Congressional Research Service

Countercyclical Job Creation Programs

-name redacted-
Specialist in Labor Economics

September 7, 2010

Congressional Research Service
7-....
www.crs.gov
92-939

CRS Report for Congress
Prepared for Members and Committees of Congress

Contents

Contacts

Introduction

During or after all but one recession of the postwar period, Congress has acted to mitigate their effect on workers by enacting legislation to spur job creation through increased spending on public works (infrastructure) and public service programs, revenue sharing with state governments, and employment tax credits. Although Congress passed the American Recovery and Reinvestment Act (P.L. 111-5) early in 2009 and the Hiring Incentives to Restore Employment Act (P.L. 111-147) early in 2010 , concern that the labor market has not yet begun to improve steadily and that a double-dip recession might occur has prompted interest in additional stimulus measures. This report provides a brief overview of the four countercyclical job creation approaches and related legislation enacted during the postwar period.

The Pros and Cons of Job Creation Approaches in Brief[1]

Public Works (Infrastructure) Programs. It often is argued that public works programs create worthwhile, long-lasting tangible outputs (e.g., highways, bridges, water and sewer systems) and teach workers marketable skills. Because implementation of infrastructure programs often has been slow, however, they may increase the demand for labor when the economy already is expanding and thereby drive up wages and the inflation rate. If funds mainly are devoted to construction projects requiring expensive materials and equipment and utilizing high-skilled workers, then public works might be a comparatively costly way to create jobs. Alternatively, if funds are devoted to more labor-intensive projects (e.g., those involving maintenance and repair of roads and bridges), more jobs could be created per dollar of spending.

Public Service Programs. Countercyclical public service jobs programs typically have been quicker to startup than public works programs. In addition, a larger share of public service expenditures go toward wages than materials and equipment. As a result, more jobs can be created per dollar of spending on public service activities as compared to infrastructure projects. Public service job creation programs also tend to help a broader range of workers by involving more low-skilled unemployed workers. It commonly is claimed, however, that public service programs impart few skills to participants and that participants engage in "make-work" projects (i.e., activities that are not worthwhile).

Revenue-Sharing Programs. Revenue sharing can stabilize state and local budgets by giving governments funds so they might avoid cutbacks in services or increases in taxes due to recession-induced revenue shortfalls. Spending cuts or tax increases at the state or local level could exacerbate a recession's impact and offset federal countercyclical measures. It is asserted

[1] In addition to the evaluations cited in subsequent footnotes, this report also is based on the following documents that focus on multiple job creation approaches: Sar A. Levitan and Frank Gallo, *Spending to Save: Expanding Employment Opportunities*, George Washington University, Center for Social Policy Studies, 1992; John L. Palmer (ed), *Creating Jobs: Public Employment Programs and Wage Subsidies*, Washington, D.C.: The Brookings Institution, 1978; Robert Taggart (ed), *Job Creation: What Works?*, Salt Lake City, UT: Olympus Publishing Co., 1977; U.S. Congressional Budget Office (CBO), *Short-run Measures to Stimulate the Economy*, Washington, D.C.: U.S. Govt. Print. Off., March 1977; George Vernez and Roger Vaughan, *Assessment of Countercyclical Public Works and Public Service Employment Programs*, Santa Monica, CA: Rand, September 1978.

that federal grants to governments can produce jobs fairly quickly if the money can be used for general purposes and if neither new regulations nor new administrative entities are required. But, if few strings are attached to the ways in which federal funds can be spent, there is a risk that governments might use the funds for purposes that create fairly few new jobs (e.g., building up cash balances).

Employment Tax Credits. Some analysts think that an employment tax credit is superior to public employment approaches because the former offers subsidized jobs at private sector firms where workers may learn skills that are more readily transferable to unsubsidized jobs. Other benefits claimed for a jobs tax credit are that it neither requires a new government program nor an administrative entity. Unless businesses believe there will be sufficient demand for their products, however, they are unlikely to increase hiring despite the credit's availability. And, faced with only a temporary subsidy of their labor compared to capital costs, firms may be unwilling to change production techniques and shift their input mix toward greater use of relatively less expensive workers.

