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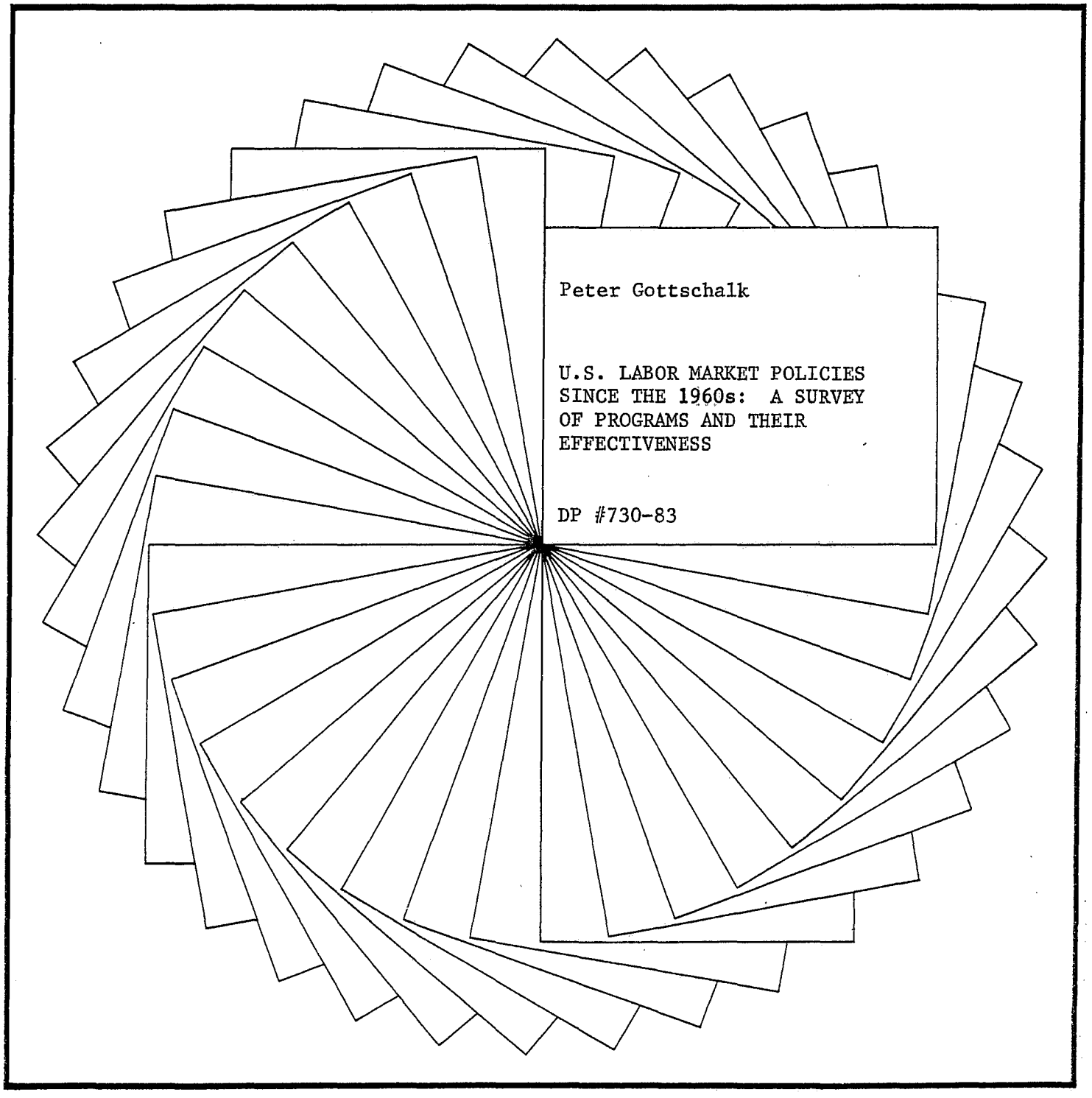

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U.S. Labor Market Policies since the 1960s: A Survey of Programs and Their Effectiveness

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ABSTRACT

A number of micro labor market policies have been tried in the last twenty years to increase aggregate employment and alter the composition of the unemployed in the United States. They have met with mixed results. This paper reviews the objectives of labor market policies, explores potential detrimental consequences that result from these policies, reviews the major programs that have been tried, examines the changes proposed and carried out by the Reagan administration, and contrasts the Reagan changes with earlier trends.

