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ANTIRECESSIONARY
JOB CREATION

Lessons From the Emergency
Jobs Act of 1983

Statement of Lawrence H. Thompson, Assistant Comptroller
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SUMMARY OF TESTIMONY BY LAWRENCE H. THOMPSON
ON ANTIRECESSIONARY JOB CREATION: LESSONS LEARNED FROM
THE EMERGENCY JOBS ACT OF 1983

Some form of countercyclical job creation program has been enacted during four of the last five recessions. The Emergency Jobs Act of 1983 was enacted to alleviate the effects of the 1981-82 recession. The act made about \$9 billion available to supplement the activities of 77 existing federal programs and activities to (1) provide productive employment for jobless Americans, (2) hasten or initiate federal projects and construction of lasting value, and (3) provide humanitarian assistance to the indigent.

The 77 programs provided funds by the act can be categorized into four groups--public works, public service, income support, and employment and training assistance. The vast majority of the funds (about \$7.8 billion) were made available to 55 public works programs to build water systems, sewers, and construct subsidized housing.

The Emergency Jobs Act of 1983 was not effective and timely in relieving the high unemployment caused by the recession. Funds were spent slowly, as is typical for public works programs, and few jobs were created when most needed in the economy. Unemployment returned to its pre-recession level in June 1984, fifteen months after the act was passed. At that time only one-third of the funds had been spent. Slow spending was due mainly to the slow spend-out rate for the public works programs. Within fifteen months of the act's passage only 26 percent of the public works funds were spent. In contrast, almost all the funds made available to the income support, training and public service programs had been spent by that time.

The slow spend out rate resulted in relatively few jobs being created. The employment increase attributable to the act peaked at about 35,000 jobs in June 1984, by which time the unemployment rate had returned to its pre-recession level. Had all the \$9 billion been spent in the year after enactment, peak employment impact would have been nearly four times as great.

We also found that unemployed persons received a relatively small proportion of the jobs provided, and some of the states most severely affected by the recession were among those that received the least assistance relative to the number unemployed.

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss our evaluation of the Emergency Jobs Act of 1983. The 1983 act was the last time that the Congress adopted a counter-cyclical job creation program. We monitored implementation of the program, analyzed how effective and timely it was in providing jobs in the economy, and summarized our observations in Emergency Jobs Act of 1983: Funds Spent Slowly, Few Jobs Created (GAO/HRD-87-1, Dec. 1986).

In the years since World War II, the Congress has enacted major counter-cyclical job creation programs in response to four of the past five recessions. In each case, the response involved either spending for new public works projects, spending for expanded public services or public service employment, or both.

The Congress enacted the Accelerated Public Works program of 1962 in response to the 1960-61 recession. In 1971 The Emergency Employment Act and Public Works Impact Programs were enacted in response to the 1969-70 recession. It responded to the 1973-75 recession with two separate local public works programs and with a major public service employment program, Title VI of the Comprehensive Employment and Training Act. The Emergency Jobs Act of 1983 contained both public works and public service allocations.

THE EMERGENCY JOBS ACT OF 1983

The United States experienced the worst recession of the post-World War II period between July 1981 and November 1982. The unemployment rate peaked at 10.7 percent, the highest monthly unemployment rate since the Great Depression. At the trough, the official count of unemployed persons rose by 4 million to nearly 12 million, while total employment fell by about 1.6 million. Officially, the recession lasted 17 months, which equaled the

duration of the longest previous postwar recession (1973-75). In fact, however, another 19 months elapsed after the official end of the recession before unemployment returned to the pre-recession rate. Counting the additional time required for unemployment to return to pre-recession levels, a total of 36 months elapsed, from July 1981 until June 1984.

The current recession has not been quite as severe as the 1981-82 recession, but could end up being as long. It began officially in August 1990, some 18 months ago, and we do not yet know whether it has ended. Unemployment now stands at 7.1 percent, meaning that about 8.9 million Americans are out of work. Since the beginning of the recession, unemployment has increased by 2 million and employment has dropped by 1.2 million.

Counter-cyclical jobs programs seem always to be enacted well after a recession begins. As I just noted, 18 months has elapsed since the beginning of the current recession. On average, postwar counter-cyclical jobs programs have been adopted 27 months after the official beginning of the recession. The Emergency Jobs Act of 1983 was actually a little quicker than the average as it was adopted in March of 1983, some 21 months after the official beginning of the 1981-82 recession. And its enactment preceded by 15 months the return to pre-recession unemployment levels.

The 1983 act made over \$9 billion available to supplement the activities of 77 existing federal programs and activities. Its stated objectives were to (1) provide productive employment for jobless Americans, (2) hasten or initiate federal projects and construction of lasting value, and (3) provide humanitarian assistance to the indigent. It required to the extent practicable that federal agencies, states, and local governments were to use the funds in a manner that quickly provided new employment opportunities for the long-term unemployed.