One drawback that is common to each of these approaches is that they might not create any more jobs than would have been created in their absence. For example, federal funds could be used to pay for public works projects that state governments would have undertaken with their own money. Similarly, employers could claim a tax credit for already anticipated hiring. However, the likelihood of this occurring is greater if the programs are in effect when an economic recovery is underway.

Countercyclical Public Works Employment[2]

The Public Works Acceleration Act of 1962 (P.L. 87-658) created the Accelerated Public Works (APW) program, the first effort in the post-World War II period to create publicly funded jobs in construction and related private sector industries as a way to combat rising unemployment. In addition to redevelopment areas designated under the Area Redevelopment Act, areas eligible for assistance were those the Secretary of Labor determined had experienced substantial unemployment (i.e., a jobless rate above 6%) for at least nine of the preceding 12 months. The program, coordinated by the Commerce Department, was conducted through existing federal agencies. It provided $852 million for such projects as water and sewer facilities, hospitals, and street construction.

The APW program and subsequent public works programs have been criticized for their delayed startup, which resulted in projects not being completed until well after a recession's end. Some observers have suggested that if there were a program already in place with prescribed triggers for its initiation, the issue of timeliness would be resolved. In response, others have said that it still would take time to allocate funds, award contracts, obtain materials, hire workers, and complete the projects themselves.

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[2] The section is drawn from U.S. Economic Development Administration (EDA), *Alleviating Unemployment Through Accelerated Public Works*, Washington, D.C.: U.S. Govt. Print. Off., June 1976; EDA, *An Evaluation of the Direct Impacts of the Job Opportunities Program, Final Report*, Washington , D.C.: U.S. Govt. Print. Off., February 1981; EDA, *Local Public Works Program, Final Report*, U.S. Govt. Print. Off., December 1980; U.S. General Accounting Office (GAO), *Antirecessionary Job Creation—Lessons from the Emergency Jobs Act of 1983*, T-HRD-92-13, February 6, 1992; U.S. Office of Management and Budget, *Public Works as Countercyclical Assistance*, Washington, D.C.: U.S. Govt. Print. Office, November 1979.

The Local Public Works Capital Development and Investment Act of 1976 (P.L. 94-369, Title I) and the Public Works Employment Act of 1977 (P.L. 95-28) appropriated $6 billion for the Local Public Works (LPW) program. The Economic Development Administration allocated funds to states on the basis of their unemployment levels and rates, and to substate areas, on the basis of a complicated formula.

There was criticism that LPW funds were substituted for local funds that would have been spent on similar projects in the absence of the federal program. The differing assumptions of analysts about the extent of this practice (fiscal substitution) resulted in markedly disparate estimates of the net number of jobs created by the program.[3] In addition, the LPW program largely provided jobs for already employed construction workers. For the few unemployed persons who did get jobs, the experience and skills acquired probably were minimal because the average length of employment was short.

The Emergency Jobs Appropriations Act of 1983 (P.L. 98-8) was designed to deal with some of the criticisms leveled at earlier job creation efforts. By appropriating additional funds to existing programs, Congress expected that money would be spent and jobs would be created comparatively quickly. According to an evaluation by the then General Accounting Office (GAO), this was not the case. GAO also found that few jobs went to the unemployed despite the law requiring that funds be used as much as possible to create jobs for the jobless. P.L. 98-8 provided some $9 billion to 77 programs and activities administered by 18 federal departments and agencies. About 86% of the appropriations ($7.8 billion) went to 55 programs and activities that funded public works (e.g., construction, repair, and maintenance of buildings and facilities). The remainder went to 22 programs and activities that performed public services (e.g., the maternal and child health services block grant, the social services block grant, and community health centers ($620 million); employment and training assistance ($230 million)).

The Supplemental Appropriations Act of 1993 (P.L. 103-50) was signed into law in July 1993, well after the 1990-1991 recession had ended. Like P.L. 98-8, P.L. 103-50 provided additional funds for public works and public service programs (e.g., $166.5 million for summer youth employment, $150 million for hiring police officers, $50 million for the Youth Fair Chance program, $45 million for Amtrak's operating losses and capital improvements, $35.5 million for rural water and sewer direct loans, and $35 million for rural water and waste disposal grants).