U.S. Labor Market Policies since the 1960s: A Survey of Programs and Their Effectiveness

Over the last 20 years the United States has experimented with a variety of micro labor market policies aimed at reducing the level of unemployment or changing the composition of the unemployed. The scope of manpower programs increased greatly during the mid-1960s. A retrenchment started in the late 1970s. By the early 1980s almost all of the previous growth in spending on manpower programs had been offset by budgetary retrenchment. Measured as a percentage of GNP, manpower programs were no larger in 1982 than in 1966.

The mood during the 1960s led people to believe that cyclical unemployment could be reduced through Keynesian policies while structural unemployment could be diminished by micro policies. As a result, macroeconomic policy became more stimulative, and the number and scope of manpower programs increased dramatically. Table 1 shows total federal outlays on employment and training programs as a percentage of GNP (column 1) and as a percentage of total federal government outlays (column 2). While manpower programs in the United States have never been very large in comparison to programs in countries such as Sweden or Germany, labor market programs comprised .3% of all government spending in 1964. Three years later these programs made up 1.2% of the budget.

Column 3 of Table 1 shows that the 1960s were also a period of declining unemployment rates. Between 1964 and 1969 unemployment rates dropped from 5.2% to 3.5%. By the end of the decade there was growing confidence that there was a causal link between increases in manpower policies and decreases in unemployment.

Table 1

Unemployment Rolls and Federal Outlays on Employment and Training Programs in the U.S.

	Federal Outlays on Employment and Training Programs		Unemployment Rate
	% of GNP	% of Outlays	
	(1)	(2)	(3)
1964	.01%	.3%	5.2%
1965	.08	.5	4.5
1966	.14	.8	3.8
1967	.22	1.2	3.8
1968	.23	1.1	3.6
1969	.21	1.1	3.5
1970	.17	.9	4.9
1971	.24	1.2	5.9
1972	.27	1.4	5.6
1973	.27	1.4	4.9
1974	.21	1.1	5.6
1975	.27	1.3	8.5
1976	.38	1.8	7.7
1977	.37	1.8	7.1
1978	.52	2.5	6.1
1979	.50	2.5	5.8
1980	.41	1.9	7.1
1981	.33	1.5	7.6
1982	.19	.5	9.7

Sources: Columns (1) and (2): Budget of the United States Government, Fiscal Year 1983, p. 5-108 and earlier volumes for outlays on employment training programs. Economic Report of the President 1983, table B-1 for GNP and table B-73 for total outlays.

Column (3): Economic Report of the President 1983, table B-33.

The rise in unemployment rates during the 1970s and 1980s raised doubts about our ability to control either cyclical or structural unemployment. Retrenchment set in as a result of disillusionment about the effectiveness of programs. As unemployment rose to 9.7% in 1982, public opinion turned against interventionist measures. Employment and training programs, like many other social programs, were scaled back sharply. By 1982 these programs comprised only .5% of federal outlays, the lowest proportion since 1965.

Those advocating that we abandon active labor market policies (i.e., micro policies) pointed to the mixed results from evaluations of earlier programs and the fact that unemployment rates more than doubled in spite of substantial increases in federal spending on employment programs during the 1960s and early 1970s. To critics, this was proof that the programs were ineffective.

The disillusionment with active labor market policies in the United States was partially caused by two acts of omission. First, objectives of the programs were not clearly stated by program designers. This allowed critics to measure progress against other objectives and to give the programs low marks in meeting those goals. For example, programs which were designed to change the composition of the unemployed may have succeeded in this limited goal, while failing to reduce the total number of unemployed. A second major reason for the skepticism toward active labor market policies was that many undesirable consequences of these policies were not recognized explicitly when the programs were implemented. When undesirable side consequences resulted from the programs, advocates were put in a defensive position. Rather than arguing that the

undesirable consequences were small compared to the benefits, advocates found themselves minimizing the importance of the consequences.

