TARGETED JOBS TAX CREDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

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FRIDAY, APRIL 3, 1981

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT, AND REVENUE SHARING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:30 p.m., in room 2221, Everett McKinley Dirksen Building, Hon. John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz and Dole.

[The press release announcing this hearing and the joint committee print follows:]

FINANCE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING SETS HEARING ON TAX INCENTIVES FOR EMPLOYMENT

Senator John Heinz (R-Pa.), Chairman of the Subcommittee on Economic Growth, Employment, and Revenue Sharing announced today that the Subcommittee will hold a hearing on April 3, 1981 on the use of tax incentives to increase employment, including a review of the experience with the Targeted Jobs Tax Credit.

The hearing will be held on Friday, April 3, in Room 2221 of the Dirksen Senate Office Building, and will begin at 12:30 p.m.

The hearing will focus on the Targeted Jobs Tax Credit that was enacted as part of the Revenue Act of 1978. The Targeted Jobs Tax Credit was designed to focus tax incentives for employment on seven specific target groups that experience high unemployment rates, and replaced the former New Jobs Tax Credit. It is expected that witnesses will address how well the Targeted Jobs Tax Credit has performed as a device for increasing employment among the targeted groups. Witnesses are also invited to suggest other approaches for stimulating employment through the use of tax incentives, particularly in small business.

In general, it is anticipated that witnesses will be able to advise the Subcommittee on ways to increase the level of employment by reducing the additional labor costs imposed by Federal taxes. The use of tax incentives to increase national, regional, and urban employment will be explored, according to Heinz.

Requests to testify

The Committee requested that persons desiring to testify during this hearing make their requests to testify in writing to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, March 27, 1981. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony

The Committee urged all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Committee urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act

The Committee observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the Committee require witnesses appearing before the

Committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

The Committee stated that all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) Not more than 10 minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements

Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Statements submitted for inclusion in the record should be typewritten, not more than 25 double spaced pages in length and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, March 27, 1981.

BACKGROUND ON TAX INCENTIVES FOR EMPLOYMENT

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Subcommittee on Economic Growth, Employment, and Revenue Sharing of the Committee on Finance has scheduled a hearing on April 3, 1981, on the use of tax incentives to increase employment.

This pamphlet, prepared in connection with the hearing, contains three parts. The first part discusses the legislative history of tax incentives for employment, beginning with the WIN tax credit as adopted in 1971. The second part describes the present targeted jobs tax credit and WIN tax credit. The third part provides data on recent use of the credits and summarizes several recent reports evaluating the credits.

I. LEGISLATIVE HISTORY

A. Employment Tax Incentives Prior to the Revenue Act of 1978

1. Work incentive program credit and welfare recipient tax credit

As part of the Revenue Act of 1971, Congress adopted a tax credit for the hiring of recipients of Aid to Families with Dependent Children (AFDC) who were placed in employment through the Work Incentive Program. The amount of the credit was 20 percent of the gross wages paid to the employee for the first 12 months of employment (whether or not consecutive) during a period of 24 months from the first day of employment. The maximum amount of credit which could be claimed by an employer, in any taxable year, was $25,000 plus 50 percent of any remaining tax liability in excess of $25,000. The credit was not available to nonbusiness employers (e.g., employers of household employees). In addition, the credit was recaptured in the case of an employee who ceased to work for the original employer unless the employee voluntarily quit, became disabled, or was fired for misconduct before two years had passed.

The Tax Reduction Act of 1975 added the welfare recipient tax credit for the hiring of AFDC recipients who had received benefits for 90 days. This credit was essentially the same as the WIN credit except that it was available to both businesses and nonbusiness employers (with a $5,000 per year cap on eligible nonbusiness wages). A tax credit was allowable either under the WIN credit or welfare recipient tax credit but was not allowable under both with respect to the same wages paid to the same individual. The welfare recipient tax credit was to expire on July 1, 1976.

The Tax Reform Act of 1976 made several changes to both the WIN tax credit and the welfare recipient tax credit. Because the Congress was concerned that the WIN tax credit was not being used to the extent anticipated, revisions were made to encourage its greater use: (1) the credit was made available from the date of hiring if employment was not terminated without cause before the end of six months; (2) an additional exemption was added to the recapture rules so that no recapture would be required if an employee were laid off due to a substantial reduction in business; and (3) the limitation on the amount of the credit was increased from $25,000 to $50,000 plus one-half of tax liability in excess of $50,000. Three changes also were made to the welfare recipient tax credit: (1) its expiration date was extended to January 1, 1980; (2) a 12-month limit was imposed upon the period of time for which the credit could be claimed for any one employee; and (3) WIN agencies, as well as State and local welfare agencies, were permitted to certify eligibility for the credit.

2. New jobs tax credit

The Tax Reduction and Simplification Act of 1977 provided a new jobs tax credit for 1977 and 1978. This credit was equal to 50 percent of the increase in each employer's wage base under the Federal Unemployment Tax Act (FUTA) above 102 percent of that wage base in the previous year. (The FUTA wage base, for purposes of this credit, consisted of the first $4,200 of wages per employee.) The employer's deduction for wages was reduced by the amount of the credit. Thus, although the maximum gross credit with respect to each new employee was $2,100, the effective credit per employee ranged from $1,806 (for a taxpayer in the 14-percent tax bracket) to $630 (for a taxpayer in the 70-percent bracket).

There were four limitations on the total amount of credit which could be claimed: (1) the credit could not exceed 50 percent of the increase in total wages paid by the employer for the year above 105 percent of total wages paid by the employer in the previous year; (2) the credit could not exceed 25 percent of the current year's FUTA wages; (3) the credit could not exceed $100,000 per year; and (4) the credit could not exceed the taxpayer's tax liability.

Special rules were provided for businesses not covered under FUTA, such as farms and railroads. Special rules also were provided for computation of the credit by groups of companies under common control, for businesses with employees working abroad, and for businesses affected by acquisitions, dispositions, and other changes in business from. Additional rules were provided for allocating the credit among members of a partnership and of a subchapter S corporation.

The 1977 Act also provided an additional, nonincremental credit equal to 10 percent of the first $4,200 of FUTA wages paid to handicapped individuals who received vocational rehabilitation. This credit was based on the first $4,200 of wages paid to a handicapped individual whose first FUTA wages from the employer were paid in 1977 or 1978. Only wages paid during the one-year period beginning when the individual first was paid FUTA wages by the employer were taken into account in computing the credit. The credit for handicapped workers could not exceed one-fifth of the regular 50-percent credit which would have been allowable without regard to the $100,000 limitation. However, this special 10-percent credit was not itself subject to any specific dollar limitation.

B. Revenue Act of 1978

The Revenue Act of 1978 substantially revised the provisions relating to tax incentives for employment. The new jobs tax credit was permitted to expire at the end of 1978 because Congress believed that the unemployment rate had declined to a level where it would be more appropriate to focus employment incentives on individuals who have high employment rates, even when the national unemployment rate is low, and on other groups with special employment needs. Thus, in place of the new jobs tax credit, Congress enacted a provision which was designed to provide an incentive for private employers to hire individuals in seven target groups, which were singled out on the basis of their low income or because their employment should be encouraged. The seven target groups consisted of (1) vocational rehabilitation referrals, (2) economically disadvantaged youths, (3) economically disadvantaged Vietnam-era veterans, (4) SSI recipients, (5) general assistance recipients, (6) cooperative education students, and (7) economically disadvantaged ex-convicts. (This provision is discussed more fully, below, under "Present law.")

Because Congress believed that employer utilization of the WIN and welfare recipient tax credits was far below what could have been achieved if the credit rate had been higher and the rules for claiming the credits had been simpler, the 1978 Act increased the credit rate and simplified the rules governing employer eligibility for the credits. In addition, the welfare recipient credit was made permanent. (These rules are discussed below, under "Present law.")

In addition to these substantive changes, the 1978 Act requires the Secretaries of Labor and Treasury to submit to the tax-writing committees a joint report concerning the effectiveness of the targeted jobs tax credit and the new jobs tax credit of prior law. This report is due no later than June 30, 1981.

II. PRESENT LAW

A. Targeted Jobs Tax Credit

(Code secs. 51, 52, and 53)

1. General rules

The targeted jobs credit, which applies to eligible wages paid before January 1, 1982, is available on an elective basis for hiring individuals from one or more of seven target groups. The credit is equal to 50 percent of the first $6,000 of qualified first-year wages and 25 percent of the first $6,000 of qualified second-year wages paid to each individual. Qualified first-year wages are wages that are paid for services during the one-year period which begins with the day the individual begins working for the employer. However, in the case of a vocational rehabilitation referral, this period begins with the day the individual starts work for the employer that is on or after the beginning of the individual's rehabilitation plan. Qualified second-year wages are wages attributable to service rendered during the one-year period immediately following the close of the first one-year period.

Since no more than $6,000 of wages during either the first or second year of employment may be taken into account with respect to any individual, the maximum credit per individual is $3,000 in the first year of employment and $1,500 in the second year of employment. However, the deduction for wages is reduced by the amount of the credit (determined without regard to the tax liability limitation). Thus, for an employer who hires an eligible employee who earns $6,000 in his first year of employment, the credit results in an actual tax reduction that ranges from $900 (for an employer in the 70-percent bracket) to $2,580 (for an employer in the 14-percent bracket). However, because all wages are deductible for employees who are not members of target groups, after-tax costs of the first $6,000 of wages paid to such employees range from $1,800 (for an employer in the 70-percent bracket (to $5,160 (for an employer in the 14-percent bracket). Thus, the credit provides a 50-percent reduction in the after-tax costs of the first $6,000 of wages paid to target group employees in the first year of employment, regardless of the employer's tax bracket.

2. Target groups

The targeted jobs tax credit is available only with respect to the hiring of individuals who are members of one of seven target groups.

The statute contains certification provisions which relieve the employer of responsibility for proving to the Internal Revenue Service that an individual is a member of a target group. The Secretaries of Treasury and Labor are required jointly to designate a single employment agency in each locality to make this determination and to issue a certificate which, without further investigation on the part of the employer, is sufficient evidence that the individual is a member of such group. An exception to this procedure is made for cooperative education students, whose eligibility is certified by the qualified school participating in the program.

The seven target groups are described in detail in the following discussion:

(1) Vocational rehabilitation referrals

Vocational rehabilitation referrals are those individuals who have a physical or mental disability which constitutes a substantial handicap to employment and who have been referred to the employer while receiving, or after completing, vocational rehabilitation services under an individualized, written rehabilitation plan under a state plan approved under the Rehabilitation Act of 1973, or under a rehabilitation plan for veterans carried out under chapter 31 of title 38, U.S. Code. Certification can be performed by the designated local employment agency, upon assurances from the vocational rehabilitation agency that the employee has met the above conditions.

(2) Economically disadvantaged youths

Economically disadvantaged youths are individuals at least age 18 but not age 25 on the date they are hired by employers, and who are members of economically disadvantaged families (defined as families with income during the preceding 6 months, which on an annual basis would be less than 70 percent of the Bureau of Labor Statistics lower living standard as determined by the designated local employment agency).

(3) Economically disadvantaged Vietnam-era veterans

The third target group consists of Vietnam-era veterans certified by the designated local employment agency as under the age of 35 on the date they are hired by the employer and who are members of economically disadvantaged families. A Vietnam-era veteran is an individual who has served on active duty (other than for training) in the Armed Forces more than 180 days, or who has been discharged or released from active duty in the Armed Forces for a service-connected disability, but in either case the active duty must have taken place after August 4, 1964, and before May 8, 1975. However, any individual who has served for a period of more than 90 days during which the individual was on active duty (other than for training) is not an eligible employee if any of this active duty occurred during the 60-day period ending on the date the individual is hired by the employer. This latter rule is intended to prevent employers that hire current members of the armed services (or those recently departed from service) from receiving the credit. The definition of an economically disadvantaged family and the procedures for certifying to the employer that an individual is a member of such a family are the same as those discussed above.

(4) SSI recipients

SSI recipients are those receiving either Supplemental Security Income under Title XVI of the Social Security Act, including State supplements described in section 1616 of that Act or section 212 of P.L. 93-66. To be an eligible employee, the individual must have received SSI payments during a month ending during the 60-day period which ends on the date the individual is hired by the employer. The designated local agency will issue the certification after a determination by the agency making the payments that these conditions have been fulfilled.

(*5*) *General assistance recipients*

General assistance recipients are individuals who receive general assistance for a period of not less than 30 days if this period ends within the 60-day period ending on the date the individual is hired by the employer. General assistance programs are State and local programs which provide individuals with money payments based on need. These programs are referred to by a wide variety of names, including home relief, poor relief, temporary relief, and direct relief. Examples of individuals who may receive money payments from general assistance include those ineligible for a Federal program, or waiting to be certified by such a program, unemployed individuals not eligible for unemployment insurance, and incapacitated or temporarily disabled individuals. Some general assistance programs provide needs to those individuals who find themselves in a one-time emergency situation; however, many of these families will not meet the "30-day requirement" described above. Because of the wide variety of such programs, the law provides that a recipient will be an eligible employee only after the program has been designated by the Secretary of the Treasury, after consultation with the Secretary of Health and Human Services, as a program which provides cash payments to needy individuals. Certification will be performed by the designated local agency.

(*6*) *Cooperative education students*

The sixth target group consists of youths who actively participate in qualified cooperative education programs, who have attained age 16 but who have not attained age 20, and who have not graduated from high school or vocational school. The definitions of a qualified cooperative education program and a qualified school are similar to those used in the Vocational Education Act of 1963. Thus, a qualified cooperative education program means a program of vocational education for individuals who, through written cooperative arrangements between a qualified school and one or more employers, receive instruction, including required academic instruction, by alternation of study in school with a job in any occupational field, but only if these two experiences are planned and supervised by the school and the employer so that each experience contributes to the student's education and employability.

For this purpose a qualified school is (1) a specialized high school used exclusively or principally for the provision of vocational education to individuals who are available for study in preparation for entering the labor market, (2) the department of a high school used exclusively or principally for providing vocational education to persons who are available for study in preparation for entering the labor market, or (3) a technical or vocational school used exclusively or principally for the provision of vocational education to persons who have completed or left high school and who are available for study in preparation for entering the labor market. In order for a nonpublic school to be a qualified school, it must be exempt from income tax under section 501(a) of the Code. In the case of individuals in this group, wages paid or incurred by the employer are taken into account only if the school certifies that the individual is enrolled in and actively pursuing the qualified cooperative education program, is age 16 through 19, and is not a vocational or high school graduate.

(7) *Economically disadvantaged former convict*

Any individual who is certified by the designated local employment agency as having at some time been convicted of a felony under State or Federal law and who is a member of an economically disadvantaged family is an eligible employee for purposes of the targeted jobs credit, if such individual is hired within five years of the later of release from prison or date of conviction. The definition of an economically disadvantaged famly and the procedures for certifying to the employer that an individual is a member of such a family are the same as those discussed above.

3. Limitations on amount of credit

Wages may be taken into account for purposes of the credit only if more than one-half of the wages paid during the taxable year to the employee are for services in the employer's trade or business. In addition, wages for purposes of the credit do not include amounts paid to an individual for whom the employer is receiving payments for on-the-job training under Federally-funded programs, such as the Comprehensive Employment and Training Act (CETA). Moreover, the employer may not claim the targeted jobs credit for wages paid to an individual with respect to whom a WIN credit is claimed.

In order to prevent the hiring of targeted employees from displacing a substantial number of non-targeted employees, qualified first-wages for all targeted employees may not exceed 30 percent of FUTA wages for all employees during the calendar year ending in the current tax year.

Finally, in order to prevent taxpayers from escaping all tax liability by reason of the credit, the credit may not exceed 90 percent of the employer's tax liability after being reduced by all other nonrefundable credits, except the residential energy credit (sec. 44C), the credit for producing fuel from a conventional source (sec. 44D), and the alcohol fuel credit (sec. 44E). Excess credits may be carried back three years and carried forward seven years.

4. Special rules

For purposes of determining the years of employment of any employee, wages for any employee up to $6,000, and the 30-percent FUTA cap, all employees of all corporations that are members of a controlled group of corporations are treated as if they are employees of the same corporation. Under the controlled group rules, the amount of credit allowed to the group is generally the same which would be allowed if the group were a single company. Comparable rules are provided in the case of partnerships, proprietorships, and other trades or businesses (whether or not incorporated) that are under common control. Thus, all employees of such organizations generally are treated as if they are employed by a single person. The amount of targeted jobs credit available to each member of a controlled group is each member's proportionate share of the wages giving rise to the credit.

The targeted jobs tax credit may be used as an offset against the alternative minimum tax except to the extent that the minimum tax is attributable to net capial gains and adjusted itemized deductions.

B. WIN Tax Credit

(Code secs. 50A and 50B)

1. General rules

In the case of trade or business employment, taxpayers are allowed a WIN tax credit equal to 50 percent of qualified first-year wages and 25 percent of qualified second-year wages paid to WIN registrants and AFDC recipients. For employment other than in a trade or business, the credit is 35 percent of qualified first-year wages.

No more than $6,000 of wages during either the first or second year may be taken into account with respect to any individual. Thus, the maximum credit per individual employed in a trade or business is $3,000 in the first year of employment and $1,500 in the second year of employment. Since the employer's deduction for wages is reduced by the amount of the credit, an employer who pays an eligible employee $6,000 in his first year of trade or business employment receives an actual reduction in taxes ranging from $900 (for an employer in the 70-percent bracket) to $2,580 (for an employer in the 14-percent bracket). However, because all wages are deductible for non-eligible employees, after-tax costs of the first $6,000 of wages paid to such employees range from $1,800 (for an employer in the 70-percent bracket) to $5,160 (for an employer in the 14-percent bracket). Thus, the credit provides a 50-percent reduction in after-tax costs of the first $6,000 of wages paid to eligible employees in the first year of employment, regardless of the employer's tax bracket.

2. Eligible employees

An eligible employee is one who either is a member of an AFDC family that has been receiving AFDC for at least 90 continuous days preceding the date of hiring or is placed in employment under the WIN program. Either of these requirements must be certified to by the Secretary of Labor or by the appropriate state or local agency. In addition, for the credit to be available, the employee must be employed by the taxpayer for more than 30 consecutive days on a substantially WIN program. Either of these requirements must be certified by the full-time basis, or, in the case of an employee whose employment is related to providing child day care services, on a full-time or part-time basis.

No credit is available in the case of: (1) expenses reimbursed, for example, by a grant; (2) employees who displace other employees from employment; (3) migrant workers; or (4) employees who are close relatives, dependents, or major stockholders of the employer.

3. Limitations on amount of credit

The WIN-welfare recipient tax credit may not exceed 100 percent of tax liability. Unused credits may be carried back three years and carried forward seven years.

In the case of non-trade or business wages, the maximum amount of creditable wages is $12,000. In effect, this permits a taxpayer to claim the credit for up to two full-time nonbusiness employees.

Finally, the credit for dependent care expenses (Code sec. 44A) may not be claimed with respect to any wages for which the taxpayer is allowed a WIN-welfare recipient credit.

4. Special rules

The WIN-welfare recipient credit contains rules similar to those applicable in the case of the targeted jobs credit for controlled groups. Thus, the amount of credit allowable to each member of a controlled group is the member's share of wages giving rise to the credit.