Countercyclical Public Service Employment[4]

The Public Employment Program (PEP), authorized by the Employment Act of 1971 (P.L. 92-54), was the first sizeable ($2.5 billion) antirecessionary public service employment effort since the Great Depression. The temporary program sought to provide public service jobs for unemployed

[3] The net number of jobs attributable to any type of job creation measure will be smaller than the gross number to the extent some of the subsidized jobs would have been created in the absence of the program.

[4] The section is drawn from Bureau of Social Science Research Inc., *CETA: Accomplishments, Problems, Solutions*, Washington, D.C.: U.S. Govt. Print. Off., November 1981; Clifford Johnson, *Direct Federal Job Creation: Key Issues*, Washington, D.C.: U.S. Govt. Print. Off., 1985; National Commission for Manpower Policy, *Job Creation Through Public Service Employment*, vol. I, Washington, D.C.: U.S. Govt. Print. Off., March 1978; National Research Council, *The New CETA: Effect on Public Service Employment Programs, Final Report*, Washington, D.C.: U.S. Govt. Print. Off., April 1980; GAO, *More Benefits to Jobless Can be Attained in Public Service Employment*, April 7, 1977; GAO, *Public Service Benefits from Jobs under the Emergency Employment Act of 1971*, June 8, 1973.

and underemployed persons. Funds were allocated to units of government based upon the relative severity of unemployment. Funds were spent quickly, which meant that jobs were created rapidly. The program was labor intensive, with a large share of the funds going toward wages. Several studies found that many of the jobs subsidized by PEP would have existed in its absence and that the program "creamed" (i.e., took the best qualified members of the eligible population).

PEP was designed to focus resources on those thought to be most in need. The law called for targeting assistance to such groups as veterans, younger and older workers, the economically disadvantaged, welfare recipients, migrant workers, non-English speakers and workers laid off due to cutbacks in the defense, aerospace, and construction industries. To ensure that many different occupational groups benefitted from PEP, the legislation mandated that a maximum salary of $12,000 per employee could come from federal funds and (excluding teaching positions) a maximum of one-third of the jobs created could be for professionals.

The Emergency Jobs and Unemployment Assistance At of 1974 (P.L. 93-567) amended the Comprehensive Employment and Training Act (CETA) to add Title VI. The Emergency Jobs Program was established to mitigate cyclical unemployment by funding temporary positions in federal, state and local governments, and in nonprofits that provide public services. Title VI funds (about $15 billion over the 1975-1982 period) were allocated to prime sponsors based on measures of the relative severity of unemployment.

The program created many jobs quickly. But, CETA's public service program was criticized for creating "make work, dead end" jobs that neither provided society with worthwhile output nor CETA workers with skills. (As previously mentioned, the public works approach is believed to create worthwhile outputs but it might not permit much skill acquisition because the time spent on projects can be quite short.)

Initially, to be eligible for subsidized jobs under Title VI, individuals had to have been unemployed for 30 days, or 15 days in areas where the unemployment rate exceeded 7%. In both the 1976 and 1978 amendments to CETA, the Title VI eligibility criteria were tightened to target funds to low-income unemployed persons (e.g., the maximum annual federal subsidy per program participant was lowered to $10,000). These changes were enacted to discourage what was perceived as a widespread practice by state and local governments that reduced the net number of jobs created: laying off current employees and then rehiring them using Title VI rather than state and local funds to pay them.

Countercyclical Revenue-Sharing[5]

In addition to authorizing countercyclical public works job creation, P.L. 94-369 at Title II established the Anti-Recession Fiscal Assistance (ARFA) program. It operated from 1976 to late 1978. ARFA funds were released only if the national jobless rate exceed 6%. The allocation to individual governments was determined by local unemployment rates over 4.5% and by their

[5] The section is drawn from CBO, *Countercyclical Uses of Federal Grant Programs*, Washington, D.C.: U.S. Govt. Print. off., November 1978; GAO, *Antirecession Assistance: An Evaluation*, November 29, 1977; GAO, *Impact of Antirecession Assistance on 52 Governments - An Update*, May 1, 1978; GAO, *Impact of Antirecession Assistance on 16 County Governments*, February 22, 1978; GAO, *Impact of Antirecession Assistance on 21 City Governments*, February 22, 1978.