This paper provides a broad overview of the issues in the debate. (For a more detailed review, see Palmer, 1978, and Haveman and Palmer, 1982.) The paper is divided into four sections. The first section reviews possible objectives of active labor market policies. The second section explores potential detrimental side consequences which have come to light from past experiences. The third section reviews the major programs which have been tried in the United States over the last 20 years. The fourth section reviews the changes proposed by the Reagan administration. The paper concludes by contrasting the Reagan changes with earlier trends.

I. POSSIBLE OBJECTIVES OF MICRO LABOR POLICIES

Objectives of labor market policies can be divided into two broad groups: those which try to reduce the amount of unemployment for a given level of inflation, and those which try to meet distributional goals by reallocating a fixed amount of unemployment among the population. Each will be considered in turn.

Increasing aggregate employment

The implicit goal of any program which attempts to shift (or "cheat") the Phillips curve is to increase aggregate employment without increasing inflation. Several mechanisms have been suggested for achieving this objective. First, programs which increase the cost of unemployment or

improve the matching of people with jobs will result in less search time and more productive activity. Government intervention is justified on the ground that individuals either choose to search excessively long or that there is a public goods aspect to job matching. Providing information which can be used at little or no marginal cost by everyone, redirects resources from search into gainful employment.

A substantially different method of increasing employment without increasing inflation is to change the composition of the employed. Programs may be designed to have little inflationary impact by shifting unemployment toward workers who face relatively elastic short-run Phillips curves (see Baily and Tobin, 1977). An example might be the redirection away from the unionized sectors toward the nonunion sectors. Nonunionized employers may be able to expand employment without raising wages, while unionized employees, facing increased unemployment rates, may receive smaller wage increases, thus lowering inflationary pressures. The net result of such a policy could be an expansion in employment without an increase in inflation.

The third kind of policy which aims at cheating the Phillips curve is to change the input mix. By making the production process more labor intensive or by encouraging the substitution of unskilled workers for skilled workers, the same amount of output can be produced with a lower unemployment rate. Since the unemployment rate is a "head count," replacing a skilled worker (or a machine) by two unskilled workers reduces the measured unemployment rate.

A necessary consequence of programs which induce employers to substitute labor for capital may be a reduction in productivity. In this case,

increasing employment may be at the cost of decreasing output per worker and possibly even decreasing total output.

Changing the composition of the unemployed

Methods discussed earlier redistribute employment--from skilled to unskilled workers or from union to nonunion employees, for example. Their primary goal, however, is to increase total employment. Other policies do not attempt to expand total employment, but rather serve only to change the composition of the unemployed. These redistributive programs can have two very different underlying rationales. First, programs may be aimed at spreading the burden of unemployment among a wider group of people. Work sharing or early retirement are obvious examples of policies aimed at spreading the burden of a slack economy. Less obvious are public employment programs financed by taxes on the employed. Since these "balanced budget" programs have little impact on aggregate demand, few additional jobs are created. The unemployed, however, benefit from public employment, while the rest of the population absorbs part of the cost of a slack economy by paying the higher taxes to finance the program.

The second rationale for undertaking programs which change the composition of the unemployed is to lower the unemployment rate of specific groups in order to meet distributional objectives. In technical terms, the social welfare function may give unequal weights to unemployment rates for different groups. For example, society may be willing to undertake programs which reduce the employment of teen-agers while increasing employment of family heads, low-income people, the handicapped, or people in depressed regions.

Note that programs may be successful in changing the composition of the unemployed without increasing aggregate employment. While it is sometimes politically expedient to act as if the increased employment of targeted workers is a net increase in employment, the following section argues that this is often not a consequence.

II. SIDE CONSEQUENCES OF MICRO LABOR POLICIES

Disillusionment with active labor market policies has also come from a greater appreciation for some of the side consequences which may limit these policies in reaching their objectives. At least four different mechanisms have been isolated which tend to reduce the initial impact of policies aimed at reducing either aggregate unemployment or the unemployment rate for specific groups. All of these mechanisms fall under the broad rubric of "displacement."