The WIN credit may be used as an offset against the alternative minimum tax, except to the extent that the alternative minimum tax is attributable to net capital gains and adjusted itemized deductions, to the extent the credit is attributable to the active conduct of a trade or business by the taxpayer claiming the credit.

There is a special 100-percent credit with respect to unreimbursed wages paid to workers whose wages are reimbursed in whole or in part by funds made available under section 2007 (grants to hire welfare recipients as child care workers) of the Social Security Act. If the taxpayer elects to compute the credit using this rate, the credit with respect to any employee is limited to the least of: (1) $6,000 minus the reimbursement with respect to this employee under section 2007, (2) $3,000 (for the first year of employment) or $1,500 (for the second year of employment), or (3) 50 percent (for the first year of employment) or 25 percent (for the second year of employment) of the sum of unreimbursed wages and the reimbursement under section 2007.

III. BACKGROUND INFORMATION ON USE OF EMPLOYMENT TAX CREDITS

A. Data on Certifications

1. Targeted jobs tax credit

Table 1 presents figures on the number of certifications issued under the targeted jobs tax credit. Certifications are issued at an employer's request, to support a claim for the tax credit, after a member of a target group has been hired.

Cooperative education youth are the group for which the largest number of certifications has been issued. As of December 1980, 47.2 percent of all certifications issued were for members of this group. Of the total certifications issued in 1979, approximately the same percentage (50.3) of certifications also were for this group. Thus, apart from seasonal patterns, presumably related to the school year, cooperative education students appear to steadily receive about half of the certifications.

Economically disadvantaged youth have received the second largest number of certifications. As of December 1980, these youths had received 36.7 percent of all certifications. The absolute number of certifications going to this group has been increasing steadily over the period, rising from a monthly average of 4,086 in 1979 to 11,945 in the last three months of 1980.

The number of certificates issued for members of the other five targeted groups is much smaller than for either cooperative education youth or economically disadvantaged youth. Figures for economically disadvantaged Vietnam-era veterans and ex-convicts and for handicapped individuals have each averaged approximately 1,100 per month and have shown no clear trend over the period covered by these figures. The number of general assistance and SSI recipients participating in the program has been even smaller; for the former group, however, the number of certificates appears to be increasing slowly.

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TABLE 1.—NUMBER OF CERTIFICATIONS ISSUED UNDER TARGETED JOBS TAX CREDIT, BY TARGET GROUP

Period	Economically Disadvantaged: Youth	Economically Disadvantaged: Vietnam veterans	Economically Disadvantaged: Ex-convicts	Handi-capped	Coopera-tive education youth	General assistance recipients	SSI recipients	Total
1979								
March to December	36, 774	4, 330	4, 768	6, 119	54, 764	1, 585	390	108, 730
1980								
January	6, 828	979	972	1, 253	21, 875	334	91	32, 332
February	7, 153	984	1, 286	1, 359	18, 506	375	82	29, 745
March	8, 758	1, 146	1, 255	1, 378	11, 634	471	84	24, 726
April	8, 569	1, 183	1, 316	1, 480	8, 059	498	64	21, 169
May	7, 804	895	1, 104	1, 239	6, 906	509	55	18, 512
June	8, 212	986	1, 078	1, 196	5, 648	551	49	17, 720
July	8, 935	1, 031	1, 106	1, 036	4, 288	493	47	16, 936
August	9, 278	995	986	1, 122	1, 753	552	42	14, 728
September	11, 372	1, 206	1, 174	1, 116	5, 484	750	43	21, 145
October to December	35, 834	3, 339	3, 484	3, 649	53, 301	1, 981	201	101, 789
Total	149, 517	17, 074	18, 529	20, 947	192, 218	8, 099	1, 148	407, 532

Source: U.S. Employment Service.

2. WIN tax credit

Table 2 presents recent figures on use of the WIN tax credit. The first column shows the number of certificates issued to employers for eligible employees and thus is roughly comparable to the data in Table 1. The number of certificates issued has grown sharply since 1978.

The second and third columns of table 2 show the number of tax returns on which the WIN credit was claimed. There is no apparent explanation for the drop between 1977 and 1978 in the number of individuals claiming the credit. However, for both corporations and individuals, there was a sharp jump in this figure between 1978 and 1979, which is consistent with the jump in the figures in the first column.

The number of both participating employees and participating employers grew sharply after 1978; this may be attributable to the modifications made to the credit by the Revenue Act of 1978.

TABLE 2.—DATA ON RECENT USE OF WIN TAX CREDIT

Year	Tax credits authorized [1]	Number of tax returns claiming credit	
		Corporations [2]	Individuals
1977	35,266	5,038	15,785
1978	36,085	5,308	4,817
1979	42,713	6,538	7,524
1980	52,625	([3])	([3])

[1] Fiscal years.
[2] Taxable years ending between Oct. 1 of the specified year and Sept. 30 of the following year.
[3] Not available.

Source: U.S. Department of Labor; Internal Revenue Service.

B. Evaluation Reports

1. Ohio State University study [1]

Overview

A series of reports evaluating the implementation of the targeted jobs credit has been written for the U.S. Department of Labor by researchers at Ohio State University. These reports were based primarily on field interviews with administrators and employers in 25 sites around the United States; the latest interviews were conducted in October 1980.

The basic findings of the report are that the hiring patterns of most employers have not responded to incentives provided by the targeted jobs credit, although some employers say that they have shifted hiring to the target groups. In addition, many of the employees of the local agencies administering the credit are skeptical of it and reluctant to use it as a placement tool. A majority of the certifications issued to employers generally have been retroactive, that is, the determination of whether an employee is eligible has been made by the certifying agency (the local Employment Service) after the hiring decision has been made. Some Employment Service offices were found to be more reluctant than others to issue retroactive certifications, but those which were reluctant had difficulty in meeting their numerical goals. Toward the end of the period covered by the report, there appears to have been a decline in the percentage of certifications which were retroactive.

Attitudes of certifying agencies

The report found considerable variety across areas in the aggressiveness with which local Employment Service offices have marketed the credit. In some areas, many of the local agency employees believe that publicity and marketing at the national level has been inadequate, as have the financial resources and organizational incentives for taking the credit seriously. These attitudes have affected the enthusiasm with which these employees have pursued their own efforts to use the credit as a placement tool. However, the level of marketing apparently does not appear to have a great effect on the local offices' ability to achieve certification goals or on the proportion of certifications which are retroactive.

The various agencies involved in identifying target group members have widely varying attitudes about the desirability of the tax credit programs. The report found that employees of CETA prime sponsors were generally negative, since they viewed the credit as antithetical to what they saw as their basic mission—to train individuals for unsubsidized placements—rather than to compensate employers for employees' lack of productivity. Employment Service employees were found to be less negative, but they feel, in many cases, that the credit

[1] Mershon Center CETA Study, Ohio State University, *The Implementation of the Targeted Jobs Tax Credit*, Report Nos. 1 (July 1980) and 2 (January 1981).

increases their workloads without positive results and is a windfall for employers who were already hiring substantial number of employees from the target groups. On the other hand vocational rehabilitation agencies and agencies placing ex-offenders believe that the credit is a useful placement tool. Employees of cooperative education agencies believe that the credit is useful to reward employers for their participation in the cooperative programs, but they do not believe that the credit is needed to obtain placements for their students.

Attitudes of employers

Some employers believe that the credit has changed their hiring practices, although many believe that the credit is not large enough to compensate them for the costs of hiring members of the target groups and of participating in the credit. These perceived costs include lower productivity of target group members, increased costs of screening potential employees from target groups, fear of employment discrimination charges, increased probability of an IRS audit, and general reluctance to participate in government programs. Some employers also have found that the system for administering the credit is too uncoordinated, because of the large number of agencies involved.

Study recommendations

The authors of the report reach tentative conclusions about changes in the targeted jobs credit program which they believe may improve its effectiveness. These include:

1. Eliminating eligibility for students in cooperative education programs in order to focus the credit on people who clearly need it to obtain employment.
2. Increasing the amount of the credit.
3. Eliminating the option of having employees certified retroactively.
4. Providing additional funds to implement the program so that staff can be assigned to focus on marketing and administering the credit.
5. Centralizing implementation of the credit in a single agency, or providing that one agency has the authority required to coordinate the efforts of other agencies.
6. Establishing uniform questionnaires and procedures for determining eligibility of participants in the various target groups.
7. Reducing requirements for documenting participants' eligibility for the credit.

In addition, some of the local agency employees believe that the WIN credit should be merged with the targeted jobs credit to reduce confusion which arises from the existence of two separate credits with similar goals.

2. Northeast-Midwest Institute report [2]

The Northeast-Midwest Institute issued a report on the targeted jobs tax credit in September, 1980. The report reviews the implementation of the credit and makes several recommendations for both legislative and administrative changes.

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[2] Northeast-Midwest Institute, *Putting the Targeted Jobs Credit Back to Work,* September, 1980.

The report criticizes the initial decision of the Department of Labor to assign responsibility to the CETA "prime sponsors" for identifying the three economically disadvantaged groups. Some CETA agencies were more accustomed to dealing with individuals who were not ready for a job than with those who were looking for immediate placement. Employment Service offices should have been given more responsibility, according to the report; this would have improved the implementation of the credit in its first months. In January, 1980, the Employment Service was given the authority to identify individuals in all target groups except cooperative education students.

Cooperative education agencies are found to be relatively enthusiastic about the program, but they admit that employers receiving the credit are those who have hired cooperative education students in the past and would have continued to do so without the credit.

The report also claims that Employment Service offices have not made a coordinated effort to refer target group members to employers. Further, retroactive certification is criticized as reducing the productivity of the employees administering the program.

The authors of the report make several recommendations for changing the administration of the credit, including more guidance from the national office of the Employment Service, greater publicity, funds earmarked specifically for administrative costs associated with the credit, and giving the Employment Service more authority to coordinate the program with other agencies. Several legislative recommendations also are made, including dropping cooperative education students from the program or limiting eligibility only to those who are economically disadvantaged, making the credit refundable, allowing employers both a credit and a full deduction for wages paid to eligible employees, allowing the credit against payroll taxes, disallowing retroactive certification, and targeting of distressed areas.

3. Wisconsin Health and Social Services Department report [3]

The Wisconsin Department of Health and Social Services has written a report based on interviews with administrators of the WIN and targeted jobs credits and with employers. The authors find that the credits are underutilized, relative to the eligible population, and that lack of knowledge on the part of both employers and administering agencies was the major factor accounting for their low utilization. Some employers believed that participation in the credit would entail excessive paperwork, would increase the risk of a tax audit, and would conflict with affirmative action principles. In addition, some of the agency employees found a conflict between the idea of subsidized employment and what they viewed as their primary goal—improving human capital. As a result, there was considerable variation in the degree to which the credits were part of the agency's standard placement efforts. No specific problems were found with the design of the subsidy. With respect to the targeted jobs credit, employers found confusing the diffusion of administrative responsibility among different agencies, although lack of Federal resources for administration may account for some of the perceived administrative problems.

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[3] *A Report of the Wage Bill Subsidies Research Project, Phase I.* Office of Client Employment Programs, Division of Policy and Budget, Wisconsin Department of Health and Social Services, November 1980.

Senator HEINZ. Today's hearing is the first held by this new Subcommittee on Economic Growth, Employment and Revenue Sharing. While revenue sharing was part of the Revenue Sharing and Intergovernmental Transfer Subcommittee chaired by Senator Bradley last year, the effect of tax policy on economic growth and employment is included in the subcommittee's new jurisdiction. As chairman, I am vitally interested in exploring the ways the tax policy may be used to increase employment, stimulate more rapid economic growth, and to flight inflation more effectively.

It seems that to be that these desirable goals are interrelated and can be pursued simultaneously without conflict. I reject the notion that there is a trade off between progress on the inflation front and progress on employing all Americans who are willing and able to work. We can and must move forward on both problems at the same time.

Recent history, in fact, suggests just the opposite sort of relationship that some pessimists continue to assert.

Last year, the U.S. economy experienced a sharp, if short-lived recession. That recession drove more more than 1.3 million additional people out of work according to statistics published by the Department of Labor, but inflation did not come down. In fact, it went up from 11.3 percent in 1979 to 13.5 percent in 1980, as measured by the Consumer Price Index.

Fighting inflation with people's jobs just doesn't work, and even if it did work, I believe it would be the wrong way to go about it.

Increasingly, analysts are focusing their attention on the relationship between high and growing taxes on the one hand, and high and growing inflation and unemployment on the other. I believe there is merit behind this view. Logically, there is a link.

Consider the nature of the employment agreement. To conclude an agreement, an employee must believe that the amount of compensation received, net of all taxes, is worth more to him than the leisure time foregone. Also, his employer must believe that the value of the services performed by the employee will be worth at least as much as the total cost of securing his services. If either party doesn't feel he will be better off, then there is no agreement. What payroll and income taxes do then is to lower the chances of both parties feeling they will be better off.

For example, an employee may decide that a gross wage of $10,000 is inadequate since, after social security taxes and income taxes, he'll receive less than $9,000 net.

His employer who offers a gross wage of $10,000, will really have to pay over $11,000 to hire him after social security, workmen's compensation and unemployment taxes, are factored in. The total would run even higher if regulatory costs are included.

As taxes on employment grow higher, the chance that one or both of the parties involved will find that no agreement is possible rises. The message is clear. Excessive taxation kills jobs.

What is also becoming clear is that growing taxation also aggravates inflation. When the portion of an employee's check going to the Government rises, either through direct Federal action, such as the scheduled increases in social security taxes, or indirectly through bracket creep, a natural reaction is to try and get a measure of this back in negotiating with the employer. If an employee expects inflation to continue at 10 percent, then a 12 percent or more raise is seen as necessary just to make him whole when taxes are considered.

Meanwhile, the employer who also thought that 10 percent inflation would prevail is shocked to hear that his employee's minimum demand is for a 12-percent raise.

Since labor costs are by far the highest share of total business costs, a reasonable demand by this employee to keep up with inflation and taxes translates into a reasonable decision for the employer to pass on his higher-than-expected costs to consumers.

Later, when the new inflation statistics are published, the employee will find that he underestimated inflation and a new cycle of inflation will be ignited. Then the employee, again, will try to recover lost ground, and his employer, again, will announce price increases. This cycle of inflationary action and reaction must be stopped, and the provocative role of escalating taxes must be better understood if inflation is to be controlled.

The chilling effect employment taxes have on jobs is especially punishing for marginal workers. These workers are the last hired and the first fired. Also, their employers feel their job attachment is weak. They see no reason to provide training for workers that will not be with them long. Employment taxes aggravate these problems. By forcing the productivity standard higher than otherwise would be the case, fewer marginal workers can make the leap successfully.

One Federal program that seems to offer a way out for them, in part, is the targeted jobs tax credit, which is up for reauthorization this year.

Under existing law, employers who hire workers from any of seven targeted groups receive a tax credit equal to 50 percent of the first $6,000 in wages paid in the first year. The credit equals 25 percent of the first $6,000 paid in the second year. These credits are offset by a provision disallowing wages subject to the credit as business deductions.

The targeted groups are: cooperative education students, economically disadvantaged youths, vocational rehabilitation referrals, general assistance recipients, SSI recipients, economically disadvantaged ex-convicts and Vietnam veterans under age 35 from economically disadvantaged families.

This tax program, it seems to me, achieves several desirable goals. First, it provides assistance to certain groups that experience unusually high levels of unemployment compared to the level prevailing throughout the country no matter what the general state of the economy.

In effect, it is a program targeted at groups in the country experiencing significant structural unemployment problems. Therefore the program provides a single equitable remedy for several national manpower problems.

Second, by encouraging greater levels of employment among groups with significant employment problems, the amount of Federal spending on entitlement programs is lowered. If a handicapped individual is hired, then Federal spending for his disability falls. Also, when a general assistance recipient finds work through the program, then general assistance payments from the Government are lowered.

A thoughtful analysis would surely find that the targeted jobs tax credit has a salutory effect on keeping Federal spending down.

Third, the tax credit, by encouraging employment, raises Federal revenue. The unemployed do not have significant tax liability so they pay little in Federal taxes. This means that the employed must shoulder more of the burden than otherwise.

To the extent that the targeted jobs tax credit is successful in securing positions for those who would otherwise go without work, it brings new individuals on to the tax rolls and spreads the distribution of the tax burden more evenly throughout the population.

Fourth, it lowers inflation in two ways. By reducing Federal expenditures and raising Federal revenue, the targeted jobs tax credit lowers the Federal deficit releasing pressure of the Federal Reserve to monetize Treasury securities, inflating the economy. Also, by lowering the net cost to employers of hiring some new workers, the cost of expanding production beyond the current level is lowered. And that has a beneficial impact on decisions about pricing.

Fifth, and most importantly, the targeted jobs tax credit program offers to many disadvantaged the opportunity to join the mainstream of American society. Instead of dispair and alienation, there is the opportunity for self-respect that comes with self-support from a private sector job.

Nevertheless, I want everyone to understand, notwithstanding my comments about what I believe to be the benefits of this program, that this is an oversight hearing.

Every program run by the Government could be run better, in many cases much better.

While the targeted job tax credit was legislated with important social and economic goals in mind, there is evidence that actual implementation practices could be improved significantly.

Indeed, in the current atmosphere of fiscal restraint, every program run by the Government should be carefully reviewed with an eye on improved results at lower costs. It may be that there are better ways programmatically to achieve our goals, and I hope witnesses appearing before us today will provide the subcommittee with suggestions on ways we can improve results under the targeted jobs tax credit program if it is reauthorized, and also provide suggestions on alternative ways that our goals can be achieved.

I would now like to call our first witness, the Honorable John E. Chapoton, Assistant Secretary of the Treasury for Tax Policy.

Mr. Chapoton.

Mr. CHAPOTON. We have a statement, a rather lengthy statement that we submitted for the record, Mr. Chairman, and I would like to summarize.

Senator HEINZ. Without objection, the entire statement will be a part of the record.

TESTIMONY OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. CHAPOTON. I am pleased to appear before the subcommittee today to review the experience of the United States with tax credits for employment, including the targeted job tax credit. I will also offer some information for evaluating the experience.

First, however, let me emphasize, Mr. Chairman, that the most effective method of increasing employment is to have a strong growing economy. The administration's tax program is designed to get the economy moving forward again. Reducing marginal tax rates will make employment more rewarding to individuals and these tax reductions and the proposed tax incentives for investment will also provide the additional capital needed to provide jobs and improve worker productivity, and reduce unit labor costs.

The administration's budget and tax program for economic recovery will reduce the unemployment rate from the current 7.3 percent level to 6.4 percent by 1984. This would represent an increase of 7.5 million jobs.

A brief history of two earlier job credit provisions will have to provide a context for discussion of the targeted jobs credit. Those provisions are a tax credit for hiring welfare recipients, known as the WIN welfare credit which was enacted in 1971 and is still available. The second one is the new jobs tax credit for employers with increasing employment which was in effect for 2 years before it expired under a sunset provision at the end of 1978.

The WIN welfare credit was enacted in 1971 for employers who had registrants of the work incentive program. The objective of this program was to increase employment opportunities of persons eligible for welfare. The program was expanded and liberalized in 1975 and, again, in 1976 and in 1978. The 1978 revisions made the structure of the program very similar to that of the targeted jobs credit.