The 77 programs funded by the act fell into four broad categories: public works, public service, income support, and employment and training assistance. With respect to both the number of programs and the aggregate amount of funding made available, by far the most important of these categories was the public works program group. About \$7.8 billion of the funds made available by the act was divided among 55 public works programs and activities, mainly the construction of buildings and repair and maintenance of facilities. Public works programs administered by the Department of Housing and Urban Development received the most funds, about \$4.3 billion for constructing subsidized housing and for community development block grants. Another \$450 million was provided to the Farmers Home Administration to help rural communities acquire new and improved water and waste disposal systems.

The remaining funds (about \$1.2 billion) were made available to 22 other programs and activities. About \$620 million was provided to 13 public service programs. For example, the Department of Health and Human Services (HHS) was given \$105 million to supplement the maternal and child health care program and another \$65 million for community and migrant health services. About \$400 million was distributed among five income support programs, including, for example, \$125 million to extend and supplement railroad unemployment insurance benefits. Finally, increases in employment and training assistance totaled about \$230 million and involved four separate programs. The largest increases were \$100 million to expand the summer youth employment program and \$85 million for re-employment assistance to dislocated workers.

WHAT WE FOUND

Our evaluation of the Emergency Jobs Act involved analyses of (1) the speed with which the funds were spent, (2) the impact of the

act on total employment, 3) the fraction of the newly created jobs that went to previously unemployed persons, and (4) the relationship between the location of the unemployed and the allocation of the emergency federal spending. In brief, we found serious shortcomings. The funds were spent slowly, and, as a result, relatively few jobs were created when most needed in the economy. Also, unemployed persons received a relatively small proportion of the jobs provided, and some of the states most severely affected by the recession were among those that received the least assistance relative to the number unemployed.

Funds Spent Slowly

Of the \$9 billion made available for the act, only one-third of the funds had been spent (in federal budget terms, outlayed) by June 1984, the date by which unemployment had returned to its pre-recession level. A year later, 2-1/4 years after the act's passage, about half the funds remained unspent.

Certain program attributes appeared related to the speed of disbursement. Programs with obligation deadlines within a year of the act's passage outlayed their funds twice as fast as programs without such requirements. In addition, programs targeted to high unemployment states and substate areas also spent their allocation faster. Spending rates also varied dramatically among the different broad program categories, with the income support programs spending their funds most rapidly and the public works programs spending theirs most slowly.

Of the \$400 million made available to income support programs, about 80 percent was spent within 6 months, and 90 percent within a year. By June 1984, the date by which unemployment had declined to its pre-recession level, about 93 percent of the funds allocated to income security programs had been spent. Three of the income support programs spent virtually all their funds within the first six months: Agriculture's supplemental

food program for women, infants, and children (WIC); an Agricultural Marketing Service Program; and the Federal Emergency Management Agency's Emergency Food and Shelter program.

Table 1 Spending Rate by Type of Program

Dollars in millions

<u>Program type</u>	<u>Total allocation</u>	<u>Percent spent after</u>			
		<u>6 mo.</u>	<u>12 mo.</u>	<u>15 mo.</u>	<u>27 mo.</u>
Income support	\$401	80	90	93	96
Training	\$228	53	72	86	99
Public service	\$616	48	69	82	99
Public works	<u>\$7,784</u>	<u>7</u>	<u>18</u>	<u>26</u>	<u>42</u>
Total	\$9,029	15	26	34	50

The four programs providing employment training assistance and the 13 programs providing public services spent their funds somewhat more slowly, yet still managed to disburse the vast majority of their allocations before unemployment had returned to pre-recession levels. Of the \$844 million made available to these two categories of programs, about half was spent within 6 months, and about two-thirds within a year. About 83 percent of the funds had been spent by June 1984. HHS's social services block grants and Labor's summer youth program were among the programs spending their funds most quickly, with over 75 percent of the funds spent within 6 months.

Public works programs were the slowest to spend their funds, and 75 percent of the funds remained unspent by June 1984, when unemployment had returned to the pre-recession level. After 6 months, only 7.4 percent of the \$7.8 billion made available to public works programs had been spent, and after a year only 18 percent had been spent.

Public works activities were slow to spend their funds because of the time typically required to plan, select, and award grants before work can begin. Among the public works programs, six (with a total \$3.7 billion available) had spent less than 15 percent of their funds after 2-1/4 years. Two of these had spent nothing--an education program to remove architectural barriers to the handicapped and a grant to the Centers for Disease Control to build a laboratory for extremely contagious diseases.