The first method of displacement is well known. It is argued that when any employment program is undertaken, the cost of the program must be financed either through taxation or through the sale of bonds. Taxation tends to reduce aggregate demand while deficit financing may crowd out private investment. Although the crowding out argument is not settled, and is well beyond the scope of this paper, it is generally accepted that if the monetary authority does not undertake accommodating monetary policy, some crowding out will occur. It is, therefore, impossible to talk about micro policies which have budgetary costs without explicitly taking into account the macro consequences. This does not mean that micro policies are ineffective but rather that their effects may be canceled unless there is accommodating monetary policy.

The second method of displacement is fiscal substitution. Direct job creation in the United States has largely taken the form of grants to state and local governments to hire public workers. If these new jobs, financed at the federal level, partially replace jobs which would have been financed anyway at the state and local level, then job creation programs will have a reduced effect. This source of displacement tends to grow over time (see Johnson, 1978). Early empirical studies indicated that after a period of one year the net impact of federally financed jobs programs were almost totally offset by reductions in state and local employment. More recent evidence (Adams et al., 1983) suggests that fiscal substitution may be as low as a $.23 reduction in local spending for every dollar of federal funds for public service employment.

The third source of displacement occurs through changes in relative wages. Targeted programs of direct job creation or wage subsidies raise the demand for specified types of workers by firms eligible for the subsidies. This both reduces the demand for nonsubsidized workers and increases the gross wage for subsidized workers (as long as their supply is not perfectly elastic). The wage raise leads private nonsubsidized employers to substitute away from the preferred groups, thus partially offsetting the increased employment in the subsidized sector.

The final form of displacement takes place through the product market. If newly employed workers produce useful goods, these goods are sold and compete with other goods. Unless there is an increase in aggregate demand, the net result will be increased production in the subsidized sector and decreased production in the nonsubsidized sector. Again, one is reminded of the importance of keeping the macro consequences of micro policies clearly in mind.

One method of minimizing the displacement in production is to design programs which ensure that public workers do not produce goods which directly compete with goods produced by workers in the private sector. This, however, leads to the consequence of guaranteeing that public workers will produce goods with little or no market value. To argue that programs are inefficient because they do not produce goods which have faced the test of the market is to ignore that there is a reason for this limitation on the type of output.

III. HISTORY OF MICRO LABOR POLICIES IN THE UNITED STATES

The legislative history of employment policy in the United States shows the lack of well-defined objectives. Two interrelated themes emerge. First, programs have swung back and forth between trying to increase the aggregate number of jobs and reallocating existing jobs among workers. Second, policy has vacillated between training, aimed at solving long-term structural problems, and public service employment, often enacted to solve immediate cyclical problems. In this section we will briefly review the history of public employment and training programs, in which the government directly hires or trains workers, and tax credit programs, in which the government induces private employers to hire or train workers.

Employment and Training

Early programs. Direct job creation has not been popular in the United States except during recessions.[1] Job training programs have, however, received considerably more support. The Manpower Development

Training Act (MDTA) was enacted in 1962 to try to reduce the growing structural unemployment in the U.S. economy. It was started as a training program for displaced workers. The premise that job sorting could be accelerated by retraining workers formerly employed in dying industries was widely accepted at the time.

The focus of MDTA on the structurally unemployed was gradually replaced by an emphasis on economically disadvantaged individuals. With the advent of the War on Poverty in 1964, public policy became increasingly concerned with people at the bottom of the income distribution. It was believed that poverty could be, and should be, cured by active labor market policies. Antipoverty strategists believed that some low-income people could work their way out of poverty if they had adequate skills.

The steadily rising unemployment rates between 1969 and 1971 made it clear that demand would not always be sufficient to absorb the newly trained workers. In 1971, policy shifted from training to public service employment (PSE) with the passage of the Emergency Employment Act. The scope of PSE was modest, but the stage was set for future decentralized employment programs.

States and local governments were given substantial latitude in designing programs within the broad outlines set up at the federal level and were given administrative responsibility. It was believed that since local officials knew more about local needs, they could better monitor the programs and make better decisions about how to employ PSE workers.

CETA. As a result of increased government funding and increased decentralization, employment and training programs proliferated during the early 1970s. This resulted in administrative complexities as local

governments and community organizations designed programs to meet their local needs. A major consolidation took place in 1973. The Comprehensive Employment and Training Act (CETA) put most training and public service employment programs under a single umbrella. Decentralization continued but a mechanism for coordination was added.