Despite its 10-year history and recent liberalizations, the WIN credit has been little used. The number of eligible workers certified for the credit reached a high of 53,000 in 1980, however, even at this high point 80 percent of the WIN registrants who found jobs went to work for employers who did not use the credit.

In 1977, Congress enacted another employment tax credit called the new jobs tax credit. This provision was intended as an antirecession fiscal stimulus toward employers, particularly small business for increased employment.

The amount of the credit available to employers under this program did not depend upon the characteristics of the workers they hired. However, legislation established a number of conditions that limited the amount of credit that employers could claim.

Congress wanted to restrict the credit to firms that increased employment from year to year; wanted to focus the credit on small business; wanted to provide extra credits for hiring handicapped persons; and wanted to keep the cost of the program within limits.

The attempt to satisfy all of these objectives produced an extremely complex set of requirements and greatly reduced any possible employment incentive.

A taxpayer could qualify for the new jobs credit by exceeding a 2-percent threshold for growth in the unemployment insurance base, the FUTA base. This was assumed to mean an increase in the number of employees.

The credit was basically 50 percent of the increase in wages paid over 105 percent of total wages for the preceding year, but the amount of the credit was limited by one of four restrictions including a cap of $100,000 per employer.

The purpose of the cap, of course, was to try to limit the credit to small businesses, but many larger firms and growing firms claimed $100,000 of credit automatically without receiving any incentive at the margin to hire additional employees.

Tax return information for 1977, the first year of the new job credit, shows a total amount of credit claimed of $1.6 billion for corporations.

The total revenue cost over the life of the new jobs credit, including additional credits earned in 1978 and carryovers continuing for several years is estimated to be $5.7 billion.

The new job tax credit was a questionable device for providing relief to small business or small corporations with total assets of less than $250,000 accounted for more than 69 percent of corporate taxpayers, but only 6.6 percent of those firms took advantage of the credit in 1977.

I have charts in my prepared testimony on this and other aspects of the new jobs tax credit.

These charts indicate that the manufacturers were most likely to claim the new jobs credit and that the average amount of the credit claimed was also highest in manufacturing.

The credit claimed was relatively small and infrequent in use in the case of trade, services, and financial sectors of the economy.

Despite rapid overall employment growth in 1977 and the large revenue cost of the new jobs credit, only about 15 percent of corporations filed for the credit in 1977.

In 1978, the Carter administration proposed replacement of the new jobs tax credit with a tax credit focused on disadvantaged youth and handicapped individuals.

Congress adopted the concept, but expanded the targeted jobs credit to include five groups that the chairman named in the opening statement. The principal groups being economically disavantaged youth, ages 18 to 24 and students in cooperative education, ages 16 to 19.

The targeted jobs credit is equal to 50 percent of wages of eligible individuals, but cannot exceed $3,000 per employee in the first year of employment. In the second year it is 25 percent of $6,000, up to a maximum of $1,500 per eligible employee.

The employer's deduction for wages must be reduced by the amount of the targeted jobs tax credit claimed. This makes the incentive provided by the credit the same for all businesses regardless of the tax rate faced by their owners. The credit is available to corporations, individuals, and partnerships.

The effect of the credit is to reduce for all firms the cost of an eligible employee by 50 percent of the first $6,000 of wages paid for the first year of employment. This means that the effective wage cost for employees at the minimum wage of $3.35 per hour is reduced in the first year to $1.68 for up to 1,800 hours of work, and in the second year to $2.51.

Increased employment was, of course, to be accomplished by lowering the cost to employers of hiring eligible workers. The Carter administration originally proposed a 22-percent credit for only disadvantaged youth and that was expected to be claimed for 1.9 million such employees.

However, in the first 2 years of the program, only 150,000 disadvantaged youth have been certified under the targeted jobs credit.

Corporations that use the credit reported hiring on average less than three workers in 1979. This information combined with Department of Labor data of 108,000 certifications in calendar 1979 suggest that less than 50,000 employers participated in the targeted jobs tax credit in 1979.

It is interesting to note that the type of targeted worker hired differs considerably by type of industry. Retail trade, finance and service industries have hired primarily cooperative education students. On the other hand, construction, manufacturing, and wholesale trade firms are most likely to hire economically disadvantaged youth age 18 to 24.

The estimated revenue loss in the targeted jobs credit is $305 million in 1981, and if the program were extended beyond its present expiration date at the end of this year, we estimate that annual revenue loss would rise to $350 million.

Past and present employment tax credits are so small relative to total labor costs that little, if any, net additional employment can be expected to occur as a result. Even the 5.7 billion new jobs credit reduced annual labor cost by less than 0.4 percent.

The financial incentive provided by the targeted credits have not greatly affected the decisions of employers to hire eligible individuals. Instead, about two-thirds of all certifications are estimated to have been made retroactively, that is, for workers who were found to be eligible after they were already hired.

The prevalence of retroactive certification casts serious doubt on the effectiveness of the credit to increase employment in the target population.

In addition, the relatively small use of the credit for disadvantaged youth suggests that as presently constituted the targeted jobs credit has not been an efficient program for dealing with the problem of high unemployment among young people from low income families.

For these reasons, Mr. Chairman, the administration believes that the existing targeted jobs credit should not be extended beyond its scheduled expiration date at the end of the year.

That concludes my summary of the statements. I'd be happy to answer any question you might have.

Senator HEINZ. Thank you, Mr. Chapoton.

I have a number of questions.

One item that interests me is your comment about the number of retroactive certifications. Now, as I understand it, there are steps leading to the issuance of the credit. An individual who believes that he may be a member of a targeted group goes to the State bureau of employment security and obtains a voucher. He then shows that voucher to potential employers. The employer who hires him later gets a guaranteed certificate that the employee does qualify. Why are we concerned about whether that certification takes place 3 days, 15 days, or 60 days after the employee is hired?

Mr. CHAPOTON. Well, I don't think we should be concerned if the employer does know in advance that the employee is eligible. I think what the data suggests, Mr. Chairman, is that in many cases, people who are eligible for certification are hired without knowledge of the existence of the law and, indeed, the employers in many cases don't seem to be aware of it, and then they later discover that the employee might be eligible and he is then sent to get certification.

Senator HEINZ. Now, is that what you believe happens? Has this, in fact, been verified by valid studies and statistics?

Mr. CHAPOTON. No; that is what we think happens from the data we've seen, from the number of certifications that occur after the fact.

Senator HEINZ. Now, in order to draw a conclusion, the critical question would be whether when the employer was aware of the voucher before he made an offer of employment?

Mr. CHAPOTON. Yes, sir.

Senator HEINZ. Now, why don't we have that information?

Mr. CHAPOTON. Well, the joint committee summary cites some studies—there have been, I believe, two or three different studies that include interviews. These studies reach varying conclusions on the incentive effect. But my reading of the summaries of these studies would indicate that, for the most part, the credit does not have the incentive effect.

Senator HEINZ. But we don't have any evidence that you can point to right now.

Mr. CHAPOTON. No; we are just looking at the data and the conclusions from the people who conducted these studies.

Senator HEINZ. Have the people that you just mentioned actually determined whether people with vouchers were made offers by employers prior to the issuance of a certificate?

Mr. CHAPOTON. Not to my knowledge. They have interviewed employers and the State unemployment offices.

Senator HEINZ. I note in the beginning of your statement that you feel that the President's economic program will create 7.5 million jobs. I hope it creates more than that.

Mr. CHAPOTON. We do too.

Senator HEINZ. The program will, to paraphrase John F. Kennedy, act like a rising tide that lifts all boats. Is that your feeling?

Mr. CHAPOTON. Yes, sir, it is.

Senator HEINZ. Now, my concern is about the people who don't have boats, the structurally unemployed. They don't have the tools to build boats.

Mr. CHAPOTON. Mr. Chairman, there is no question that unemployment and, particularly, unemployment in these targeted areas is a very serious problem that needs attention. Our position though is that these tax credits have not done the job. They're not an efficient way of doing it.

Senator HEINZ. I am not saying the credit is perfectly structured, but what is your alternative? Using tax policy intelligently may be the least intrusive means that the Government can find to attack structural unemployment.

Mr. CHAPOTON. Well, in sum, it is difficult to do things like this in the tax system. For one thing the benefits, or the cost to the

Government, don't stand the test of comparable programs outside of the tax system so they don't stand their usual test of efficiency of the program when you are trying to benefit a certain group.

Then, as we've seen, in the targeted jobs——

Senator HEINZ. Excuse me. So that I understand your point——

Mr. CHAPTON [continuing]. Yes.

Senator HEINZ [continuing]. You are saying that a tax expenditure should be subjected to certain efficiency tests?

Mr. CHAPOTON. I am saying that if you decide you want to give certain benefits to a targeted group of employees, then the benefit, yes, must be tested by its efficiency versus other type programs that the Labor Department might propose to help this group.

Senator HEINZ. I can't resist asking the question. What is the tax-efficiency of the oil depletion allowance?

Mr. CHAPOTON. Mr. Chairman, I think I'll defer that question to a later hearing, if I might.

Senator HEINZ. All I am saying is that if you are not careful, you are going to get yourself in trouble in Texas and Oklahoma.

Mr. CHAPOTON. Well, we are not talking about a provision that is due to expire and it is necessary that we examine the efficiency of it as we would have to examine in any provision that was due to expire.

I might just also add that when you do these programs in the tax system, such as these two credits—the targeted credit and the new jobs credit—you often put limits on them. These limits are necessarily to keep the revenue costs down, but they add tremendous complexity to the provision and people don't understand it, and I think that would have a significant impact to their underutilization.

Senator HEINZ. Now, I note that the conclusion of your statement is carefully worded. I says that the existing targeted jobs tax credit should not be extended.

Does that mean that you could support an employment tax credit if changes were made, and, if so, do you have any ideas in mind?

Mr. CHAPOTON. It means that we would certainly be willing to review proposals. We do not have any ideas in mind, no sir.

Senator HEINZ. If there was fairly broad support in the Congress for the targeted jobs tax credit concept, what kinds of changes would you want to see made in it?

Mr. CHAPOTON. Mr. Chairman, I don't want to be specific on what I would like to see. The objective, though, is to have it utilized to a greater extent, and, I think to have it more targeted to the economically disadvantaged youth rather than to the cooperative education students who have utilized this credit to the greatest extent. It should probably be targeted more to the industries that tend to hire the economically disadvantaged youth.

These things are not easy to do, and let me stress that. You can look at the targeted job credits provision in the present code. They are very complicated and hard to understand.

Senator HEINZ. You mentioned cooperative education students. Why do you criticize current targeting rules for this group?

Mr. CHAPOTON. My point was that I would think from a policy standpoint those would be people who would be able to get jobs anyway through their program and that you would be more inclined, from a policy standpoint, to want to help the economically disadvantaged group rather than that group.

Senator HEINZ. Some argue that it is especially important for young people to enter the work force before they are attracted to the street. Cooperative education programs, along with the targeted jobs tax credit, seems to work toward this important objective.

How do you respond to that argument?

Mr. CHAPOTON. I would respond that that's a very desirable goal, but I am not sure I could design a tax program to accomplish that goal.

Senator HEINZ. Let's move on. I am told, and correct me if I'm wrong, that one of the reasons there isn't greater participation in this program, is that the Treasury Department has not issued regulations codifying what the Department of Labor is attempting to do; is that correct?

Mr. CHAPOTON. No; we have issued proposed regulations and we have also issued quite a bit of publicity. I did review in preparation for today the type of publicity that has been issued. We don't have any indication that the absence of final regulations has caused a problem.

I do think though that absence of knowledge of the program, is a significant impediment to greater use of the program, no matter how much publicity you put out, including sending notice of the program to all employers who file employment tax returns.

Senator HEINZ. As I understand the program, the Treasury Department keeps track of the costs, and the Labor Department views the tax credits as a means of accomplishing employment objectives. There is a division of administration. It may be that this division has led the Treasury Department toward an attitude which emphasizes protection of the revenue above all else.

It strikes that when the Department hasn't issued final regulations, yet claims this isn't a problem, that that may be a subjective conclusion.

Do you really know for a fact that the failure to issue final regulations hasn't made businesses wary of using this program?

Mr. CHAPOTON. No; but we—well, I would just state that usually when we do not have final regulations in a area and it is causing problems, or uncertainty, we hear about it, and that has not been the case here.

In other words, when employers are looking for guidance, their representatives call and that's not been the case here.

Senator HEINZ. This isn't, however, the kind of tax provision likely to cause a public outcry and the automatic feedback response you suggest. We might have a difference of opinion here. Hopefully some other witnesses will clarify this subject.

Mr. CHAPOTON. Mr. Chairman, I might just add that my staff points out to me that the proposed regulations only cover the vocational education group. The only part that the Treasury has had to define regulations on is the qualification of cooperative educational students.

Senator HEINZ. So, Treasury regulations for the other six categories don't exist; is that right?

Mr. CHAPOTON. They are not Treasury regulations, that's correct.

Senator HEINZ. But are Treasury regulations required for them?

Mr. CHAPOTON. No, sir.

Senator HEINZ. They are not required?

Mr. CHAPOTON. No, sir.

Senator HEINZ. Everybody in the back is sure of that?

It looks like a lively debate is taking place. [Laughter.]

Mr. CHAPOTON. I believe you are correct, Mr. Chairman. These are—there were some temporary regulations issued. I can't state unqualifiedly that there could not be interpretative questions in other areas. I do know that we have not had questions or complaints that need interpretation. When you give a tax benefit such as this, you are right, it may not generate a lot of general interest. But when the tax benefit is large enough, it usually generates enough interest from employers and their representatives to ask about interpretation or their problems. We have not seen that concern.

Senator HEINZ. Apart from the lack of final regulations, can you think of any other reasons why participation might be, by your standards, minimal?

Mr. CHAPOTON. No; I would say that principally it was just my estimates looking at the data, lack of knowledge would be the principal problem.

Senator HEINZ. One other question.

As you mentioned in your statement, we have the WIN tax credit, which is very similar to this. Is the administration seeking to repeal that credit?

Mr. CHAPOTON. No; the WIN credit is part of a much larger program designed to get WIN recipients back on the labor force and it's a small part of a much larger program.

So, our comments would not——

Senator HEINZ. But you don't have any problem with the WIN tax credit?

Mr. CHAPOTON. We're not proposing to alter the WIN credit.

Senator HEINZ. Now, of course, AFDC recipients aren't eligible for the targeted jobs tax credit, so there is no duplication problem.

Mr. CHAPOTON. That's correct.

Senator HEINZ. These two programs are very similar, the targeted jobs tax credit reaching to one set of structurally unemployed people, the WIN AFDC tax credit reaching to another. Yet, you don't want to repeal the latter. I assume that you don't have a problem, therefore, with the principle behind the targeted jobs tax credit. You just want to be sure that it works well if it stays in the law.

Mr. CHAPOTON. Well, let me rephrase that, Mr. Chairman.

We are not objecting to, or not proposing a change in, the WIN tax credit. You are correct, there is no overlap in the targeted group.

As I said in my testimony, the data would give you some pause on just how well the WIN tax credit is working. However, it is a much smaller revenue item from the Treasury standpoint. The participation does seem to be relatively low, but I am saying that would take further study on the entire WIN program, which we have not addressed for this testimony this morning.

Senator HEINZ. Let me yield to Senator Dole for any statement or questions that he may make.

Senator DOLE. I do have a statement. I want to thank the chairman for calling this hearing. I am not going to read a statement.

Senator HEINZ. Let me just say, Mr. Chairman, it feels pretty good to be a chairman.

Senator DOLE. Right. I have noticed that.

[Laughter.]

Senator DOLE. After 20 years, I'm still not accustomed to it, but it doesn't take long.

I understand that this program—at least something like this—has been kicking around for a long time and although it was finally enacted by Congress I am not certain it has been used properly. I understand the administration would propose that it just be allowed to expire, at least this particular program.

Does that indicate that you might have another approach that would be more effective?

Mr. CHAPOTON. Senator, we are making no other proposal at this time. As I indicated earlier, we find difficulty in trying to structure a program to have these very desirable results through the tax system.

Senator DOLE. All right. I won't take too much time—I don't know what ground you have gone over. I do have a statement I would make a part of the record preceding your testimony.

Senator HEINZ. Without objection.

[The prepared statement of Senator Dole follows:]

PREPARED STATEMENT OF SENATOR DOLE

Mr. Chairman, I appreciate your scheduling this hearing to provide an early opportunity to review the Targeted Jobs Tax Credit and consider possible alternative tax provisions designed to increase employment in the private sector. The Targeted Jobs Credit will expire at the end of this calendar year, and this prompt consideration of the issues raised by the Credit will enable Congress to make an intelligent and informed decision on whether to renew the Targeted Jobs Credit, or modify it significantly, or abandon it altogether.

It is particularly important that we consider the role of targeted tax incentives for employment in the context of President Reagan's economic recovery program. The Reagan administration is emphasizing firm tax, fiscal, monetary and regulatory policies in the interest of creating permanent jobs in the private sector. As part of that effort it may be appropriate to employ tax or other incentives to encourage hiring "at the margin"—that is, hiring that might otherwise not have occurred because of high labor costs, including wages, taxes, and regulatory requirements. I hope the Administration will discuss the probable impact of its program of regulatory and tax relief on the level of employment, and how tax incentives for employment relate to other proposals that have been suggested, such as a limited exemption from minimum wage requirements.

Mr. Chairman, I look forward to hearing the witnesses scheduled to testify today, because they offer a wide range of viewpoints on the merits of the Targeted Jobs Credit and a variety of practical experience with the Credit. I was particularly interested to note that the Department of Labor reports that vocational rehabilitation referrals, one of the seven groups targeted by the Credit, have benefitted from the Credit less than almost any other of the targeted groups. As of December 31, 1980, there had been only 20,947 certifications under the program for vocational rehabilitation referrals, out of a total of 407,532 certifications altogether. This means only slightly more than five percent of the certifications to date have gone to individuals who have a substantial mental or physical handicap that is an obstacle to employment. Any success in placing the handicapped into meaningful private sector jobs is to be applauded, but I hope that some of the witnesses might suggest why certifications for the handicapped have played such a small role in the program and how that record might be improved.

Any program that places the chronically unemployed into private sector jobs in a cost-efficient manner is desirable. Our job is to determine whether the Targeted Jobs Tax Credit measures up to that standard, and if not, how that standard could be met.

Senator DOLE. Many of us, at least felt originally that this program had possibilities. Hopefully, we could examine it closely as Senator Heinz is now in the process of doing to see whether it could be modified or extended in some way, or not. Maybe it should be allowed to expire.

We are going to be considering a lot of tax matters in the next few months before this committee.

We appreciate your testimony.

Mr. CHAPOTON. Thank you.

Senator HEINZ. Toward the end of your statement, you expressed the view that one of the reasons this tax credit hasn't been successful is that the benefit of the credit is so small relative to total labor costs. I believe you cited an aggregate figure indicating all credits taken equal only four-tenths of 1 percent of total labor costs.

Mr. CHAPOTON. Yes, sir.

Senator HEINZ. Yet, on page 6 of your statement, you analyze the targeted jobs tax credit and you indicate as follows: it means that the effective wage cost to an employer hiring an employee at the minimum wage of $3.35 is reduced for the first year to $1.68, or half for up to 1,800 hours of work, and for the second year employee, the effective wage cost is $2.51.

Now, that would seem to be a fairly substantial reduction in the average and marginal cost of employment.