General Revenue Sharing allocations. By law, recipients of ARFA funds were required to spend, appropriate, or obligate funds within six months of their receipt. The use of ARFA funds was largely unrestricted (i.e., for the maintenance of basic services customarily provided by government). The funds generally could be used for employment and acquisition of "normal" supplies or materials, but not for construction or renovation.

A GAO report concluded that the program did not accomplish its objectives of preventing employee layoffs, tax increases, and service cutbacks. It also stated that the unemployment rate is not necessarily a good indicator of a recession's impact on a jurisdiction's financial condition. Additionally, GAO criticized the allocation of just one-third of funds to state governments because recessions reportedly cause less budgetary disruption to local than state governments as state revenue sources and expenditures are more sensitive to economic conditions.

Countercyclical Employment Subsidies[6]

The United States has had one experience with a tax credit intended to promote private sector job growth as an antidote to cyclical unemployment. The New Jobs Tax Credit (NJTC) was enacted in 1977 (P.L. 95-30, Title II). It ended in late 1978. The revenue loss to the government associated with the credit (less the required reduction by firms' deduction for wages and including carryovers for several years) was estimated by the Treasury Department to be $5.7 billion.

The NJTC was a general subsidy meant to increase employment among all workers as opposed to specific groups. It gave employers a credit against corporate or personal income tax liabilities for job growth above a specified threshold that occurred in 1977 and 1978. Thus, NJTC was an incremental (marginal) subsidy: credits were issued to businesses only if their employment rose by a given amount above a certain base; in this case, the credit was equal to one-half of the increase above 2% in an employer's Federal Unemployment Tax Act wage base between the base and current year. As a marginal credit, it tended to favor growing labor-intensive firms and to help reduce "windfall gains" (i.e., paying employers for hiring they would have undertaken in the absence of the program). Over time, however, it becomes increasingly difficult for employers to qualify for a marginal credit.

The NJTC was capped in three different ways. No firm could claim a credit in excess of $100,000 annually, 25% of its unemployment insurance (UI) wages in the current year, or one-half of the difference in the firm's total wages for the year above 5% of the previous year's total wages. The reason for limiting the credit by relating it to the increase in total wages was to prevent employers from claiming credits by artificially increasing their UI wages (e.g., making a full-time job into part-time jobs or substituting lower paid for higher paid workers). The reason for capping the credit at a percentage of a firm's UI wages was to try to limit the amount that new expanding firms could claim.

[6] The section is drawn from John Bishop, *The Potential of Wage Subsidies, Final Report to the Employment and Training Administration*, University of Wisconsin Institute for Research on Poverty; Jeffrey M. Perloff and Michael L. Wachter, "The New Jobs Tax Credit: An Evaluation of the 1977-78 Wage Subsidy Program," *American Economic Review*, v. 69, May 1979; Robert Tannenwald, "Are Wage and Training Subsidies Cost-Effective? Some Evidence from the New Jobs Tax Credit," *Federal Reserve Bank of Boston Economic Review*, September/October 1982; CBO, *Employment Subsidies and Employment Tax Credits*, Washington, D.C.: U.S. Govt. Print. Off., April 1977.

The NJTC was faulted for its complexity. Firms had to reduce their wage deduction by the amount of the NJTC when computing taxable income. If the NJTC exceeded a for-profit employer's current-year income tax liability, it could carry back the credit against past income taxes and carry the credit forward against future taxes. In addition, not-for-profit employers could not claim the credit because it was nonrefundable.

One survey found that relatively few employers knew about the credit, and of the firms that were aware of it, relatively few made a special effort to increase employment because of the NJTC or thought they were eligible to claim it. Alternatively, other analysts credited the NJTC with high employer use as shown by the amount claimed on tax returns.

Author Contact Information

(name redacted)
Specialist in Labor Economics
/redacted/@crs.loc.gov, 7-....