estimated tax expenditures for TJTC are about $465 million in FY1984 and increase for future fiscal years.

<u>Option 1</u>: <u>Do Not Propose Extending TJTC in the FY1985 Budget and Delay Decision Pending Congressional Action</u>

It is not clear that the credit has significantly increased the incentives for employers to hire more eligible people than they otherwise would have. Moreover, the program entails substantial revenue losses. Senator Heinz introduced earlier in December legislation that would extend the current law for five years. The Administration can postpone a policy decision on this issue until Congress holds hearings.

<u>Advantage</u>

- Eliminates budget costs if the credit is eventually not extended.
- Provides the Administration with more time to review the role of tax credits in its employment policy.

<u>Disadvantages</u>

- Could result in criticism of the Administration for not supporting a program which is targeted toward disadvantaged youths.

- o Allows Congress to set the agenda for reauthorizing and amending TJTC.

Option 2: Propose Extending TJTC for One Year in the FY1985 Budget

The Department of Labor has financed a study of the 1983 summer TJTC experience and plans to finance a study of TJTC performance in general in 1984. Although these studies may not be any more conclusive about the effects of wage subsidies than the previous Labor and Treasury review of the literature, they can be used to justify a one-year extension.

Advantages

- o Continues a popular program that is perceived to help the disadvantaged gain employment at a time when unemployment is still high by historical standards.
- o Allows time for the Administration and Congress to assess the effects of TJTC after Congress amended the credit without committing the Government to a long-term continuation.

Disadvantages

- o Compared to Option 1, this option has additional budgetary costs. Annual tax expenditures are estimated to be $465 million in FY1984 and $350 million in FY1985.
- o It will be difficult to limit an extension to one year because of the strong Congressional support for a long-term extension.
- o This option might also be perceived as eliminating the program and result in criticism of Administration insensitivity toward disadvantaged youths.

Option 3: Propose Extending TJTC for Five Years in the FY1985 Budget

The Administration could work with Congress to fashion a long-term extension of TJTC. Senator Heinz's legislation could serve as a prototype for a long-term extension.

Advantage

- o Supporting a long-term extension of this program would be perceived as assisting disadvantaged youths.

Disadvantages

- A long-term extension would freeze the Government into financing a credit which has not been demonstrated to have helped employment among target groups.

- The budgetary costs over a five-year period would total approximately $2.5 to $3 billion.