Mr. CHAPOTON. Yes, sir, for a particular employee, there's no question about it.

Senator HEINZ. Employee or employer?

Mr. CHAPOTON. For the particular employee who qualifies, the cost to employer is significantly lowered at the margin.

Overall, the point in the statement was: the overall reduction in labor costs is not significant.

Senator HEINZ. One last question. I understand that this subject was thought to be sufficiently meritorious that it was discussed at a Cabinet meeting; is that correct?

Mr. CHAPOTON. The Cabinet Council on Economics, yes, sir.

Senator HEINZ. That's quite a compliment to a $350 million program. Why was it discussed at that time?

Mr. CHAPOTON. I think for the very concerns that you expressed in your opening statement, Mr. Chairman, that there is a significant unemployment problem in the targeted areas. The question was: Whether this was a good way of addressing that problem.

Senator HEINZ. And I gather, correct me if I'm wrong, that as a result of your carefully worded conclusion there were a variety of points of view, maybe even some disagreement?

Mr. CHAPOTON. It was discussed on more than one occasion, Mr. Chairman, but the administration concluded that it should not be extended.

Senator HEINZ. I understand that. But that wasn't my question. I assume that everyone from the administration will come up here and take the same position after a policy review.

My question is related to the decisionmaking process, not to the conclusion. Was there, in fact, disagreement?

Mr. CHAPOTON. I know in the early meetings, there were supporters of the credit. I was not at those meetings so I don't know who they were, but certainly there was discussion and the program had its supporters, yes, sir.

Senator HEINZ. Thank you very much.

Mr. Chapoton, you have been an excellent witness. We thank you very much for being here.

Bob, unless you have anything further?

Senator DOLE. No further questions. Thank you.

Senator HEINZ. Thank you.

Mr. CHAPOTON. Thank you, Mr. Chairman.

[The prepared statement of Hon. John E. Chapoton follows:]

PREPARED STATEMENT OF JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee, I am pleased to appear today to review with you the experience of the U.S. with tax credits for employment, including the Targeted Jobs Tax Credit. I will also offer some information for evaluating this experience.

First, however, let me emphasize that the most effective method of increasing employment is to have a strong, growing economy. The Administration's tax program is designed to get the economy moving forward. Reducing marginal tax rates will make employment more rewarding to individuals. These rate reductions and the proposed tax incentives for investment will also supply the addditional capital needed to provide jobs, improve worker productivity, and reduce unit labor costs. The Administration's budget and tax program for Economic Recovery will reduce the unemployment rate from the current 7.3 percent level to 6.4 percent by 1984. This represents an increase of 7.5 million jobs.

PREVIOUS EXPERIENCE WITH JOBS TAX CREDITS

A brief history of two earlier jobs credit provisions will help to provide a context for discussion of the Targeted Jobs Credit. These provisions are:

(1) a tax credit for hiring welfare recipients, known as the WIN/Welfare Credit, which was enacted in 1971 and is still available, and

(2) the New Jobs Tax Credit for employers with increasing employment which was in effect for two years before it expired under a "sunset" provision at the end of 1978.

WIN/welfare credit

In 1971 Congress enacted a tax credit for employers who hired registrants of the Work Incentive (WIN) program. The objective of this program was to increase employment opportunities of persons eligible for welfare. Initially, employers could receive a tax credit of 20 percent of the wages paid to these workers in the first twelve months of employment. The program was expanded and liberalized in 1975 and again in 1976 and 1978. The 1978 revisions made the structure of this provision very similar to that of the Targeted Jobs Credit. The WIN/Welfare tax credit currently provides a credit of 50 percent of the first $6,000 of wages in the first year of employment and 25 percent in the second year for WIN registrants and for recipients of Aid to Families with Dependent Children (AFDC).

Despite its ten-year history and recent liberalizations, the WIN/Welfare credit has been little used. The number of eligible workers certified for the credit reached a high of 53,000 in 1980. However, even at this high point, 80 percent of the WIN registrants who found jobs went to work for employees who did not use the credit.

New jobs tax credit

In 1977, Congress enacted another employment tax credit, called the New Jobs Tax Credit (NJTC). This provision was intended as an anti-recessionary fiscal stimulus to reward employers, particularly small businesses, for increased employment. The amount of credit available to employers under this program did not depend upon the characteristics of the workers they hired. However, the legislation established a number of conditions that limited the amount of credit that employers could claim. Congress wanted the credit to be restricted only to firms that increased employment from one year to the next. In addition, an attempt was made to focus the credit on small business, to provide extra credits for hiring handicapped persons, and to keep the costs of the program within limits. The attempt to satisfy all these objectives produced an extremely complex set of requirements and greatly reduced any possible employment incentive.

The New Jobs Tax Credit allowed a credit against tax for up to 50 percent of the amount by which each employer's unemployment insurance wage base exceeded 102 percent of the unemployment insurance wage base in the previous year. Since the unemployment tax was levied on only the first $4,200 of wages paid per employee, the Federal Unemployment Tax Act (FUTA) base was chosen to serve as a proxy for the number of employees. A proxy was necessary because an accurate determination of annual employment is not available for taxpaying units. The amount of FUTA base was readily available to employers for past and current years.

A taxpayer would qualify for the New Jobs Tax Credit by exceeding the 2 percent threshold for growth in the FUTA base, but the amount of credit was limited to the lesser of (1) half the amount by which an employer's total wages paid for the year exceeded 105 percent of total wages paid by the employer in the previous year; (2) 25 percent of the current year's unemployment insurance wage base; or (3) $100,000. The current year credit was also limited to the employer's tax liability, after all other credits, for the year. Credits that exceeded tax liability for a year could be carried back for three years and forward for seven years. In addition, the income tax deduction for wages and salaries had to be reduced by the amount of the credit.

Employers received an additional 10 percent credit on the first $4,200 of FUTA wages paid to certain handicapped people undergoing vocational rehabilitation. Thus, in the 1977-78 period, two "targeted" tax credit programs were already in effect—one for the handicapped and another for welfare recipients.

EVALUATION OF USE OF THE NEW JOBS TAX CREDIT

Tax return information for 1977, the first year of the credit, shows a total amount of credit claimed of $1.66 billion for corporations. The distribution of these credits by size of corporations is given in Table 1 and the distribution by industry is shown in Table 2. The total revenue cost over the life of the credits, including additional credits earned in 1978 and carryovers continuing for several years, is estimated to be $5.7 billion.

Table 1 indicates that the New Jobs Tax Credit was a questionable device for providing relief to small businesses. This information is based upon a sample of tax returns filed in 1977. Small corporations, with assets of less than $250,000, accounted for over 69 percent of corporate taxpayers. However, only 6.6 percent of these firms took advantage of it. The average credit claimed by small firms was only $3,100. In contrast, 43.4 percent of corporations with assets over $250 million took an average jobs tax credit of over $66,000. Moreover, both the degree of utilization of the credit and its size generally grow with the size of the corporation.

TABLE 1.—DISTRIBUTION OF NJTC CREDITS CLAIMED: 1977 CORPORATIONS [1] BY ASSET SIZE

[Dollars in thousands]

Asset size	Returns filed	Claiming NJTC	Percent	NJTC amount claimed	Average NJTC amount claimed per return
$0 to $1	71,379	342	0.5	$5,522	$16.1
$1 to $250	1,250,513	82,232	6.6	246,139	3.0
$250 to $1,000	322,658	50,827	15.8	406,300	8.0
$1,000 to $5,000	114,395	27,248	23.8	501,873	18.4
$5,000 to $10,000	16,913	4,923	29.1	151,909	30.9
$10,000 to $25,000	13,713	4,495	32.8	124,515	27.7
$25,000 to $50,000	6,723	2,725	40.5	66,042	24.2
$50,000 to $100,000	3,879	1,611	41.5	41,734	25.9
$100,000 to $250,000	2,536	1,050	41.4	56,655	54.0
$250,000 and up	2,233	969	43.4	64,531	66.6
Total	1,804,942	176,422	9.8	1,663,220	9.4

[1] Other than 1120-s and 1120-DISC.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 30, 1981.

TABLE 2.—DISTRIBUTION OF NJTC CREDITS 1977 TAX DATA: CORPORATIONS [1]

[Dollars in thousands]

Industry	Total returns filed	Number claiming NJTC	Percent claiming	Total NJTC claimed	Average NJTC amount claimed
Mining	15,941	1,658	10.4	$25,137	$15.2
Construction	165,187	21,094	12.9	235,352	11.2
Manufacturing	193,319	32,005	16.6	548,502	17.1
Transportation, public utilities	58,114	5,880	10.1	68,529	11.7
Wholesale trade	189,546	24,301	12.8	178,889	7.4
Retail trade	329,354	37,496	11.4	281,627	7.5
Services	416,932	31,565	7.6	183,949	5.8
Finance, insurance, and real estate	381,562	19,463	5.1	125,760	6.5
Other	57,118	2,811	4.9	13,851	4.9
Total	1,804,942	176,422	9.8	1,663,220	9.4

[1] Other than 1120-s and 1120-DISC.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Apr. 3, 1981.

According to Table 2, manufacturers were most likely to claim the credit. The average amount of credit claimed was also highest in manufacturing. The average credit claimed was relatively small and its use less frequent in the trade, services, and financial sectors. According to employment data collected by the Labor Department, growth in employment covered by FUTA was 4.1 percent between 1976 and 1977. The FUTA base grew by 9.1 percent. Nevertheless, only about 15 percent of corporations filed for the credit in 1977 and because of the limitation to tax liability, only 10 percent had a current benefit. Low employer use of these employment credits has occurred despite considerable effort on the part of the Department of Labor, in conjunction with the Internal Revenue Service, to publicize the credits.

DESCRIPTION OF THE TARGETED JOBS TAX CREDIT

In 1978, the Carter Administration proposed replacement of the New Jobs Tax Credit with a tax credit focused on disadvantaged youth and handicapped individuals. Congress adopted the concept but expanded the targeted jobs credit to include five other groups that were experiencing high unemployment, had special employment needs, or were participating in certain educational programs. Thus, seven categories of workers are eligible: economically disadvantaged youth age 18-24, economically disadvantaged Vietnam Veterans under age 35, economically disadvantaged ex-convicts, recipients of Supplemental Security Income (SSI) and general assistance, handicapped individuals in vocational rehabilitiation programs, and youth age 16-19 in cooperative education programs.

The targeted jobs credit is equal to 50 percent of wages of eligible individuals up to a maximum of $3,000 per employee in the first year of employment. In the second year of employment, the credit is 25 percent of wages up to $1,500 per eligible employee. The amounts of the credit were believed to be large enough to be a sufficient incentive for employers to hire eligible workers.

The targeted jobs credit retained the feature of the previous jobs credit that employers are required to reduce the deductions for wages by the amount of credit claimed. This provision makes the amount of incentive provided by the credit the same for all business, regardless of the tax rate faced by their owners. The credit reduces for all firms the cost of an eligible employee by 50 percent of the first $6,000 of wages for the first year of employment. This means, for example, that the effective wage cost to an employer for employees at the present minimum wage of $3.35 is reduced, in the first year, to $1.68 for up to 1,800 hours of work. For a second-year employee the effective wage cost is $2.51.

The targeted jobs credit is limited to 90 percent of the current year tax liability after all other credits. Credits that exceed the limit may be carried backward for three years or forward for seven years. The wage base for the credit is also limited to 30 percent of a firm's total unemployment tax base.

Certification of qualified employees is the responsibility of the State Job Service agencies. The Internal Revenue Service is specifically concerned only with auditing of forms and records. Nevertheless, additional record keeping and reporting requirement for tax purposes may have been some deterrent to use of the credit.

According to the Ways and Means Committee report on the House bill, the targeted jobs credit was designed to provide private employers with an incentive to hire individual members of certain groups which were selected "on the basis of their low income or because their employment should be encouraged." Increased employment was to be accomplished by lowering the cost to employers of hiring eligible workers. Because of the narrow targeting of the groups, the jobs credit would have little effect on average labor costs throughout the entire economy and, therefore, has not been expected to reduce the overall unemployment rate significantly. However, the original proposal of a 33 percent credit for only disadvantaged youth was expected to affect $1.9 million disadvantaged youth employees. By contrast, in the first two years of the program, only 150,000 disadvantaged youth have been certified.

USE AND REVENUE COSTS OF THE TARGETED JOBS CREDIT

Information about the Targeted Jobs Tax Credit is available from a sample of 1979 calendar year corporate income tax returns which claimed the TJTC. The sample does not include corporations with fiscal years ending after December, 1979. Thus, the sample excludes many corporations in retail trade. In addition, since the credit did not begin until April, 1979 and few workers were hired before September, 1979, there is no information available on the extent to which the credit increases the job tenure of the targeted workers. At this time the first people hired with the credit in April 1979 have yet to finish the two-year period during which their wages are subsidized.

Corporations that used the credit reported hiring, on average, less than three workers in 1979. This information combined with Department of Labor data of 108,000 certifications in calendar year 1979 suggests that less than 50,000 employers participated in TJTC in 1979.

Table 3 shows the types of TJTC worker hired by different industries. The sample size of income tax returns claiming the credit is not large enough to provide detailed information about targeted groups other than the economically-disadvantaged youth and cooperative education students, and for certain industries. The type of targeted worker hired does differ considerably by type of industry. Retail trade, finance and service industries hire primarily cooperative education students. On the other hand, construction, manufacturing, and wholesale trade firms are most likely to hire economically-disadvantaged youth age 18–24.

TABLE 3.—TYPE OF TJTC WORKER HIRED BY INDUSTRY FROM CALENDAR YEAR 1979 INCOME TAX RETURNS

[In percent]

Type of TJTC worker hired	Industry classification [1]						All DOL certification (as of December 31, 1979) [2]
	Construction	Manufacturing	Wholesale trade	Retail trade	Finance real estate	Services	
Economically disadvantaged youth	44	41	46	7	8	11	34
Cooperative education students	34	20	16	58	53	51	50
Others	22	39	38	35	39	38	16
Total	100	100	100	100	100	100	100
Average number of TJTC hires per firm [3]	2.1	4.1	2.3	2.5	2.3	1.9	2.7

[1] Sample size from other industries too small to report reliable estimates. Source: Sample of calendar year 1979 corporate income tax returns claiming jobs credit.
[2] Source: Employment Training Administration, Office of Program Evaluation.
[3] Includes only corporations filing for a targeted tax credit.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 27, 1981

The estimated revenue loss from the targeted jobs credit is $305 million in fiscal year 1981. If the program were extended beyond December 31, 1981, at its present level the annual revenue loss would be $350 million.

PROBLEMS WITH EMPLOYMENT TAX CREDITS

The most difficult general problem with tax credits of this type are that their budgetary impact is largely divorced from the responsibility for program evaluation.

Jobs tax credits do not appear in the Department of Labor's budget and are unlikely to be regarded as competing with other departmental programs for the best use of the budget dollars. Tax credits generally are not subject to the appropriation process in the Congress.

Past and present employment tax credits are so small relative to total labor costs that little, if any, net additional employment can be expected to occur as a result of the subsidy. Even the $5.7 billion New Jobs Credit reduced annual labor cost by less than 0.4 percent annually.

The financial incentive provided by the targeted credits have not greatly affected the decisions of employers to hire eligible individuals. Instead, about two-thirds of all certifications are estimated to have been made retroactively. Thus, employers have commonly claimed the credit for workers who were found to be eligible after they were already hired. It is possible that a retroactive credit could increase the length of employment for eligible workers or that these employers will later hire more eligible workers after experience with the credit. However, the prevalence of retroactive certifications casts serious doubt on the effectiveness of the credit to increase employment in the target population. In addition, the relatively small use of the credit for disadvantaged youth suggests that, as presently constituted, the TJTC has not been an efficient program for dealing with the problem of high unemployment among young people from low-income families.

CONCLUSION

For these reasons, the Administration believes that the existing Targeted Jobs Tax Credit should not be extended beyond its schedule expiration date at the end of the year.

Senator HEINZ. Our next witness is the Honorable Albert Angrisani, Assistant Secretary of Labor.

Mr. Angrisani, please proceed.

STATEMENT OF HON. ALBERT ANGRISANI, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR, ACCOMPANIED BY NANCY SNYDER, ACTING DIRECTOR, OFFICE OF WORK INCENTIVES PROGRAM; AND PATRICK O'KEEFE, DEPUTY DIRECTOR, OFFICE OF PROGRAM EVALUATION

Mr. ANGRISANI. Thank you, Mr. Chairman, Senator Dole.

I would just like to begin by saying it is a pleasure to be here, and I would like to introduce my two associates, Mr. Pat O'Keefe on my left, who is in our Office of Policy Evaluation and Research, and Ms. Nancy Snyder, our Acting Director of the WIN program.

Mr. Chairman, if I may, I would like to submit my statement for the record and just go through a few talking points with you as an introduction.

Senator HEINZ. Without objection, your entire statement will be made a part of the record.

Mr. ANGRISANI. Thank you.

Secretary Donovan and I have been in office a little less than 2 months, and we don't quite feel like experts yet. But we have been up to the Hill quite a bit the last couple weeks, and with the help of good staff work, we are trying to present as comprehensive a point of view as we possibly can on these issues.

To frame this in the context of the TJTC program, the best analogy that I can think of is that we're driving the vehicle, while Treasury is providing the car and the gasoline.

So with that perspective in mind, I would like to go through some of our views on the subject and try to address, as best we can, the subject that you have asked us to come up here and talk about today.

We feel that we have administered the program as effectively as is possible to do in the last couple of years.

In many ways, this has been a pilot program. It has had a 2-year duration, and incumbent in that term "pilot program" are some analysis and research and evaluation capabilities. I would have to say from my brief exposure to the program over the last 2 weeks and a much more intensive exposure in the last 2 days, that the best way to phrase this would be as our staff would say: That we have what we think is good information, but as is always the case, we would like more.

I am going to present to you here, and talk to, some four or five talking points, which basically constitute our administrative interpretation of this program—where it is right now.

The first issue that we see, Mr. Chairman, is one of low utilization. The tax credit appears to have little appeal at this point to employers, even those who regularly employ target group members. Therefore, it may not serve as an inducement to them to hire new or additional target group members.

To illustrate: It is estimated that in 1980, there were about 4 million economically disadvantaged youth. All of them are potentially eligible for TJTC. We further estimate that in 1980 there were between 1.6 and 2.0 million hires of economically disadvantaged youth by firms with a tax liability against which TJTC could be applied.

In calendar year 1980, the cumulative total of youth TJTC certifications, that is, hires amounted to 112,000. This represents about 5 percent of the total number of hires for which the credit could have been claimed.

In sum, although many establishments already employ persons eligible for TJTC, few employers claim it. If those employing the target group without the credit are not claiming it, what suggests that it will induce other employers, that is, those not predisposed to hire eligibles, to begin hiring the target group members?

That is the basic question we have come up with given the data that we have on that subject.

The second key talking point concerns cooperative education. The single, largest target group of certifications consists of cooperative education students. They comprise approximately 47 percent of the total certifications issued through December 1980.

It appears, however, that the revenue losses associated with this group are largely "windfall"; that is, credits to employers who would have participated in the cooperative education program without TJTC.

Based on a study conducted by the staff of ETA's Office of Program Evaluation, we have some information on the cooperative education component of TJTC. The study description is as follows:

A telephone survey was conducted in nine States: Arkansas, California, Colorado, Connecticut, Georgia, Ohio, Pennsylvania, Rhode Island, and South Carolina.