Under CETA, the objectives of programs continued to fluctuate in response to the changing economic and political climate. In 1974 300,000 public service jobs were created as a countercyclical measure. The program was not designed to target jobs either to groups with flat labor supply functions (to minimize inflationary pressure) or to groups with the greatest need for jobs. Seventy-five percent of the PSE slots were filled by high school graduates, and less than half of the jobs were filled by people from low income households.

As a result of the considerable autonomy given to local governments to make decisions about the types of jobs and the eligible population, many CETA programs "creamed" the more highly skilled workers. Enrollees with previous job experience were more productive in producing public goods, even if they benefited less from the program.

As a reaction to these developments, two major changes in the CETA legislation occurred in the late 1970s. Programs were more tightly targeted on needy groups, and the focus shifted back from public employment to training. The 1976 amendments to the original CETA legislation required that disadvantaged workers be given priority in public service employment. With a slack economy, resulting from the 1975 recession, it was possible to use expansionary macro policy to expand employment while using CETA as a micro policy to determine who would gain the first-round benefits of the expansion.

Critics of this shift back to training argued that either there would be no jobs for the newly trained workers or that they would displace other trained workers. The mood in the late 1970s was, however, not for increased government employment. Even the Democrats understood this shift in public mood. The number of PSE jobs was cut from 750,000 in 1978 to 328,000 in 1980, before Reagan entered the White House.

The shift from employment to training, which continues today, was also a result of the persistently high unemployment and inflation rates of the early 1980s. It was hoped that government could shift the Phillips curve back to the left by retraining workers. By 1982 half of the participants in CETA were involved in classroom training with only a small portion enrolled in private programs providing work experience.

Did CETA and its predecessors achieve their objectives? There is wide consensus that public service employment under CETA did achieve the objective of increasing employment in the short run when the economy was below full employment (Sawhney et al., 1982). However, as local governments adjusted to the federal funding of CETA employment, they reduced the number of workers they hired with their own funds. While the net impact was probably to increase employment, the impact was quantitatively small. At its peak, CETA lowered the unemployment rate by a maximum of .5 points. This assumes that fiscal substitution was only 30%, as estimated by Adams et al. (1983).

There is also little evidence that direct job creation had a greater effect in bringing the economy back to full employment than alternative methods of government spending (Solow, 1980). Baily and Tobin (1978) argue that there are two offsetting factors in comparing the macro impact of PSE with other expansionary policies: PSE workers may have a higher

marginal propensity to consume, raising the second-round effects of government programs. However, they may also face high marginal tax rates, if they are currently enrolled in income transfer programs. Therefore, the amount of respending which results from PSE may be no larger than the second-round effects of other programs.

The ability of PSE to shift the Phillips curve in the long run is also limited. Baily and Tobin argue that only by tightly targeting PSE jobs and keeping wages below market rates will it be possible to decrease unemployment without increasing inflation by direct job creation. This may be at the cost of other objectives, such as raising the wage rates of women and blacks, or other groups hired in the programs.

The relative strength of PSE appears not to be in its ability to get a greater "bang for the buck" (i.e., increase employment) in the short run, or to shift the Phillips curve in the long run, but rather in its ability to redistribute employment to disadvantaged groups. The 1976 amendments were intended to open a greater number of CETA jobs to disadvantaged workers. Only if all displacement fell exclusively on other disadvantaged workers, would there be no net gain for the targeted workers.

Were PSE programs cost-effective? Bassi (1982) estimates that the average net government cost per participant in PSE was $4,700 whereas the average annual postprogram wage gain was only $661. When present values of these two streams are compared, the cost-effectiveness ratio is only .53, indicating that intrinsic value must be placed on helping disadvantaged members of society in order to justify these programs.

Evaluation of CETA training programs gives somewhat more optimistic results. Both Bassi and the Congressional Budget Office (see Bloom and McLaughlin, 1982) estimate that the average cost per participant in job-training programs was around $2,500. The average increase in annual postprogram earnings was between $800 and $1,000 for women but much smaller for men. The higher earnings were, however, a result of increases in hours worked, rather than increases in wage rates. Although training seems to have little or no effect on participants' wages, it does increase either their desire to work or employers' perceptions of the employability of disadvantaged workers.