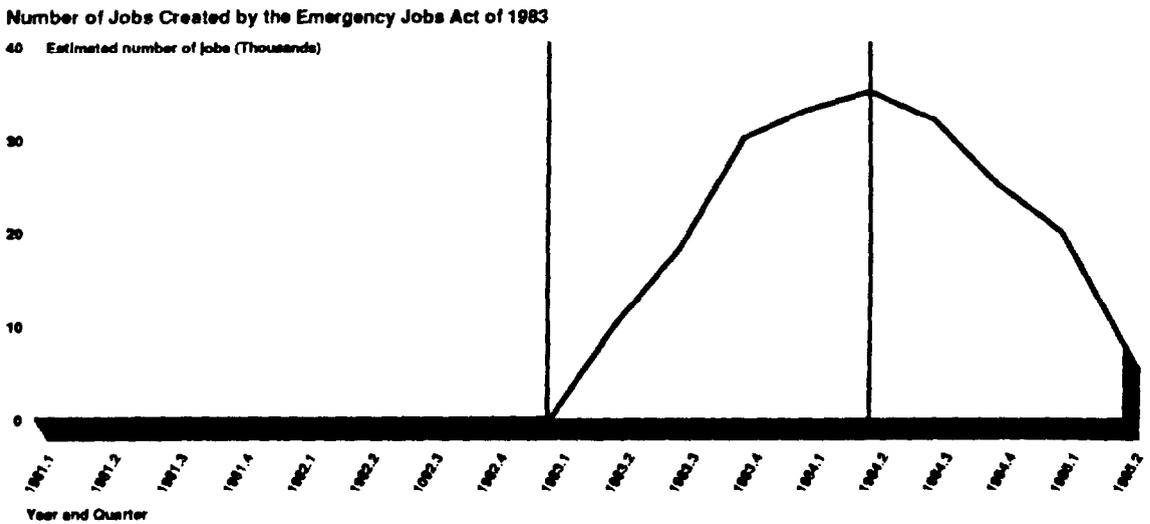
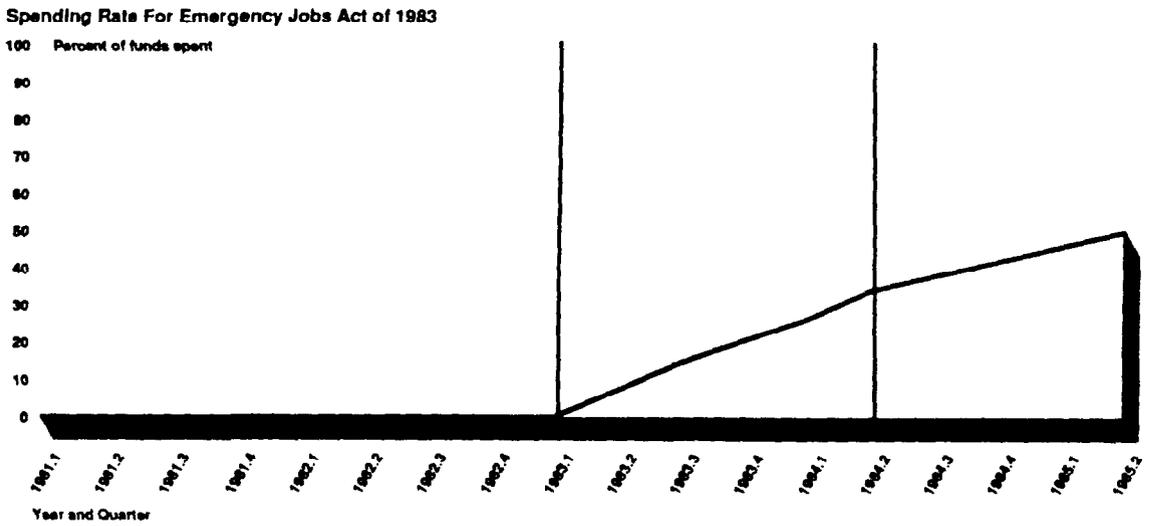
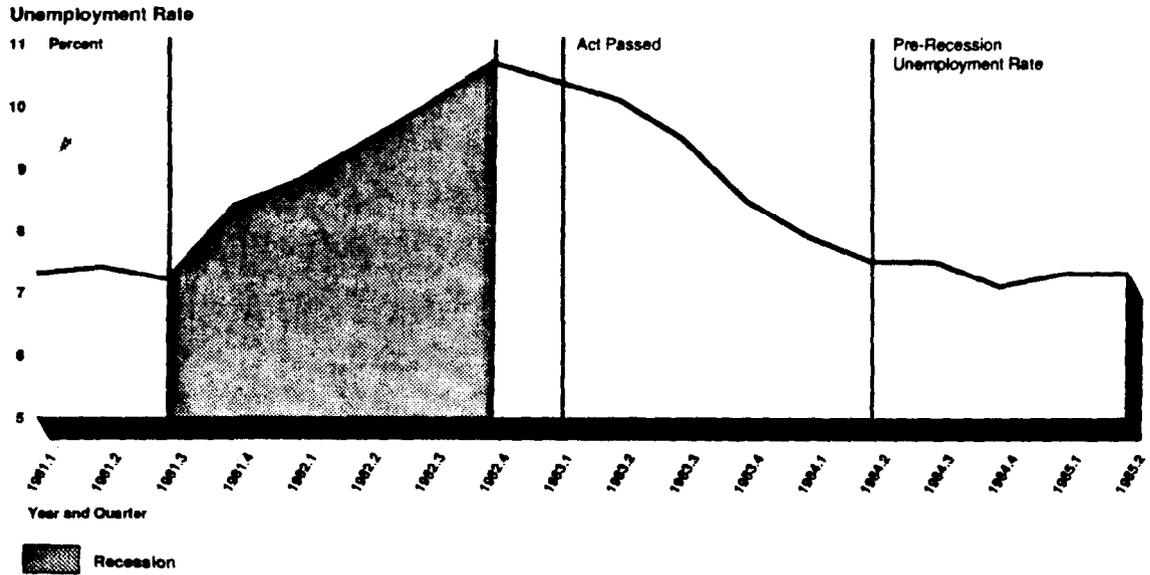
Few Jobs Created