Interviews were conducted with about 70 persons involved with the cooperative education program at the State and local level. The persons surveyed were educators; that is, the counselors and instructors involved in the cooperative education program.

The nine States were chosen so that the samplē would be geographically diverse and include States with different rates of TJTC utilization. It included States in which the ratio of TJTC certifications to the total cooperative education enrollment was higher than, equal to, and below the national average so that we had a broad base sample.

The survey was conducted at the end of the 1979 academic year, April and May 1980.

Among the findings of the survey are the following: In the 1979-80 school year in these nine States, the State officials reported about 108,000 cooperative education students employed by profit-making firms. About 22,000 TJTC certifications were claimed—the credit was taken only in about 21 percent of the cases where it could have been claimed.

The second point is that local educators did not see the credit as an incentive to employers to create additional cooperative education jobs. Of the 60 local school staff contacted, only 1 person indicated that a firm requested more cooperative education students because of TJTC.

While TJTC may increase the retention of some students by employers, it is evident that in these cases TJTC was not needed to obtain cooperative education placements.

Employer reaction to TJTC is the third talking point.

Both the availability of a tax credit and the TJTC subsidy level suggest that TJTC should be well used, and yet it is not. The Department of Labor has not formally surveyed employers concerning TJTC but we have supported an evaluation conducted in 25 sites by the Ohio State University under the guidance of Dr. Randall Ripley. This study provides some insights into employers' reactions to TJTC.

The first reaction was that most employers participating in the program normally hire from among TJTC target groups.

Second, most employers who have used TJTC indicate that the credit did not influence their decisions to hire certain individuals.

Third, many employers are reluctant to take advantage of TJTC because they fear Government intrusion into their hiring decision, fear being treated like a Government contractor, and fear that using the credit may increase their risk of an IRS audit.

Fourth, many employers believe that the tax savings possible through TJTC are not sufficient to compensate for the perceived low productivity of the target group workers.

The combination of these factors appears to limit severely TJTC's potential as a means of increasing employment in certain areas.

The fourth talking point is on the issue of retroactive certifications. It is legal for employers to claim a TJTC credit for all eligible workers, including those who are not known to be TJTC eligibles at the time the hiring decision is made. Therefore, employers can hire workers, subsequently determine their TJTC eligibility, and retroactively claim the credit.

The U.S. Employment Service began collecting data on retroactive certifications, defined as those submitted 15 working days after the hire, in the first quarter of fiscal year 1981. Based on data from 24 States, it is estimated that about 64 percent of all certifications, excluding the cooperative education students, were retroactive certifications.

Some portions of the retroactive certifications represent lags incurred in the employers' personnel and payroll processes.

With retroactive certifications comprising 64 percent of the total, however, it is apparent that some substantial portion of TJTC certifications are being claimed for hires that would have occurred without TJTC.

The last point is the issue of the extension. There are a number of ways of looking at this. We tried to look at it as objectively as we could, and conclude that to be effective the credit would have to be extended for more than 1 year.

There are a number of reasons for this, the primary being that the potential value of the credit diminishes as the expiration date approaches. A credit available for only 1 month's wages obviously is worth less than one for 12 months' wages.

Employers will not alter their long-term recruiting and hiring practices to take advantage of short-run, temporary tax credits. Further, a criticism of past Federal attempts to involve private employers in employment and training initiatives is that Federal policies are too often changed, too impermanent. In order for employers to be expected to become familiar with an initiative, it should have the prospect of being available for some extended period.

That concludes the basic talking points. I'd like to say for the record that from an administrative standpoint relying on the work that has been done by the staff for the last 2 years, this data, which is the best that we have, considering the overall position of the administration, considering our ability to administer an effective program down the road and, particularly relative to the upcoming consideration of the CETA reauthorization, that at this point the Department would opt for not extending the TJTC program.

Thank you, Mr. Chairman, I appreciate your patience.

Senator HEINZ. Thank you.

Let me pose to you the same question I posed to Mr. Chapoton, which is: What is the administration's plan for lowering structural unemployment?

Let's assume that the economy generates 7.5 million new jobs by 1984. There is no guarantee that those jobs are going to be created where there are large pockets of the unemployed. Neither is any guarantee that unskilled or disadvantaged people will hold them.

Do you believe there should be a specific Federal program to handle these structural unemployment problems?

Mr. ANGRISANI. Well, that is a very good question, and it is certainly one that we inherited. I can only answer it by prefacing my remarks.

There is a program in place in Government right not supposedly to deal with this issue of the structurally unemployed. It has primarily been the CETA program.

There is mixed opinion in many areas on the program. I would say overall the position that we have taken so far is that what is there right now just isn't working, given the $53 billion investment that has been made in it to date.

The President and Secretary Donovan have said on occasion that they feel training does constitute an important element in our society, and that it should be continued. The issue that we are struggling with right now, given that we don't believe that what was there in the past has worked, is what we can propose in the 6 to 8 short months that are ahead of us to solve that problem. This is what we call CETA rewrite time. It is something that we are into right now in great detail, something that I am sure we'll be back talking to you and other committees about a great deal.

So, in terms of giving you our specific proposal, what do we propose, except to go through the basic generic arguments that we have given time and time again, I can't give you those specifics, but I can tell you——

Senator HEINZ. I understand that. I am not at all critical of you for that.

My question is, does the administration feel that direct spending programs are inherently better than tax approaches in solving structural unemployment problems. CETA requires direct spending while tax credit programs do not.

Mr. ANGRISANI. The administration has not expressed a definite opinion on that at this point, nor do I have one.

Senator HEINZ. So you have an open mind on that issue?

Mr. ANGRISANI. That's correct.

Senator HEINZ. Very well. Now, you mentioned low utilization as problem. Only 5 percent of the estimated target population has benefited. That worries me, too.

Do you think that the failure of the Treasury Department to issue appropriate tax regulations has played a role in reducing participation?

Mr. ANGRISANI. I don't know the answer to that. I can only go back to the surveys that we've done which express clearly to us that employers do have a bit of reluctance to participate in this program. Whether it is because of regulations or whether it's because of the newness of the program, or whether it's because of perceived problems that the IRS will get into their books, I can't answer that question. It's a possibility, but I can't give you a definite answer.

Senator HEINZ. I am going to yield to Senator Dole in a minute for any questions he may have.

The fact that only 5 percent of the targeted population now participating is not by itself a fatal criticism of the concept, is it?

Mr. ANGRISANI. No, sir, it is not. However, long-term low utilization—the weight of that factor—could become a problem.

Senator HEINZ. I agree. If we do everything we know how to make this program work and 5 years from now, utilization is still only 5 or 10 percent, then, we ought to ask ourselves whether what we are doing is appropriate.

Senator Dole.

Senator DOLE. I have no questions. I just wanted to listen to some of the witnesses because this is a program that many of us have had an interest in for a number of years, in my case going back to the time I served in the House prior to 1968. It was then called, I think, the Human Investment Credit Act, or something like that.

It is now the administration's position to let the present credit expire. Those of us who have an interest can maybe try to work out with the administration some better approach. Maybe utilization is so low that it doesn't make a great deal of sense to continue it, but maybe the problem is with the way it is written. Maybe it's the fact that we are still waiting, as I understand, for regulations. It really hasn't been tested very long, a couple of years. I am certain some of the witnesses later on will testify who benefits from the program, whether it is the employer or the employee.

I understand that you are relatively new on board and may not have all the answers. You may not have all the answers after you've been there a while either. [Laughter.]

Mr. ANGRISANI. I don't think so, sir.

Senator DOLE. We don't.

Thank you.

Senator HEINZ. Senator Dole, thank you.

One or two questions. Do you believe there is any way that the cooperative education portion of this tax credit program could be better targeted? Some now say many young people in the cooperative education program are getting jobs who would get them anyway.

Mr. ANGRISANI. In terms of defining a better focus, I think all of our training programs that I've looked at, including this one, need better focus.

Secretary Donovan and I are of the opinion that we will be able to bring a plan forward that will accomplish that. And I think, largely, the failure in the last 7 years of some training programs has been an inability to focus and set priorities and spend funds accordingly.

So, the answer to your question is "Yes" for both this question and in the broader sense of training.

Senator HEINZ. Now, the people who we all rely upon to target this program in the other six categories chiefly are bureaus of State employment security, the U.S. Employment Security Service, and CETA prime sponsors.

Mr. ANGRISANI. Yes.

Senator HEINZ. If they do a good job in the vouchering process, there is no reason that the program can't be well targeted.

Is there something wrong administratively? Are the bureaus of employment security and the CETA prime sponsors capable of doing this job correctly? Or, is the problem that we have not given them a clear idea of what we expect?

Mr. ANGRISANI. That's a very fair question, and a very good question.

My first engagement outside of the Department of Labor several weeks ago was to visit with the ICESA group, which, as you know, is the organization representing State employment security agencies. And I went there, not only to make some comments, but to receive some commentary.

I found a tremendous willingness there to deal with this problem. I found many, many capable people, and I found some very honest and sincere and dedicated people. But the comment that came back to me, and the same comment coming back to me now from CETA prime sponsors as we get into the PSE questions, is:

What do you want us to do? What are the priorities and what direction do you want us to take?

We've got administrators out there administering a number of separate types of grants. We've got employment security offices trying to provide placements without priorities for hosts of training programs, and at the same time we are asking for budgetary reductions.

Coupled with that question is, in many cases, overregulation on our part, which has lacked a focus on priorities as well.

So, what I am saying is that I feel that we have a distribution network out there. It's a good one. It needs some changes. Perhaps it needs to have some incentives built into it according to priorities. It needs perhaps to have some of the regulatory burden that we've placed on it for lesser priorities reduced.

I think the employment security offices are capable of doing the job, but I don't think they are going to do it unless we get our act here together and give them the direction that they need, which starts with a consistent approach toward training in the Department of Labor and, if need be, in other areas by Treasury.

Senator HEINZ. Should the targeted tax credit concept be oriented toward encouraging private sector training instead?

Mr. ANGRISANI. Should it be? I don't know if I can give you an exclusive answer. At this point in time I perceive it as an area of great opportunity, and the private sector organizations that I've spoken to have expressed an interest in it. I have asked them to come back to me and tell me. Obviously what's there, you're not terribly interested in right now. What is it that will make you interested?

As yet, I don't have that response.

So, what I'm saying is, we can perceive it as being a viable area for opportunity, but we've got to get the answers on the other side of this equation, and I would encourage in your future testimony, if not here, to bring some of these private employers in and say, what is it that turns you on? What is it that really would make you get into this program and pick up some large quantities of people that we can get into this training mechanism.

I'm searching for that answer on my own. I think this committee could provide a valuable resource in that area.

Senator HEINZ. We are going to do our best. We have some panels we hope will answer some of those questions, but we need your help, too.

Mr. ANGRISANI. You certainly have it.

Senator HEINZ. There are more people in the Department of Labor than there are members of the Finance Committee.

Mr. ANGRISANI. I understand. We're working on that.

Senator HEINZ. At least so far.

You mentioned the Ohio State study which I haven't read yet, and indicated there are two interesting facts presented in it. First, to the extent employers use the program, they tend to hire exclusively people who were eligible targeted jobs tax credit employees. Second, they also claimed they would have hired these people anyway.

Did I understand what you said?

Mr. ANGRISANI. The first point is correct. Most employers participating in the program normally hire from among the TJTC target groups.

What was your second point, sir?

Senator HEINZ. They would have hired members of targeted groups even if they didn't have vouchers.

Mr. ANGRISANI. Let me just consult on that.

That's correct. Your statement is correct.

Senator HEINZ. Which statement?

[Laughter.]

Mr. ANGRISANI. They hire people from the target group, but not necessarily according to the voucher.

Senator HEINZ. Not necessarily vouchered?

Mr. ANGRISANI. That's correct.

Senator HEINZ. Is that good or bad?

Mr. ANGRISANI. Well, it suggests a lack of communications I would think.

Senator HEINZ. On their part, or on ours?

Mr. ANGRISANI. Probably mostly on the ability to communicate the program. Certainly a program that's been in effect 2 years probably has some discipline problems, and I would suggest there are probably several forces out there. In fact, that's like any program that gets started, they are going in different directions, and they're just appealing to the one that is most accessible. That is what it would indicate to me.

Senator HEINZ. Why did the employers indicate that the program had no effect?

Mr. ANGRISANI. Well——

Senator HEINZ. Were these employers who in the ordinary course of their business hire low-skilled employees at the minimum wage anyway?

Mr. ANGRISANI. Let me consult for 1 second.

Let me ask Pat to respond to that question. He is a little more familiar with the specific details.

Senator HEINZ. By all means, please.

Mr. O'KEEFE. We don't have very hard data, but one study that we do have in the 25 sites indicates that the type of industries and the type of employers who are hiring the TJTC eligibles, typically employ youth: retail trade, fast food chains, things such as that.

Senator HEINZ. Therefore, they are hiring young people just out of high school regardless of their eligibility for the tax credit program.

Mr. O'KEEFE. They are hiring young people without regard to the availability of the tax credit, yes.

Senator HEINZ. And if a few people they hire happen to qualify, that's fine with them.

Mr. O'KEEFE. Yes, sir.

Senator HEINZ. People have made much of the retroactive certification. Both you and Mr. Chapoton have done so today. Now, is retroactive certification a concern because it indicates fraud or is there another reason why it is bad? It doesn't sound good.

Mr. ANGRISANI. It in no way represents fraud or anything like that. What it represents is lack of efficient execution. We feel that a claim for a certification, if a system is working properly, should be made by the employer at the time that the individual is hired and that one of the goals we should establish in the future with all of our training programs is that we have that type of data base and audit trail.

We have the same problem, by the way, in CETA where we have a very poor data base almost to the point that I can't tell you how many positive terminations we've had in certain sectors of the problem. So, it suggests poor execution basically.

Senator HEINZ. As I understand it, a report to the Congress is due later this year, June 30. The Labor and Treasury Departments are supposed to submit a report on the effectiveness of this program——

Mr. ANGRISANI. Yes.

Senator HEINZ [continuing]. As well as on the former new jobs credit program.

Will any data be available prior to writing that report that would indicate when eligible employees receive vouchers, before or after promise of employment has been extended?

Mr. ANGRISANI. Yes, there are a number of things that we're doing right now to prepare for that report. Obviously, those were some of the first questions I asked when I found out that I had to testify. We will be taking greater efforts on our part to prepare that type of data base and also we have the option right now of a study which has been approved—I should say actually a data cumulation project which has been approved and is in the Department's budget—to pull the information together on this so that we can come back with more specifics.

I think even in this cost-cutting mode, we probably will find the money to go ahead with that survey.

Senator HEINZ. My last question is this: In order to qualify for any of these categories, even if you are a general assistance recipient under a State or a local program, you have to have been unemployed for 6 months; is that correct?

Mr. O'KEEFE. No.

Ms. SNYDER. That is incorrect.

Senator HEINZ. That is incorrect.

Let me phrase my question another way then. I am told that a CETA worker that has just been laid off as a result of the program cutbacks in title VI and II-D, the public service employment titles, would not be eligible to be vouchered for a targeted jobs tax credit; is that true or false?

Mr. ANGRISANI. I'll let Pat respond to that.

Mr. O'KEEFE. That will be true for several reasons. Many of them would not fit any of the seven target groups. Those who are in the target group and have been employed in public service employment jobs probably earned enough in the PSE jobs to incomes that exceed the TJTC income eligibility criteria.

Senator HEINZ. What would be wrong with making them eligible? Assuming Congress reauthorized the program?

Mr. ANGRISANI. Assuming we were not in violation, you know, of any of the legislative mandates of the program, I think it would be perfectly appropriate, just as we are trying to find places for these individuals in any of the other CETA programs.

Senator HEINZ. Very well.

Thank you all very much. We appreciate your being here, Mr. Angrisani.

Mr. ANGRISANI. Thank you, Mr. Chairman, it's been a pleasure.

Senator HEINZ. And good luck to you.

Mr. ANGRISANI. Thank you, we'll need it.

[The prepared statement of Hon. Albert Angrisani follows:]

STATEMENT OF ALBERT ANGRISANI, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the effectiveness of the Targeted Jobs Tax Credit (TJTC) as a means to increase employment levels.

The TJTC is an elective income tax credit available to private employers who hire workers from specified target groups. Enacted as part of the Revenue Act of 1978, the purpose of the credit is to increase employment opportunities in the private sector, particularly for the disadvantaged.

The TJTC, which may be taken in each of the initial two years of the worker's employment, is 50 percent of first-year wages up to $6,000 ($3,000) and 25 percent of second-year wages up to $6,000 ($1,500). There are seven target groups:

Economically disadvantaged youth, ages 18-24;

Youth ages 16 through 19 participating in a qualified cooperative education program;

Economically disadvantaged Vietnam-era veterans under age 35;

Economically disadvantaged ex-offenders (those convicted of a felony and hired within five years of the conviction date or after release from prison);

Handicapped persons referred from vocational rehabilitation programs;

Supplemental Security Income (SSI) recipients; and

Persons who have received general assistance for at least 30 days.

Although the maximum "face value" of the credit is $3,000 in the first year, the employer must reduce the normal business expense deduction for employee wages by the amount of the credit. Therefore, the actual reduction in hiring costs resulting from the TJTC ranges from $900 to $2,580 depending on the employer's tax bracket. Any unused portions of the credit may be carried back three years or forward seven years. As a safeguard against employer substitution of TJTC-subsidized employees for members of the regular workforce, the law provides that qualified first year wages during a taxable year cannot exceed 30 percent of an employer's aggregate unemployment insurance wages (usually FUTA wages) paid to employees during the year.

The TJTC applies to wages paid between January 1, 1979 and December 31, 1981 to targeted groups members first hired after September 26, 1978. Statutory authority for the credit is scheduled to expire at the end of calendar year 1981.

The law requires certification of a worker's TJTC eligibility before an employer can claim the credit. It does not, however, prohibit an employer from hiring an employee and then retroactively seeking the required certification of a worker's TJTC eligibility.

As directed by Congress, the Secretary of Labor, together with the Treasury Department, designates a local agency to certify worker eligibility for the TJTC, thus relieving employers of the responsibility for making eligibility determinations. The Employment Service in the Employment and Training Administration (ETA) was given administrative responsibility for the TJTC in the Labor Department, with the State Employment Service agencies having overall responsibility at the local level.

The certification of a worker's eligibility for the TJTC involves a two-step, decentralized procedure. First, either the State Employment Services or participating community agencies, such as CETA prime sponsors and vocational rehabilitation agencies, determine an applicant's eligibility as a member of a larget group (referred to as "vouchering"). Then the Employment Service provides the employer with a certification for attachment to the employer's tax return verifying the hiring of a TJTC-eligible worker (called a certification). There is a statutory requirement that schools issue certificates for cooperative education students; all other certificates are issued by the Employment Service.

The additional duties of the State Employment Service agencies include program coordination, the development of promotional materials, provision of staff training and technical assistance, program review, and reporting activities.

Mr. Chairman, the statutory authority for the Targeted Jobs Tax Credit is scheduled to expire at the end of calendar year 1981. The Administration has evaluated this program, and we have decided to recommend that it not be extended.