Did CETA training programs increase aggregate postprogram employment or did the trainees simply displace existing workers? There is no evidence on this score. Nor is it clear how one would design an experiment to answer this question. Without an offsetting increase in aggregate demand, it is difficult to see the source of increased employment for these newly trained disadvantaged workers.

Supported Work Project. The shift to targeted training programs was accompanied in 1975 by an $82 million demonstration project aimed at increasing the employability of some of the most disadvantaged workers in society. Over 100,000 long-term welfare mothers, ex-offenders, ex-drug addicts, and teen-aged high school drop-outs were enrolled in the Supported Work Demonstration program. The objective of this program was to give the participants work experience and to help them adjust to "the life of work."

Participants were guaranteed work for one year. The objective was to offer general training, which could increase employability, rather than to teach specific skills. The jobs included such tasks as painting fire hydrants and working in day care centers. It was hoped that employability could be increased by gradually increasing the requirements on attendance, punctuality, and other indicators valued in the market.

The cost of the program was high. The cost per year was $10,000 per participant, making this even more expensive than public service jobs under CETA. The evaluation of the program showed large differences in the experiences of the four groups. Comparing social costs and benefits (excluding stipends, since this is a transfer payment) the program was shown to be cost-effective for welfare mothers and ex-addicts. The net benefit of over $8,000 for welfare mothers was largely a result of their increased postprogram earnings. The large net benefits for ex-addicts was primarily a result of reduced criminal activities. The evaluation for the two other groups, however, showed less promising results. Youth had negative net benefits, and the results for ex-offenders were inconclusive.

These demonstration projects show that substantial social benefits can be gained from targeted programs. For some segments of the population, employment and training programs are defensible on the basis of efficiency as well as equity.

It is important to recognize that social efficiency and cost to the taxpayer are not synonymous, since stipends are not counted as a cost in measuring social efficiency. Danziger and Jakubson (1982) simulated the impact of instituting a nationwide Supported Work project. They estimated that the program would have cost over $700 million in 1975. The

increased potential earnings of participants, which are a net social benefit, were not available to offset the budgetary cost of over $10,000 per recipient.

Tax Credit Programs

New Jobs Tax Credit. While evidence mounted that government could reallocate employment to disadvantaged workers, frustration at government's inability to influence total employment, either through PSE or training, led to a new approach. Following the experience of some European countries, the United States instituted the New Jobs Tax Credit program (NJTC) in 1977. This program offered tax credits to any firm which increased its employment above 102% of its previous year's employment. Fifty percent of the first $4,200 of earnings for new employees would be returned to the employer by the federal government in the form of tax credits against personal or corporate income tax which could be carried forward or backward over a number of years. The maximum tax credit available to an employer was $100,000, making the program relatively more attractive to small and medium-sized firms (Chapton, 1981). It is estimated that 1% of the labor force received the subsidy, costing nearly $2 billion.

Since the subsidy was available to all workers, there was no explicit attempt to use this tool either to redistribute employment or to "cheat the Phillips curve" by increasing demand for labor groups with relative flat short-run Phillips curves. Without explicit targeting, there was little danger of displacing subsidized workers for nonsubsidized workers. Employment was to increase faster than output by lowering the cost of

labor relative to capital and by lowering the cost of new workers relative to the cost of increasing employment of existing workers.

How effective was the NJTC? Perloff and Wachter (1979) found that firms that knew about the program had a 3% higher rate of growth in hiring. This could have been the result of the program inducing the creation of new jobs or the result of firms which had already decided to expand employment signing up for the program. The fact that over half the firms received the maximum payment, and hence faced no change in wages at the margin, and hence no change in marginal costs, reduced the effectiveness of the program. Bishop and Haveman (1979), however, offer some tentative evidence that the program may have met its objective. This evidence must be taken as suggestive, since it is difficult to separate the impact of the NJTC from changes in other macro forces which led to a simultaneous recovery.