Because of the slow spend-out rate, relatively few jobs were created when they were most needed. We estimated that the employment increase attributable to the act peaked at about 35,000 jobs in June 1984. Recall that, coincidentally, this is the same date by which time the unemployment rate had returned to its pre-recession level. Had all \$9 billion been spent in the year after enactment of the Emergency Jobs Act, the peak employment impact would have been nearly four times as great. But, because most of the funds were spent after June 1985, the greatest impact came after the economy was already in a vigorous recovery. By that time, unemployment had declined by 3.7 million and employment had expanded by 5.8 million.

Many Hired Not Previously Unemployed

The 1983 act included a provision requiring, to the extent practicable, that federal agencies, states, and political subdivisions of the states use the funds in a manner that would quickly provide new employment for individuals who were unemployed at least 15 of the 26 weeks before the act's passage. We analyzed 10 specific programs funded by the act and found that no more than 35 percent of the people employed by these programs were previously unemployed.

Figure 1: Implementation of the Emergency Jobs Act of 1983



Targeting

Funds made available under the 1983 act were not targeted to areas most affected by the recession. We found wide variation in the relationship between the amounts of funds allocated to each state and the number of unemployed persons in that state. Geographic allocation data were available for about \$5.2 billion of the funds allocated by the act, an average of about \$415 for each person unemployed at the time of its enactment. Actual allocations per unemployed person varied substantially, with Wisconsin receiving about \$263 per unemployed person, and Alaska about \$1,770. Nine of the sixteen states with unemployment rates above 12 percent, received less than \$400 per unemployed person. For example, Michigan had an unemployment rate of 17 percent and received \$289 per unemployed person. Similarly, Alabama had a 15.7 percent unemployment rate and received about \$381 per unemployed person. The geographic mismatch between funds allocated and unemployment was the natural result of the fact that funds in each of the 77 programs were distributed basically according to that program's normal criteria. Although managers in 33 of the programs were required to target a portion of their funds to high unemployment areas and states, this provision was insufficient to focus substantial additional funding on the most severely affected areas.

LESSONS FOR THE FUTURE

In our view, the Emergency Jobs Act of 1983 was not a particularly effective counter-cyclical jobs program. Too many of the jobs created were not at the time or in the places where they were most needed. Among the reasons for this were:

- The time lag between the beginning of the recession and the enactment of the legislation. Even though the 1983 legislation was adopted more quickly than previously counter-cyclical legislation had been, its enactment still

was some 21 months after the beginning of the recession and only 15 months before unemployment rates had fallen to pre-recession levels.

- The comparatively heavy emphasis on public works programs, which spend out fairly slowly. The 1983 legislation would have been almost four times as effective in creating jobs if all of the money could have been outlaid as quickly as was the income support money.

- The reliance on existing distribution principles and formulas. The allocations under the 1983 act would have better approximated the geographic distribution of the unemployed if geographic allocations had been addressed more explicitly.

In closing let me observe that the net effect of any fiscal stimulus depends on how much of the money spent represents a net addition to spending. Of equal importance is that whatever additional funds may be available should be spent quickly, usually within 1 year, to concentrate the effect of the program while the economy is still likely in recession. And, to the extent practical, they should be targeted to where the unemployment problems are the most severe.

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Mr. Chairman, that concludes my prepared statement. I will be happy to answer any questions you or other members of the Subcommittee may have.