The program has not accomplished its main purpose. It has not opened up a significant number of new job opportunities in the private sector for individuals from the seven target groups. The intent was a worthy one, and I might add, it is consistent with this Administration's aim of increasing employment in private industry. However, our analyses of the program lead us to question its effectiveness. Let me summarize briefly some of our findings.

From the beginning of program activity in early 1979 through December 1980, approximately 796,000 persons were vouchered. Of these, about 408,000 were certified. The preponderance of the vouchers were issued by the Employment Service (368,000) and CETA systems (155,000). At the attached table indicates, 84 percent of all TJTC certifications (hires) through December of 1980 were youths, the majority of whom were cooperative education students. These students alone account for 47 percent of the cumulative total of TJTC certifications. The comparable percentages for the other target groups are economically disadvantaged youth—36 percent; economically disadvantaged Vietnam-era veterans—4 percent; economically disadvantaged ex-convicts—5 percent; vocational rehabilitation clients—5 percent; general assistance recipients—2 percent; and SSI recipients—less than 1 percent.

At these levels of activity, TJTC's are being claimed by employers in only 5 percent of the potential cases. This is based on an estimate of the number of hires of economically disadvantaged youth by firms that had a tax liability to which the credit could be applied. For 1980, it is estimated that between 1.6 million and 2.0 million such hires occurred.

This is a very small percentage indeed. Program data and experience and several on-site, process studies performed or contracted by the Employment and Training Administration have provided some findings as to why employers have not taken more extensive advantage of the program. Reasons are cited ranging from lack of knowledge about the program, to the feeling that involvement might increase the possibility of a tax audit, to the belief that the value of the credit is not sufficient to offset the productivity deficiencies of the eligible workers.

In addition, our assessments of the TJTC program indicate that a substantial portion of the individuals for whom a credit was taken would have been hired anyway in the absence of the TJTC. Virtually all of the cooperative education students would have had their jobs without TJTC. Further, analyses of recent program data from 24 states indicate that "retroactive certifications" comprise 60–70 percent of TJTC hires. Retroactive certification is one issued when the individual has been employed for at least 15 days at the time of certification. In other words, the individual has already been hired, and then the employer discovers that he or she is eligible for a tax credit because the employee falls within one of the seven categories.

Thus, the TJTC has not been an effective incentive for employers to hire new employees from the targeted groups. Its limited use cannot justify the continuation of the program, which will cost the Treasury an estimated $305 million in 1981 and $350 million in 1982. We cannot support this drain on the Treasury—no matter how worthy the goal—without assurance that it is creating jobs.

The better approach—better for all—is enactment of the President's comprehensive program for economic recovery. This program of budget control, tax reduction, regulatory reform, and a stable monetary policy will, I am convinced, halt the growth of inflation and reduce the high levels of unemployment that plague our economy. The program will revitalize the industrial base of the economy and this will stimulate growth in real jobs in the private sector.

Mr. Chairman, this concludes my formal statement, I will be happy to answer any questions that you and the other members of the subcommittee may have.

Thank you very much.

TARGETED JOBS TAX CREDIT VOUCHERS AND CERTIFICATIONS BY TARGET GROUP

[Cumulative through Dec. 31, 1980]

Target Group	Vouchers	Certifications
Youth, economically disadvantaged	369,891	149,517
Vietnam veterans, economically disadvantaged	53,520	17,074
Ex-convicts, economically disadvantaged	56,347	18,529
Vocational rehabilitation	45,644	20,947
Cooperative education	192,218	192,218
General assistance	76,415	8,273

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TARGETED JOBS TAX CREDIT VOUCHERS AND CERTIFICATIONS BY TARGET GROUP—Continued

[Cumulative through Dec. 31, 1980]

Target Group	Vouchers	Certifications
Supplemental security income	2,298	974
Total	796,333	407,532

Senator HEINZ. Our next panel consists of Maudine Cooper, Mr. Pierce Quinlan, Dr. Richard Rahn, and Mr. John Motley III.

Lady and gentlemen, would you please come forward.

Ms. Cooper, would you be our first witness?

Ms. COOPER. I certainly will.

Thank you for the invitation. Vernon does send his regards to you. The two of you talked earlier on.

Senator HEINZ. Thank you. As you know, I invited him to testify. However he had a prior commitment, but you are equally welcome. He tells me that you are more knowledgeable than he is. Actually, he was a little stronger about it than that. Please proceed.

TESTIMONY OF A PANEL CONSISTING OF MAUDINE R. COOPER, VICE PRESIDENT FOR WASHINGTON OPERATIONS, NATIONAL URBAN LEAGUE, WASHINGTON, D.C.; PIERCE QUINLAN, EXECUTIVE VICE PRESIDENT, NATIONAL ALLIANCE OF BUSINESS, WASHINGTON, D.C.; DR. RICHARD RAHN, VICE PRESIDENT AND CHIEF ECONOMIST, CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON, D.C.; JOHN MOTLEY III, DEPUTY DIRECTOR OF FEDERAL LEGISLATION, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, WASHINGTON, D.C.

Ms. COOPER. First of all, I want to say that we are supportive of the TJTC program as an aid to those who are unemployed in this Nation's cities and particularly during this period of what we view as an economic crisis.

With legislative changes to address some of the program's design problems, the Urban League believes that the targeted jobs tax credit program has the potential for significantly reducing unemployment.

We further believe that the TJTC program provides a significant and beneficial tax credit to an employer hiring a new employee from one of the seven targeted groups.

When administered effectively, the tax program indeed encourages employers to expand their labor force and thus increase their productivity. The tax subsidies, by promoting greater employer exposure to targeted groups, provides greater employer receptivity to the structurally and chronically unemployed. Thus structured, the tax credit program is a low-cost initiative that can indeed aid both employer and employee.

Although the program has great potential, utilization of the credits has not been realized to its fullest extent due to poor coordination between the Federal, State, and local agencies.

The State agencies responsible for overseeing implementation have provided their local offices with uncertain voucher goals and insufficient strategies for promoting participation.

Business involvement has been minimal and program effectiveness has varied greatly throughout the different States and localities.

At present, the program remains a relatively low priority item for implementing agencies as well as for businesses.

While the National Urban League supports the intent of the target jobs tax credit program and while we recognize the now improving responsiveness of the program, we feel that certain modifications must be made if the program is to truly—and I repeat, truly have an impact on reducing unemployment.

The program areas that we therefore wish to specifically address today are those involving certification mechanisms, administration, and accountability.

In stating our position regarding the existing certification system, let me explain first that present law permits employers to apply for a tax credit on a retroactive basis after an employee has already been hired. This provision, we feel, amounts to an unearned and undeserved windfall for the great majority of employers presently involved in the tax program. Some employers now benefiting from the tax credits weren't even aware of the program's existence prior to hiring and then they were allowed to accrue a financial gain without necessarily altering their hiring practices.

This situation holds true for an estimated 80 percent of those certifications issued since the program began.

The essential component of a successful tax program is the incentive factor that makes hiring from targeted groups desirable. With the retroactive certification, this measure is absent and subject to, we believe, exploitation amounting to incalculable losses in Federal revenues.

To address the problem caused by retroactive certification, the National Urban League recommends that the provision be rescinded. Thus accomplished, Congress would insure that a higher allocation of the subsidies provided under the program would be used to stimulate new employment. Doing away with the retroactive feature would help focus the attention of the State and local agencies on providing expanded employment opportunities rather than merely filling quotas.

Regarding present administration of the tax program, it is the league's position that greater guidance and promotional efforts are required if State and local plans are to be effectively implemented.

Indicative of the present lack of coordination, we feel are the reports that the heavily populated regions in the Northeast and the Midwest United States have certified smaller percentages of eligible workers than the less populous Southern regions of the country.

In most of these regional areas, the small businesses which are the most likely recipients of the tax credit are rarely informed of the program's options, and in most States little to no advertising is being conducted.

In part, these weakened inconsistent practices can be accounted for by the absence of sufficient funding commitment and targeting. Reimbursement is necessary for participating State agencies for expenses incurred in implementing the program. For example, CETA prime sponsors are responsible for issuing vouchers to three of the seven target groups: To youth, between ages 18 and 24 from economically disadvantaged families; to Vietnam-era veterans under the age of 35, again, from economically disadvantaged families and to exconvicts from economically disadvantaged families.

While the CETA prime sponsors are expected to issue vouchers and to contribute to publicizing the program, Congress has appropriated no funds by which these duties could be carried out.

Of the National Urban League's third concern regarding accountability, it is our position that the tax program is presently deficient in quantitative information necessary for assessment of program effectiveness as has been stated here by the administration witnesses.

Present data collection and monitoring are handled differently in each locality and State and only provide a rough outline of program effectiveness. These unfortunate circumstances led to a major study commissioned by the Department to conclude that little can be made of the present statistics given the "severe limits on the meanings" of the numbers.

In a similar study conducted to assess whether or not the tax credit program was helping its clients, a preponderant number of agencies claimed that they had no basis by which to make such assessments. On this issue, it is the league's position that more effective data resources are indeed necessary in order to judge such controversial issues as displacement, targeting, overall impact on the jobless rates, et cetera.

The potential for success of the tax program is great, but yet unrealized.

We feel, however, that the investment in human capital should be continued with the revisions that we have recommended. Studies underway, and already completed by the General Accounting Office and other agenices should be closely examined in order to make the revisions we recommend, as well as other appropriate revisions.

We believe with strengthened incentives and more diligent targeting, the tax program could play a significant role in reducing the now staggering level of unemployment.

Thank you, and I will entertain any questions that you have.

Senator HEINZ. Thank you, Ms. Cooper. We will take all the testimony and then we'll turn to questioning.

Mr. Quinlan.

Mr. QUINLAN. Thank you, Mr. Chairman, we have submitted testimony for the record, and I would like to summarize.

Senator HEINZ. Without objection, it will be a part of the record.

Mr. QUINLAN. Let me give you a little bit of background about the National Alliance of Business. This organization was created in 1968 to promote business participation in public efforts to hire and train disadvantaged people. This process has evolved over the last 12 or 13 years so that we are now working with 450 local private industry councils established under the CETA program in 1978 to further enhance business participation in employment and training programs.

Our interest in the targeted jobs tax credit program is quite straightforward and simple. The subsidy available through TJTC supports our basic goal of getting private sector placement for disadvantaged people. It helps open the door; it's a tool in an overall process.

In order to help employers understand and participate in the program, the National Alliance of Business has conducted educational and training efforts with the corporate community, and private industry councils have carried out management efforts, promotional mailings, seminars and the like.

Overall, our assessment is that public marketing efforts for the TJTC program really haven't been adequate. There certainly have been problems with limited funding and questions about the absence of final regulations, some of which came up earlier.

Nonetheless, over 400,000 individuals have been certified over the relatively short period during which the TJTC has operated. Appended to my testimony is a listing of businesses which have indicated their use of the program, including Bethlehem Steel, Marriott, General Dynamics and a range of large and small manufacturing firms, indicating that a variety of important firms and industries have participated.

The National Alliance of Business is strongly supportive of TJTC, as I've indicated, and we urge the continuation of the program as an incentive to involve the private sector in the employment and training effort.

The need for this program is even greater in the short term because of the likely increases in unemployment caused by the transition of some 307,000 PSE enrollees, as well as others, acknowledging that under the present arrangements PSE enrollees are not now eligible for TJTC.

I am familiar with the studies that recognize TJTC program shortcomings, including the complexity of eligible categories, the absence of adequate targeting, some redtape questions, administrative problems in coordination and accountability, the size of the credit, and the issue of retroactivity.

However, we suggest that a 1-year extension be made of the program with only one change, and that is, to allow the credit to be claimed for a full 2-year period of time regardless of when the employer begins to participate.

We face the situation right now where each day that goes along, the employer has less time to claim the tax benefits and certainly less incentive to participate in the program.

If this minor change were made, the Congress could extend the program through the end of 1982 and employers could still participate with the full knowledge that they will have every opportunity to claim full benefits, regardless of when the next legislative expiration date is.

Now, the reason we recommend a 1-year extension with only this minor change is because of our belief that the reauthorization of the CETA program, which Assistant Secretary Angrisani mentioned just a minute ago, will require a complete rethinking and reshaping process in the coming year. The TJTC program is an important element in overall employment and training policy; it is not just a tax policy issue. Rather than make some TJTC changes now and conceivably go through additional changes in the coming year, we should try to consider all elements of employment and training policy—including TJTC—in conjunction with CETA reauthorization next year.

It is important to recognize that once employers begin to participate and become familiar with the administrative structure and procedures set up at the State and the local level, there is a large price to pay in terms of employer confusion and program disruption when changes are made. It would be much preferable to allow the TJTC program to operate an additional year before a full-fledged congressional review and amendment process takes place.

That concludes my remarks, Mr. Chairman.

Senator HEINZ. Thank you very much, Mr. Quinlan.

Mr. Rahn.

Mr. RAHN. Mr. Chairman, I have a lengthy statement which I would like inserted in the record, and I'll summarize the statement.

Senator HEINZ. Without objection, your statement and indeed the entire statement of Mr. Quinlan, who proceeded you will be put in the record in its entirety.

Mr. RAHN. I am Richard W. Rahn, vice president and chief economist of the Chamber of Commerce of the United States, accompanied by Kenneth D. Simonson, the chamber's tax economist, and Madeleine B. Hemmings, associate director of human resources.

On behalf of our 112,000 businesses, local and State chambers of commerce, and association members, I welcome this opportunity to testify on tax changes to encourage employment. The U.S. Chamber supports the administration's program for economic recovery in its entirety.

The program contains a carefully balanced combination of spending reductions, across-the-board individual and business tax cuts, regulatory reform, and monetary restraint. This package will lead to higher economic growth at lower levels of inflation, and will significantly expand job opportunities. The latest U.S. Chamber economic forecast shows that unemployment will drop by nearly 2 million people between 1981 and 1983, assuming most of the President's program is enacted promptly.

In particular, the administration's proposed 3-year, 30 percent individual tax rate reduction will encourage greater work effort, saving, and investment.

The proposal for an accelerated cost recovery system for business investment in plant and equipment will encourage greater capital formation and thereby expand the business demand for workers. Swift enactment of these tax changes should be Congress top tax priority. Any other changes in the tax law should await enactment of this first round of tax relief.

Once the President's tax proposals are passed, Congress should look carefully at the targeted jobs tax credit and other possible ways of providing productive jobs for the hard to employ.

When we try to analyze ways to increase employment, we ought to first understand why employers employ people. An employer will employ someone when he thinks the marginal product of that employee will exceed the wage they require.

One of the major problems we've had in recent years is the growth of impediments to employment, particularly tax impediments, in our society. For instance, if an employer wants to hire somebody at a wage of $4 an hour, the employer has to pay the employer's share of social security tax, workers' compensation, unemployment compensation and a good number of other benefits. And if we assume that those benefits maybe range around 25 percent, which is not unreasonable, the employer's real wage cost is $5 an hour.

On the other hand, the employee does not receive $4 an hour. They have to pay social security tax and income tax, and with luck, the employee will get at least $3 an hour. But that difference between the $3 an hour and the $5 an hour, we'd like to refer to as the wedge, and every time we increase taxes on employees and employers, we increase the size of the wedge. We know the law of supply and demand has not been repealed for labor. So, we have much government-induced unemployment in our society and programs which reduce the size of that wedge, of course, are helpful.

Of course, the wedge on capital is even greater. The combination of State corporate income taxes, Federal corporate income taxes, city income taxes, State income tax, Federal income tax make many types of investment in corporate capital—we have cases of effective tax rates exceeding 90 percent. This reduces the amount of business investment, which reduces the amount of employment and, again, is the significant factor in our low level of employment growth we've had. The reason we are so enthusiastic about President Reagan's program is that the combination of 10-10-10 and 10-5-3 significantly reduces the wedge on labor and capital and should spur employment growth significantly.

After that program is enacted, we hope the Congress will carefully evaluate the TJTC. It needs to be studied as the administration has pointed out. It has not been very effective. We need to take a look at what the disincentives are in the program. There are problems with any form of tax credit, such as determination of the type of qualified behavior and the cost/benefit ratio of such a credit.

Again, we hope the President—the Congress will immediately pass the President's proposal and then extend for 1 year the targeted jobs tax credit, and during that period of time do a detailed evaluation of the incentives and impediments to the effective utilization of that program, which we do not now really know, and also look at alternatives in looking at the possible incentives and disincentives and costs and benefits of each.

Thank you, Mr. Chairman.

Senator HEINZ. Mr. Rahn, thank you.

Mr. Motley.

Mr. MOTLEY. Thank you, Mr. Chairman.

On behalf of NFIB's over one-half million small and independent business members, I would like to thank you for this opportunity to testify today and commend you and the committee for looking into this very important subject, the relationship of Government to creating new jobs in the economy.

I think if you are going to get a handle on the problem that is out there, you are going to have to look at where the jobs are being created in the American economy today and over the last decade.

I think if you look at all of the studies that have been done recently, you will see that most of those jobs are being created in the small business sector, in particular, in firms with less than 20 employees.

Over 90 percent of all of the private sector employment created in the last decade has been created in firms with less than 20 employees, and over two-thirds of all the jobs in the economy have been created in those same firms.

Also, if you take a look at this group, you will find out that most of these jobs are coming from new business start-ups, from firms that are coming into existence and are growing rather rapidly in their first couple of years until they reach the point where they want to be.

NFIB is terribly concerned that increasing Government actions related to wages are causing structural impediments to increased employment in the small business sector. In particular, we are terribly concerned about what is happening in the area of payroll taxes. In the last 5 years, social security taxes have doubled, and they are due to double again in the next 5 years.

According to one of NFIB's recent quarterly economic reports on small business, over 50 percent of our membership is now telling us that the most burdensome tax that they pay is payroll taxes, and particularly social security taxes. More burdensome than business income taxes or property taxes or any other local type of tax which is levied.

Also, the area—in this area is unemployment compensation taxes. We believe that these taxes fall disproportionately hard on smaller firms, and, in particular, on new business startups because they are experienced rated and most of these new firms do not have an experience rating, and, therefore, pay the top tax rate for the first 3 or 4 years and also because there is a maximum or ceiling, a tax, which can be paid. Very frankly, small business has a very stable work force and it is probably carrying some of the load for those large businesses which are rather cyclical in nature as far as the economy is concerned.

We are also tremendously concerned about the impact of minimum wage upon small business job-creating ability. We have had a dramatic increase in this area over the last 4 years and we hope that we won't have any large increases in the area in the future.

In addition, the Government is also involved in causing structural impediments in such areas as Davis-Bacon where it artificially sets wages in the employment—in the construction industry, thereby, prohibiting local small contractors from effectively bidding on Government contracts and bringing the work into a local area.

I think all of these things lumped together really point the finger toward Government as being one of the major problems as far as small business and job creation is concerned.

We, at NFIB, are becoming increasingly concerned as we go along that Government may be in the position of killing the goose that laid the golden egg, of raising the marginal cost of employment so much through governmental actions that the small business community will not be able to keep up with its job creation activities over the next couple of years.

As far as what can be done is concerned, we believe that there is no greater thing—no greater help for the small business community than for the Congress to attack the social security problem head-on and to find some way not only to begin to slow social security tax increases in the future, but also possibly to reduce those taxes.

We also believe that if you are terribly concerned about job creation in the economy, that you should take a look at unemployment compensation, especially its impact on new businesses and the type of hiring that they do.