It should be noted that a built-in side consequence of this program is to decrease productivity. By decreasing the capital-labor ratio, the program could only be successful by having this undesirable side consequence.

Targeted Jobs Tax Credit. The vacillation between using employment policies to increase employment and to redistribute employment among workers, seen previously in the CETA legislation, was repeated in the wage subsidy legislation. In 1978 the NJTC was replaced by the Targeted Jobs Tax Credit (TJTC). As the name implies, this program (which was still operating in 1983) was only available for specific groups experiencing labor market disadvantages: youth from low-income households, Vietnam veterans, some disabled workers, and some welfare recipients. Fifty percent of the first $5,600 of wages were subsidized the

first year and 25% the second year. The subsidies were available to all employers, whether their total employment increased or not.

A special TJTC was available for summer employment of youth 16 to 17 in the summer of 1983. The impact of this program, which subsidizes up to 85% of the wages paid to economically disadvantaged youth, makes it possible for an employer to hire summer youths for only 50 cents an hour.

Since no formal evaluation of TJTC is available, it is difficult to assess its impact. Cursory evidence, however, is not very supportive. Tax credits were claimed for only 3% of the newly hired youth who would have been eligible for the program in 1980, indicating a general lack of interest on the part of employers. Furthermore, even those workers hired under the program may not have been additional workers. Since employers were allowed to apply retrospectively for the credit, many of the jobs were not net additions to the firm. It is estimated that at most 18% of the jobs for which the TJTC was claimed were actually additional jobs created by the credit (see Christensen, 1982). O'Neill (1982) speculates that the reason for the low "take-up rate" was that employers were reluctant to ask potential new employees for information which would identify them as being eligible, and job applicants were reluctant to volunteer the information for fear it would stigmatize them.

IV. MICRO LABOR MARKET POLICIES UNDER THE REAGAN ADMINISTRATION

The Reagan administration's commitment to use the private sector and the desire to cut domestic spending to reduce the deficit have led to a sharp scaling back of micro labor market policies in the United States.

However, these policies have not been totally abandoned. Some programs have been eliminated but some have been replaced by smaller and more tightly targeted programs (see Bendick, 1982).

Government involvement in labor market policy, even in an administration which advocates minimal government involvement, is consistent with the intellectual foundation for the Reagan programs. Though vertical Phillips curve macro models downplay the importance of movement along short-run Phillips curves, they do acknowledge that the "natural rate of unemployment" can be changed through selective labor market policies. As stated in the Economic Report of the President, 1983, "Even after full recovery, however, a serious structural unemployment problem will remain unless measures are taken to improve the functioning of the labor markets" (p. 29).

Administration Initiatives

Three major microeconomic initiatives have been undertaken or proposed by the Reagan administration: the Job Training Partnership Act (JTPA) replaces the earlier CETA legislation; enterprise zones in depressed areas have been proposed as a replacement for Economic Development Administration programs; and a subminimum wage for youth has been advocated.

Job Training Partnership Act. The Job Training Partnership Act was passed in 1982 to replace CETA. Public service employment, which lost its political popularity as it became more heavily targeted on low-income people, was abolished. Targeted training programs were allowed to continue but at a much reduced level. They are expected to decline by

over 60% between 1981 and 1986. Training is available only to poor youth, the long-term unemployed, and displaced workers.

The new legislation continues the process of reducing the role of the federal government in administering training programs. State and local governments are to administer the programs, and private enterprise is to have an enlarged role in designing the training slots. Private Industry Councils, made up primarily of representatives of the business community, are charged with oversight. As in the past, it is believed that better identification of the specific needs in local areas will result in disadvantaged workers being trained in fields for which there are jobs.

Enterprise zones. The second major thrust of the Reagan administration is to improve labor demand in specific labor markets. Enterprise zones, based on the model of Hong Kong as a free trade zone, will be set up in low-income areas. Employers will be induced to set up plants in severely depressed areas, such as the South Bronx, by a system of tax credits and diminished regulation. Tax credits would be given for investment and for increased payrolls. Since both the price of capital and the price of labor would be changed, increased employment is more likely to be affected by plant decisions than by increases in labor intensity.

State and local governments will have to compete in order to have enterprise zones in their areas. It is hoped that competition between local juridictions will lead state and local governments to grant additional tax relief.