More specifically, on the direct subject of this hearing which is the targeted job tax credit, NFIB believes when the credit was first put into law that it would be ineffective, and we so testified today.

Senator HEINZ. That it would be ineffective?

Mr. MOTLEY. Ineffective.

We were very much in favor back at that time of retaining the general jobs tax credit. Unfortunately, Congress did not agree with us.

We said that the general jobs—the targeted jobs tax credit would be ineffective because it would be a mismatch. It is not matching the people who have to be employed with the firms that are out there creating the jobs.

As far as small business is concerned, it is terribly cumbersome and it also does not match, again, the people who have to be employed with the firms that are in the location and creating the jobs. We would be much more favorably disposed towards Congress taking another look at whether the general jobs tax credit, which preceded the targeted jobs tax credit was effective and looking at that a good deal more.

I think listening to the previous witnesses, Senator, I think it would be interesting for the committee to possibly ask the Labor Department to break out the people who are using the targeted jobs tax credit by size of firm and let's see if the people who are using it are the people who are creating jobs, or are they just using it to replace people who are leaving employment in those industries.

Thank you very much, Mr. Chairman.

I forgot to say that I have a rather extensive statement that I would like to have submitted for the record if I possibly could.

Senator HEINZ. Without objection, Mr. Motley, your entire statement will be part of the record. I notice that it is quite substantial, well documented.

Mr. MOTLEY. Thank you.

Senator HEINZ. I am interested in knowing what information, annecdotal or otherwise, about the use of the targeted jobs tax credit by size you might have.

Mr. MOTLEY. Senator, I think it would be a very interesting comparison if the new jobs that are being created in firms with 20 or fewer employees, and the credit is being claimed by much larger firms, what you are simply doing is giving a credit for displacement—not displacement, but replacement of workers. Now, this could have some value if the right type of people are being employed.

Senator HEINZ. In that regard, I'd like to ask Mr. Rahn, who testified, I thought, rather eloquently about Roth-Kemp and 10/5/3 whether either of those tax programs, beneficial as they may be, attack the problem of the wedge from the employer's viewpoint. You gave the examples of the $4 wage, which is a $5 cost to the employer and results in a take home wage for the employee of $3. How does either Roth-Kemp or 10/5/3 address that problem?

Mr. RAHN. Well, Roth-Kemp, and particularly it reduces, of course, the marginal income tax rates for employees. It reduces the wedge directly on that side.

It also reduces indirectly the employer wedge by increasing the amount of investment capital as does 10/5/3. And by increasing the amount of investment capital, you have additional job creation and employers can afford to pay more, hire more people.

I have some data here on minority unemployment. I go back to January 1963 and we found the rate, the minority unemployment then was 11 percent. We had the Kennedy rate cuts which are very similar to those being proposed by the administration.

Right after the pasage in 1965 unemployment for minorities had dropped 9 percent and went steadily down until February 1969 where it bottomed out about 6.1 percent. Since that period of time, it has risen gradually and last year for a good share of the year, it was about 14 percent and currently it stands about 13.1 percent.

So we know that our disadvantaged citizens tend to benefit most from marginal rate reductions in a rapidly growing economy even though maybe the effects on the wedge per se are only indirect. By having a rapidly growing economy, you greatly increase both demand and supply of labor, which is most beneficial to our hard-pressed citizens.

Senator HEINZ. It seems to me that the one way of attacking the wedge problem directly is by establishing enterprise zones. Do you agree?

Mr. RAHN. Philosophically, yes. I really like the notion of enterprise zones because they identify the problems of impediments. When you get down to the practice of them, much like the targeted jobs tax credit, you begin to have enormous definitional problems as far as geographic location.

How do you really allocate income of firms that may have operations within and without the enterprise zones?

Well, our tax committee and our staff has been looking at these problems and we have been working with Congressman Kemp's staff in trying to find ways for overcoming the problems. I think we are a long way from developing viable—a viable piece of legislation for enterprise zones even though I am philosophically attracted to it.

Senator HEINZ. In your view, what is the most difficult problem?

Mr. RAHN. Well, you have, I think—it is not any one problem, it is a whole series of problems. There is a major one of geographical definitions of what the enterprise zone ought to be and facing political reality. I expect that the definition is going to have to be broad enough so that even affluent areas like Montgomery County and Fairfax County will end up with their own enterprise zones.

I find it interesting that everyone seems to be in favor of them and if it is really that desirable to reduce impediments, maybe we ought to make the whole Nation an enterprise zone, which would take care of the problem.

But there are a lot of technical accounting questions in determining what portion of income derives from activities within a zone and without the zone, getting the cooperation of States and local governments. There are also problems with the social security trust fund.

If we are going to reduce social security taxes for employees and for employers within the zone, then how are you going to make up that particular revenue? Are you going to take it out of general revenue funding?

We know right now that we have definite problems with social security.

Senator HEINZ. Let me propose the answer to your problem.

Mr. RAHN. OK. I would like to hear it.

Senator HEINZ. I propose allowing a Federal jobs tax credit to an employer inside a zone when he hires an employee who also lives inside the zone. A zone would be created when a State or local government came up with a development plan meeting federally certified standards.

Such a formulation might solve some of the current problems surrounding the enterprise zone concept. It avoids the problem of depleting the unemployment compensation and the social security trust funds. Also, the allocation of income earned by a firm with at least some activity outside the zone is no longer relevant. Finally, we know directly who we are benefiting, people who live and work inside the zones, and to a lesser extent, their employers.

How about that?

Mr. RAHN. Well, my initial reaction is extremely positive toward that, just as my initial reaction toward enterprise was very positive too when Jack Kemp first proposed it.

I find, however, when often—I am an economist by training—I take this stuff back to our tax attorneys and our tax committee who are the people who will try to implement it before it gets to Treasury officials, and then they always come back with a number of problem things that I have tended not to think of. So, before I give the chamber's unqualified endorsement to it, we would sure like to take a look at it in much greater detail and we will be happy to sit down and analyze it, and see if there are any flaws in it.

Senator HEINZ. Maybe we've solved the problem.

Mr. RAHN. Could be.

Senator HEINZ. Ms. Cooper, I gather that the Urban League feels that properly structured tax incentives can help solve the problem of excessive unemployment in our big cities. Is that correct?

Ms. COOPER. That's correct.

Senator HEINZ. You have suggested that we should not permit retroactive certifications. The person sitting next to you suggested that there be unlimited time prior to certification. It is hard to imagine views that could be more different.

Why should we care whether a businessman or woman is slow in securing an audit-proof certificate if he or she knew at the time of hiring the employee had a voucher?

Ms. COOPER. Well, I think Pierce and I really would not disagree on this one. I think the problem is the marketing of the program. Those few businessmen whom our affiliates have talked with have said they did not know anything about the program so that the retroactive application was very attractive to them; it is a tax credit. But we didn't get at the marketing end of that. Then the retroactive application will be something that will, of its own weight, just sort of die.

We would like to take it out of the provisions. In addition, many businessmen hire and are anxious to displace, and/or substitute those workers so there is a problem with getting rid of retroactivity. What will happen to those businessmen who hear about the program late? Will they terminate five people, hire five more in order to engage the facade of getting the vouchering and getting the tax credit? That is a problem, one that we recognize. Perhaps a way of getting at that is to allow for some selective retroactive application. I am just not sure.

If there is no marketing program in the area, then clearly the business person may not know about the program.

Our bottom line is trying to get people jobs; it is not about the regulations or the process, as long as we can, in fact, do something about the employment rate.

Senator HEINZ. You made some very interesting comments about Northern industrial States participation in the program. It has been much lower than in the South.

Could you go into more detail why there is such a difference among the States? I understand your point about the lack of incentives facing CETA prime sponsors and State bureaus of employment security, but how does this relate to this State differential? Why is it tougher in the North and easier in the South to secure the interest of the State employment services or CETA prime sponsors?

Ms. COOPER. The studies that we were able to get access to in preparing this testimony seemed to point out that those industries, those businesses that were in fact relocating in many instances and starting up, were looking for ways to enhance the business profitability far more than old-line industries, if you will, in the Northern States.

I am not sure what the reason is for that. I would perhaps guess that they are far more sophisticated in the Southern States now than they used to be in terms of taking advantage of the Federal largess. I think the feeling is that they have been left out of many of the programs and so there is a concrete effort being exerted to make sure that they participate as much as possible. Other than that, I would only have to guess; I just don't know.

Senator HEINZ. Mr. Quinlan, you urge a 1-year extension of the program along with allowing employers up to 2 years to claim the credit.

How soon does Congress have to act, assuming the Congress decides to do so, to maintain interest and continuity in the program?

Mr. QUINLAN. My feeling, Mr. Chairman, is that if something isn't done in the next 90 days or so, we will have a de facto close-down of the TJTC effort. Marketing of the program by employment security agencies and the CETA prime sponsors would be practically impossible. From the employer's standpoint, participation would be questionable given the debate going on as to whether TJTC should be continued, and the fact of only 6 months or so of time for which the tax credit could be claimed. That's why it's critical to permit the credit to be claimed for the full 2 years after an employee is hired, rather than tying the time period to the date the legislation expires. Otherwise, even if we get a 1-year extension through the end of 1982, program marketing will be affected again almost from the moment an extension is enacted.

I might mention, in relation to your question to Maudine Cooper, that we share a concern about some problems with the program, including those involving retroactive certifications, and I think our positions might be quite close on that.

But it will probably take several months or longer to develop TJTC amendments. That time, I think, could be better used to extend the program and to examine the operation more fully while preparing for substantive changes next year.

Senator HEINZ. Mr. Rahn, you agreed with the idea of a 1-year extension, provided it doesn't interfere with passage of the Reagan tax bill. Am I correct?

Mr. RAHN. Most definitely. We just don't want the thing to interfere with the passing of the President's tax program. We are looking at the President's tax program as the highest national priority now, and to the extent that you can go ahead and pass a year's extension without interfering at all, or delaying those timetables, we would have no objection.

Senator HEINZ. So, you wouldn't really object to tagging a 1-year extension onto the President's tax bill, with the recognition that a new sunset deadline would be established, if it doesn't detract from the opportunity to pass the President's bill?

Mr. RAHN. I'm not sure I'd want it tagged on.

Senator HEINZ. How about integrated into?

Mr. RAHN. We have come out for a clean bill and I would prefer to stick with the two-bill approach, keeping it clean, and if you need to do this in a separate bill, fine, but——

Senator HEINZ. Have you had a lot of success selling that point of view in the House of Representatives Ways and Means Committee?

Mr. RAHN [continuing]. We are still trying. We have not fully given up. [Laughter.]

At some point, I may concede defeat, but I am not ready to yet.

Senator HEINZ. I understand.

Let me ask the panel two questions: First, how can we improve the marketing of this program? And second, how can we improve the targeting of the program to make sure that it helps people that need it most?

Ms. COOPER. If I might start off. I think the problem that exists here is the same one that exists within the CETA system and that is that small business operators do not want to be bothered with any kind of Federal program, that includes the CETA program where you actually get a person whose entire salary may be paid by the Federal Government. They just don't want to get involved, and so I think the marketing program has to go beyond this particular program and has to go the reasons why those employers do not want to work with the Federal program.

In addition, I think that the community-based organizations, one of which I represent, have not been involved in the programs. We work with the National Alliance of Business and others at the local level, but we have not been involved in getting the marketing system out there in terms of working with the small businesses.

It is a matter of willingness to cooperate, willingness to serve as perhaps a referral agency; a willingness to perhaps get the certification system or process completed for the small businessmen. There are all kinds of ways to do this. We have just not thought through it clearly.

We haven't had to, because we've had the other programs which have been there for years to deal with, and now, there is a new beginning, so to speak, and a new approach to economic development and jobs creation. So, we are prepared to look at this one as a jobs creation technique.

Mr. QUINLAN. I think, Mr. Chairman, aside from some of the other things that have been said, it wouldn't hurt to put out final regulations.

Senator HEINZ. I think that point may have even been made by the regulators themselves.

Any other comments?

[No response.]

Senator HEINZ. One question I have for Mr. Motley.

Mr. Motley, I understand that NFIB members have expressed some nervousness about establishing enterprise zones.

Mr. MOTLEY. That is probably an understatement, Senator. It is somewhat of an embarrassing situation for us, I would imagine, because I think when Mr. Kemp conceived of the idea, we sat down and discussed it with them and the primary engine of this proposal was supposed to be small business in these enterprise zones and as we went along, we thought we were coming up with some decent concepts, and then as you know, we set our membership positions by membership vote, and we did pose the question of enterprise zones to NFIB's members and they rather resoundingly defeated it.

Several Members who had cosponsored the legislation in the House, along with Congressman Kemp wrote back to their NFIB members and asked them why they had voted it down.

The answer was very straightforward and simple, and I was amazed that we hadn't thought of it. They said, "If the situation is bad enough to create an enterprise zone, why don't you make the entire country an enterprise zone," like Mr. Rahn suggested, so that we can all get out from underneath these problems and go on about job creating.

You would be interested to know that since it is probably over 2 years since we polled this, we are about to poll the issue again to see if any of the notoriety or publicity that the proposal received during the recent campaign has changed their opinion in any way.

I would imagine that we would have those results by the beginning of May, possibly the latest by the end of May.

Senator HEINZ. I hope you will share those results with the committee.

Mr. MOTLEY. As soon as we can get them, we will be happy to share them with you.

Senator HEINZ. This subcommittee hopes to be very involved in the enterprise-zone issue to the extent that it is not handled by the full Senate Finance Committee.

Mr. MOTLEY. I will be certain to do that. As soon as we get them, we'll get them right to you.

[The information follows:]

[This survey taken from NFIB Mandate No. 434 Vol. 39 No. 4, May 1981]

DO YOU FAVOR OR OPPOSE THE CREATION OF ENTERPRISE ZONES?

BACKGROUND

Many inner cities are continually depressed. Unemployment is always much higher than average, income much lower, and prospects for improvement are bleak. To improve the situation, it has been suggested we try enterprise zones. In the enterprise zones, business taxes would be greatly reduced, some regulation reduced, licensing made easier, etc. These reductions would apply to any new business starting in the zone and would last for a period of years.

ISSUE

Should enterprise zones exist?

FAVOR

Traditional approaches to inner city poverty fail because they treat the symptoms, not the cause of inner city decline. Our cities lack economic growth and opportunity. They take the last place in innovation and economic risk-taking, and the welfare system weakens the link between effort and reward.

Enterprise zones are a new approach, based on the premise that people respond to incentives. Entrepreneurs will keep more of the reward because they face greater risks in the inner city. The poor will be offered tangible job opportunities in their own communities. This way tax consumers can become taxpayers.

OPPOSE

It probably won't work. The major problems of new small businesses generally involve adequate financing, getting qualified employees, low initial sales, etc. Enterprise zones don't touch these problems. Further, where is the market? Who is going to buy?

Even if enterprise zones do succeed in getting some new businesses started, it's not fair to existing businesses. Why should a new business, possibly right across the street, get a government-given advantage. That's only substituting one business for another.

Favor, 27 percent; oppose, 62 percent; and undecided, 11 percent.

Mr. MOTLEY. If I can comment on your question before as to why the South, and Southwest, and West may be more successful as far this program is concerned. I don't know too much about how the program operates, but just from an overall standpoint, I think if you can take a look at possibly where the jobs are being created in the country and where the new business startups are, you will find that there are many more new businesses starting today in those areas of the country, which are having success with this program.

The difference in economic development——

Senator HEINZ. Which is the chicken and which is the egg?

Mr. MOTLEY [continuing]. I am not too sure that I am qualified to answer that question, but it may be the reason why the program is successful in the South and West and not terribly successful in some of the older areas of the country.

Senator HEINZ. Very well. I want to thank each of you for your testimony. It has been very helpful.

[The prepared statements of the preceding panel follow:]

TESTIMONY OF MAUDINE R. COOPER, VICE PRESIDENT FOR WASHINGTON OPERATIONS

Mr. Chairman and members of the subcommittee, my name is Maudine R. Cooper, Vice President for Washington Operations of the National Urban League. As you know, the National Urban League is a non-profit community service organization. Through its network of 116 affiliates in 34 states and the District of Columbia we seek equal opportunities for the poor and minorities in all sectors of our society. The problem of unemployment among disadvantaged Americans has always been a crucial issue of the Urban League Movement. Therefore we welcome this opportunity to testify before your subcommittee on the Targeted Jobs Tax Credits.

The National Urban League supports the Targeted Jobs Tax Credit (TJTC) as an aid to those unemployed hit hardest by our nation's continued condition of economic crisis. With legislative changes to address some of the programs' design, the Urban League believes that the TJTC program has the potential for significantly reducing unemployment.

As established by the Revenue Act of 1978, the TJTC provides a significant and beneficial tax credit to an employer hiring a new employee from one of seven targeted groups. The disadvantaged individuals that comprise these groups include recipients of Supplemental Security Income (SSI) payments, the handicapped and economically disadvantaged youth. These individuals have been shown to be at a disadvantage in the labor market, due to limited work experience, economic and educational disadvantages, and various other factors that reduce hiring desirability. Implemented at the state and local levels, the TJTC certifies approximately 280,000 of these individuals a year, and has the potential for reaching other structurally and chronically unemployed, who would otherwise be of little appeal to a presently tightening business community. When administered effectively, the TJTC encourages employers to expand their labor force and thus increase their productivity. The TJTC subsidies, by promoting greater employer exposure to targeted groups, provides greater employer receptivity to the structurally and chronically unemployed. Thus structured, the tax credit program is a low-cost initiative that can aid both employee and employer.

Although the program has great potential, utilization of the credits has not been realized to its fullest extent due to poor coordination between the federal, state and local agencies. State agencies, responsible for overseeing implementation, have provided their local offices with uncertain voucher goals and insufficient strategies for promoting participation. Business involvement has been minimal, and program effectiveness has varied greatly throughout the different states and localities. At present, TJTC remains a relatively low priority item for implementing agencies as well as businesses.

While the National Urban League supports the intent of the Targeted Jobs Tax Credit, and while we recognize the now improving responsiveness to the program, we feel that certain modifications must be made if the program is to truly have an impact on reducing unemployment. The problem areas that we therefore wish to specifically address today are those involving certification mechanisms, administration and accountability.

In stating our position regarding the existing certification system, let me explain first that present law permits employers to apply for a tax credit on a retroactive basis—after an employee has already been hired. This provision, we feel, amounts to an unearned and undeserved windfall for the great majority of employers presently involved in the TJTC program. Some employers now benefitting from the Tax Credit weren't even aware of the program's existence prior to hiring, and thus are allowed to accrue financial gains without necessarily altering their hiring practices. This situation holds true for an estimated 80 percent of those certifications issued since the program began. The essential component of a successful TJTC program, is the incentive factor that makes hiring from target groups desirable. With retroactive certification this feature is absent and subject to exploitation amounting to inculculable losses in federal revenues.

To address the problem caused by retroactive certification, the National Urban League recommends that the provision be rescinded. Thus accomplished, Congress would ensure that a higher allocation of the subsidies provided under the program would be used to stimulate new employment. Moreover, doing away with the retroactive feature would help focus the attention of the state and local agencies on providing expanded employment opportunities rather than merely fulfiling quotas.