Enterprise zone legislation is designed to replace programs in the Economic Development Administration, which started as an aid to distressed areas but evolved into a set of programs giving subsidies to

businesses located in poor and nonpoor areas alike. The new legislation would save funds through tighter targeting. However, many poor communities currently receiving funds for economic development would be worse off if the Economic Development Administration were abolished. Only 4% of the 2,000 localities which might be eligible for the program would receive funding under the enterprise zone initiative.

Subminimum wage. The third thrust of the Reagan program is to reduce the minimum wage for teen-agers from $3.35 an hour to $2.50 for five summer months. Labor cost of teen-agers during these months would be further reduced by exempting them from unemployment insurance. It is believed that the amount of displacement of older workers would be low, since the subminimum wage is limited to the summer months (Corrigan, 1983).

Evaluation of Programs

While the Reagan proposals differ from previous legislation in terms of the amount of federal funding, they are qualitatively similar. The objectives of decreasing unemployment and redistributing unemployment continue to be intertwined. While it is possible to argue that a reduced subminimum wage and job training tied to the private sector will increase employment of targeted groups, there is very little evidence that the programs will increase total employment. Targeted workers are likely to displace nontargeted workers, unless there is a simultaneous macroeconomic expansion.

It seems even less likely that enterprise zones will increase total employment. If displacement does not occur when location decisions are

made (i.e., an additional plant in the South Bronx is bought at the price of one less plant in another area), displacement is likely to occur in the product market as the new plant competes with other producers. At best, these programs will serve to redistribute jobs to less advantaged groups. In this way the Reagan programs are a scaled-down version of past programs.

Likewise, the thrust toward decentralization and increased private involvement is not a dramatic break with the past. Decentralization of labor market programs started with the War on Poverty and Private Industry Councils were used in a limited way under CETA. The country had already moved a considerable distance in this direction when Reagan entered the White House.

If the Reagan program is qualitatively different, it is in its reluctance to use public service employment, even in times of deep recession. With unemployment over 10%, Reagan did not introduce public service employment legislation. He agreed to a public works bill (to repair roads and bridges) only after a Democratic bill had gained wide support. This bill was conceptually different from previous jobs bills, since the legislation was financed through a 5-cent-a-gallon gasoline tax. By increasing spending and taxes by the same amount, this program was accused of providing little in the way of additional jobs, though it did shift the burdens of the recession away from construction workers and on to those who had to pay the gasoline tax.

The continuity in basic program design should not obscure the fact that programs have been greatly cut back. In 1978 and 1979 employment and training programs constituted 2.5% of federal outlays. Half of this was public service employment. By 1982 training programs made up only

.5% of the outlays and public service employment was almost totally eliminated.

V. CONCLUSION

A review of the U.S. experience with micro labor market policies shows an ambivalence toward what these policies can, or should, accomplish. There has been a constant vacillation between programs which are aimed at reducing unemployment and those aimed at redistributing unemployment. Until very recently, increases in unemployment rates were followed by direct job creation through public service employment. Training programs were advocated in times of tighter labor markets to reduce unemployment, even though their primary impact was probably to redistribute jobs to the trainees.

A review of the evidence indicates that specific policies aimed at specific groups can be effective in reducing their unemployment rates. Supported work is the best example. One must, however, be much more careful in arguing that active labor market policies can reduce the aggregate unemployment rate in ways which could not be achieved through expansionary monetary or fiscal policies. The Baily-Tobin taxonomy still seems to be the most useful. Policies which redistribute unemployment in such a way as to lessen the inflationary impact of expansionary monetary or fiscal policies allow such expansionary policies to be undertaken. In this indirect way, micro labor market policies can lead to an increase in aggregate employment. However, by themselves micro policies have little impact on aggregate employment.

The U.S. experience gives us reason to believe that micro labor policies can be used to achieve desirable social objectives. There are enough examples in the U.S. experience to show that well-defined objectives can be achieved through micro labor market policies. These policies should, however, be viewed as a complement, not a substitute for active macro policies.

Note

[1]See Burkhauser and Haveman (1982) and Haveman (1980) for a more extensive review.

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