Regarding present administration of the TJTC program, it is the Urban League's position that greater guidance and promotional efforts are required if state and local plans are to be effectively implemented. Indicative of the present lack of coordination, we feel, are the reports that the heavily-populated regions in the Northeast and Midwest United States have certified smaller percentages of eligible workers than the less populace Southern regions of the country. In most of these regional areas, the small businesses, which are the most likely recipients of the tax credits, are rarely informed of the program options, and in most states, little to no advertising is being conducted.

In part, these weak and inconsistent practices can be accounted for by the absence of sufficient funding commitment and targeting. Reimbursement is necessary for participating state agencies for expenses incurred in implementing the TJTC program. For example, CETA Prime Sponsors are responsible for issuing vouchers to three of the seven targeted groups: (1) to youths, between the agees of 18 and 24, from economically disadvantaged families, (2) to Vietnam-era veterans, under the age of 35, from economically disadvantaged families, and (3) to ex-convicts from economically disadvantaged families. While the CETA Prime Sponsors are expected to issue vouchers and to contribute to publicizing the TJTC program, Congress has appropriated no funds by which these duties could be carried out.

In the National Urban League's third area of concern regarding accountability, it is our position that the TJTC program is presently deficient in quantitive information necessary for assessment of program effectiveness. Present data monitoring is handled differently in each locality and state, and only provides a rough outline of program effectiveness. These unfortunate circumstances lead a major study commissioned by the Department of Labor to conclude that little can be made of the present statistics, given the "severe limits on the meanings" of the numbers. In a similar study conducted to assess whether or not TJTC was helping its clients, a prepondent number of agencies claimed that they had no basis by which to make such assessments.

On this issue, it is the Urban League's position that more effective data resources are necessary in order to judge such controversial issues as displacement, refundability targeting, and other matters of dispute.

The potential for success in the Targeted Jobs Tax Credit is a great but as yet unrealized. We feel, however, that the investment in human capital should be continued with the revisions that we have recommended. Studies underway and already completed by the General Accounting Office, and other agencies, should be closely examined in order to make the revisions we recommend as well as other appropriate revisions. With strengthened incentives and more diligent targeting, the TJTC program could play a significant role in reducing the now staggering level of unemployment.

Testimony Presented by Pierce Quinlan, Executive Vice-President of the National Alliance of Business

Summary of Major Points

1. The National Alliance of Business (NAB) supports the Targeted Jobs Tax Credit as an effective tool for promoting the employment of target disadvantaged groups.
2. At an increasing rate, the employer community is gaining an understanding of TJTC benefits, in spite of the absence of effective marketing of the program.
3. While NAB, understands the need, eventually, to address some of the problems identified in TJTC policies and implementation, the organization nevertheless urges an immediate one-year extension with only one substantive change: A provision permitting the tax credit to be claimed for up to two years after the date of hiring an eligible applicant (regardless of the date the legislation expires).
4. There are four major reasons underlying NAB's support of an immediate simple one-year extension:

Program marketability is being rapidly undermined due to the shrinking period (i.e., now only nine months) for which employers can claim the credit. Immediate legislative action is needed to maintain program momentum.

It is too early in the life of the program (18–20 months) to have enough experience for a thorough evaluation of impacts. An additional year of program experience would provide a better foundation for thorough legislative review in 1982.

Changes now in TJTC policies and procedures would confuse the employer community and disrupt local program operations at the point when employers are just getting familiar with the current system.

The future role and provisions of the TJTC should be considered in conjunction with the restructuring of employment and training programs anticipated when CETA is reauthorized in 1982.

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear here today and present the views of the National Alliance of Business on the Targeted Jobs Tax Credit. The Alliance, representing private business employers, was formed in 1968 to promote private sector involvement in efforts to hire and train economically disadvantaged adults and youth. This marked the beginnings of the public/private partnership in employment and training that now includes 450 local Private Industry Councils operating throughout the country. Through involvement with the Alliance and with Private Industry Councils, business leaders are working in productive partnership with government to address the structural economic problem represented by millions of individuals in a work oriented society unable to find jobs.

Our interest in the Targeted Jobs Tax Credit is therefore easy to understand. This program offers a subsidy to employers for hiring people who traditionally are difficult to employ because of lack of work experience or a physical or social handicap. The effect of the subsidy is to lower the cost to employers of hiring these targeted individuals—a cost that can be prohibitive given built-in factors such as social security and unemployment insurance.

The National Alliance of Business has undertaken a number of measures to help the employer community take advantage of TJTC benefits. We have made substantial efforts to educate and inform corporate decisionmakers about TJTC. In addition, NAB offices and Private Industry Councils around the country have used promotional mailings and conducted seminars to explain the credit and to offer first-hand testimony from businesses that have benefited by the program.

The Baltimore Alliance of Business, now merged with the Baltimore Private Industry Council, sponsored such a seminar as early as 1978. The six hour program featured a tax manager from the national accounting firm of Arthur Anderson and Company, an attorney specializing in equal employment opportunity regulations, a state employment official, a local economic news columnist, and a panel of business people. The seminar drew representatives from nearly 100 companies.

These efforts at marketing the TJTC program clearly have only scratched the surface in terms of potential employer participants. Indeed, a major failing—as documented in every evaluation study done on TJTC—has been the absence of an effective marketing effort by involved public agencies.

In spite of the lack of aggressive marketing, the program has now served over 400,000 individuals and clearly has the potential for being the largest Federal manpower program with a very low administrative cost. The program is catching on with employers and being used by a great variety of businesses and industries. The attachment to my statement, providing many testimonials from individual corporations and firms, gives evidence of this variety and the view of particular businesses toward the value of the TJTC.

We are here today to urge this Committee to support an immediate one-year extension of the TJTC. Because the period for which employers can count on claiming the tax credit is down to about nine months—from April to December 1981—the attractiveness of the program to potential employers is being severely undermined. Each month that goes by without an extension further erodes the program's marketability, as well as the morale and aggressiveness of federal, state and local program implementors. Why should a private business person—already distrustful of involvement in government programs—want to undertake even the minimum effort required to claim a credit under TJTC when benefits would only cover a couple of months? And even though efforts will be made to convince propective employers that the Congress will renew the program past December 31st, the typical business person will not act on a promise. The result of delaying an extension until Congressional agreement can be reached on substantive amendments will be a nearly complete halt in bringing new employers into the program. And once the program is slowed, it will be very difficult to rebuild momentum.

The only substantive legal amendment we recommend at this time is a provision allowing the tax credit to be claimed for up to two years after the date of hiring an eligible applicant, regardless of the date on which TJTC legislative authorization expires. If this provision were in effect now, we would not be quite as concerned about the need for immediate Congressional action.

Our support for a simple one-year extension should not be taken as an endorsement of all aspects of the TJTC program. We are aware of most of the problems and issues raised in preliminary evaluation reports prepared for the Department of Labor and agree that these issues will eventually need to be addressed through legislative and regulatory changes. We are concerned about the current make-up of eligible categories and think a simpler, more targeted process is possible. We recognize the impact of red tape and lack of local program coordination as deterrants to employer participation. And we question the continuing need for the provision allowing employers to apply for a tax credit on a retroactive basis, that is, after an employee has been hired.

However, we are in fundamental agreement about the value and potential effectiveness of a targeted jobs tax credit as an incentive for employers to hire and train the chronically unemployed. Even with the drawbacks identified in the current program, many employers have demonstrated a significant change in their attitudes and hiring practices affecting the hard-to-employ. The program has undergone steady expansion as more and more employers are made aware of the benefits to be gained without the large paperwork burden typically associated with government programs. And the continuing existence of this incentive has added importance during a period when Federal aid cutbacks are likely to create additional short-term distress and unemployment locally.

We are concerned that major legislative changes now would create the need for regulatory and procedural changes right at the point when many businesses are just becoming aware of the program's benefits and familiar with how it operates. The result is likely to be confusion in the employer community and disruption of local program operations. Moreover, changes in regulations and procedures resulting from TJTC legislative amendments this year would probably be followed by further alterations after the reauthorization of CETA in 1982. Our job of convincing private businesses to participate is made more difficult by this lack of program stability.

A one-year simple extension also would provide an additional year of program experience needed to round out our understanding of TJTC impacts. The effective life of the TJTC has only been about 18 months, and most program operators and observers believe it is too early to judge its full effectiveness as a labor market intervention tool. Preliminary program data from the first quarter of 1981 point to the possible advent of a new phase during which the overall level of job certifications is vastly increased while the level of retroactive certifications goes down. A third year of program operation under existing policies would provide a stronger foundation for the completion of ongoing DOL evaluations and for full-scale policy and legislative review next year.

Finally, a one-year extension strategy would permit the future role and provisions of a targeted jobs tax credit to be considered in conjunction with the complete restructuring of employment and training programs planned around reauthorization of CETA in fiscal year 1982. Questions about eligible categories, the depth of incentive required, and marketing and delivery mechanisms for TJTC are all related to the nature of the employment and training system that will be in place during the rest of the decade. Premature decisions about TJTC this year would undercut opportunities for effective linkage with the new CETA.

Mr. Chairman, these factors provide, in my view, a strong rationale for a quick one-year TJTC extension, and I hope the Committee will consider this approach.

That completes my testimony, Mr. Chairman. I would be happy to answer any questions from you or Members of the Committee.

TESTIMONIALS

Testimonial No. 1

Bethlehem Steel Corporation is hiring TJTC employees. The company reports that the State Employment Service and the Division of Vocational Rehabilitation have gone all out to match applicant qualifications with the company's needs, to certify applicants, and to keep paperwork to a minimum. This cooperation, together with the good showing TJTC employees have made on the job, has made Bethlehem Steel a believer in TJTC.

Testimonial No. 2

The Coca-Cola Bottling Company is also taking advantage of the TJTC tax savings. In Cumberland, Maryland, the local plant manager reports that TJTC is a big success and states that he has had only good experiences with the program.

Testimonial No. 3

The Marriott Corporation, specializing in hotel and food services, employs over 1000 TJTC employees, hired from all seven target groups. A Marriott spokesperson reports that the company has received excellent cooperation from the referral agencies. Company managers, based on their experience with program participants, now actively seek TJTC employees.

Testimonial No. 4

Quality Care nationally employs 40,000 health care providers. The Director of Special Projects says she is pleased to report TJTC a resounding success. Federal, state, and local agencies have been most responsive in identifying certifiable employees. Quality Care has thus realized a substantial tax credit, which has been a tremendous incentive to recruit additional certifiable employees.

Testimonial No. 5

"It's short, it's sweet, it's clean; the turnaround time is very fast; the tax credit is a substantial one. I love it." That was the reaction Fred Johnson of Keller Industries in Miami, FL, when asked his opinion of the new program. "TJTC is the best thing they ever dreamed up," Johnson continued. "The employees are no different than the other people we hire. And the paperwork is a dream." Keller, a light metal fabrication company, has plants throughout the country.

Testimonial No. 6

General Dynamics, Electric Boat Division, Groton, CT, has participated in employment and training subsidy programs designed to train targeted populations for the past 15 years and has found them successful. The company is taking advantage of TJTC with the same expectation. TJTC has helped it to realize a tax savings and, as a by-product, to meet its affirmative action goals.

Testimonial No. 7

"About 65 percent of the people we interview qualify for the program," a spokesman for Building Maintenance Services in Des Moines, IA, said. "We think it's great as an incentive to hire, and we're using it on a continuing basis. We were interested in it right from the beginning because we realized we had quite a number of people already on the payroll who were qualified," he added. "It's a big help."

The company, which employs about 500 people, does general cleaning, carpet installation and other tasks involved in building maintenance. About ten percent of its payroll is made up of Southeast Asian refugees, and some of them are TJTC workers. "They're doing very well," the spokesman added.

Testimonial No. 8

A department store chain in California is opening a new store in Fresno and it plans to hire a considerable number of TJTC workers. "We wanted to get on the bandwagon right away," Diane Fairchild of Gottschalk's said. "We have interviewed many TJTC-eligible individuals and I'm more than pleased with the response and the people I've seen. I have no doubts that they will be valuable employees.

"If I had two people with equal qualifications I'd choose the TJTC person," Fairchild added. "All of our stores are using TJTC in every way, shape and form."

Testimonial No. 9

"It's very simple for the employer," Bob Reed of Riverside Industries in Tulsa, OK, said. "Just fill out the form and that's it. When I first heard about the program I was not too enthusiastic, but when I sat down and read the literature, I realized that we'll make some money and, not only that, we'll hire some good people," Reed said. "It's an excellent program."

As an added bonus, one of Riverside's TJTC employees is a draftsman whom Reed describes as "one of the world's finest." Riverside, which manufactures transmission towers, employs about 230 people. Reed says he intends to hire more TJTC workers and he is encouraging his parent company, Anderson Industries of Dallas, to initiate the program at its other plants.

Testimonial No. 10

Clyde Smith of Townsend's, Inc., a chicken-processing plant in Millsboro, DL, was happy to learn that work release employees are covered under the program. He has eight men from a nearby prison already on the payroll. "My accounting department will like this," Smith said. "Maybe they'll give me a raise."

Testimonial No. 11

Zephyr Products in Kansas City, MO, is about to promote one of its TJTC workers to night foreman. "Hopefully he'll be around for a while," said Jack Porter of Zephyr. The employee was first hired under a work-release program, but is now in a half-way house and soon should be on his own.

"It's been very satisfactory," Porter continued. "We contemplate continuing it, and I'm sorry it's only a two-year program."

Testimonial No. 12

"It's a great break for small business. It's clearly to the employer's benefit," Jeff Rosen, a toy manufacturer in Passaic, NJ, said. "We've gone out of our way to recruit and maintain TJTC workers. I'd like to see the program expanded." Rosen added, "It's an incentive for an employer to target disadvantaged groups. And I'm ecstatic about the fact that it does work." His company, Rose Art Industries, employs about 50 people and TJTC workers make up about 25 percent of the payroll. "I'm confident we can reach 30 percent in the next few months," Rosen said. "In terms of the people we've been getting, it's good."

Testimonial No. 13

The Terry Tire Company at Woonsocket, RI has hired a person with an extensive prison record. The owner of the company reports that this person has performed beyond expectations and has demonstrated a fine attitude on the job.

Testimonial No. 14

At Pawtucket, RI, William R. Blount & Son, Inc. has employed a handicapped individual as a graphic artist technician. The employer is pleased with this employee's progress and reports that the individual is performing on a par with other workers.

Testimonial No. 15

Carris Reels, Inc. of Rutland, VT, supports TJTC. They are pleased with receiving a financial reward for participating and being part of a program that helps employees obtain work and develop job skills. They are further pleased by the minimum of paper work associated with TJTC.

Testimonial No. 16

In rural North Carolina, a company making everything from door chimes to rocket fins is actively involved in the program. "I think some of our better employees come from that group," reports David Brinkley, personnel manager of the Carolina Aluminum Company. "They're the ones who really want to work. It's good that the paperwork is so easy," Brinkley adds. "Why would anyone not like the program? I think it's working perfectly."

Testimonial No. 17

At Warren, ME, Andrew Crow & Sons Company are taking advantage of the TJTC program. This company, which manufactures fishing nets and twine, has a total work force of 25. Through the incentives of TJTC the company has hired six disadvantaged youths in the shipping and receiving department. Mr. James McFarland, payroll clerk for the company, reports that all of these individuals are performing well in their jobs.

Prepared Statement of Dr. Richard W. Rahn

I am Richard W. Rahn, Vice President and Chief Economist of the Chamber of Commerce of the United States. I am accompanied by Kenneth D. Simonson, the Chamber's tax economist, and Madeleine B. Hemmings, associate director, human resources. On behalf of our 112,000 businesses, local and state chambers of commerce and association members, I welcome this opportunity to testify on tax changes to encourage employment.

Summary

The U.S. Chamber supports the Administration's Program for Economic Recovery in its entirety. The program contains a carefully balanced combination of spending reductions, across-the-board individual and business tax cuts, regulatory reform, and monetary restraint. This package will lead to higher economic growth at lower levels of inflation, and will significantly expand job opportunities. The latest U.S. Chamber economic forecast shows that unemployment will drop by nearly 2 million between 1981 and 1983 assuming most of the program is enacted promptly.

In particular, the Administration's proposed 3-year, 30 percent individual tax rate reduction will encourage greater work effort, saving and investment. The proposal for an accelerated cost recovery system for business investment in plant and equipment will encourage greater capital formation and thereby expand the business demand for workers. Swift enactment of these tax changes should be Congress' top tax priority. Any other changes in tax law should await enactment of this first round of tax relief.

Once the President's tax proposals are passed, Congress should look carefully at the targeted jobs tax credit (TJTC) and other possible ways of providing productive jobs for the hard-to-employ. There are several factors Congress should weigh in considering whether to extend this tax provision beyond its current December 31, 1981, expiration data:

Numerous federal, state, and local laws and regulations—such as minimum wage, social security, unemployment insurance and worker's compensation—make the cost of employing workers far higher than the wages paid. Some offset against these government imposed costs, such as TJTC, may be appropriate, particularly when the employer is hiring inexperienced, low-skilled, or high-risk employees.

Congress should consider the costs and benefits of TJTC compared to other programs for which the people hired under TJTC would otherwise be eligible. For instance, if TJTC enables a person to move or stay off unemployment or welfare and become a permanent member of the unsubsidized work force, the saving in government transfer payments may far outstrip the cost of the tax credit. On the other hand, if employers collect the credit for individuals who would have been on the payroll anyway, the credit is not cost-effective.

Congress must weigh the cost of the credit against other types of tax reduction. The revenue loss attributed to the TJTC is relatively small, but it also appears that relatively few employers use the credit. Perhaps the employment objectives of the credit could be achieved through some other tax change of wider applicability.

If Congress does decide to extend the credit, several modifications should be considered. Is the credit properly targeted to help people who neet it? Can the credit be simplified so as to make it more attractive to small businesses? Are the rules regarding retroactivity, eligibility, and dollar ceilings appropriate? What more could be done to publicize the TJTC program?

THE PROGRAM FOR ECONOMIC RECOVERY

The U.S. Chamber has endorsed the President's Program for Economic Recovery in its entirety. Its adoption will quickly produce higher real economic growth, less inflation and unemployment, and a better standard of living for all Americans. The best protection Americans have from economic hardship, and their best chance for finding productive employment, is that provided by a dynamic, growing economy.

We cannot afford to wait much longer to change economic direction. Congress should move quickly to reduce spending and taxes, to reform the regulatory process, and to support a more moderate and stable monetary policy. Tax reductions will provide the incentive for the private sector to work, save, and invest. Monetary restraint will assure that gains in nominal income from higher levels of employment and investment are not eaten up by inflation. Spending cuts will free up resources and keep the deficit down, so that business can finance new investment without excessive competition for funds from the federal government.

Adoption of the Administration's tax proposals, contained in S. 683, the Economic Recovery Tax Act of 1981, will lead to rapid, sustained economic growth by reducing disincentives for the private sector to work, save, and invest. Accelerated capital cost recovery will promote higher levels of investment, employment, and output by all types and sizes of business, while reductions in marginal individual income tax rates will encourage personal savings, reduce growing taxpayer resentment, and reduce the tax disincentives on working. The most recent U.S. Chamber Economic Forecast shows that with the Administration's program in place, there will be an improvement in the economy, substantial reductions in unemployment and inflation and rise in productivity, real GNP, and workers' pay through 1983, the end of the forecast period.

Prompt action on the Administration's program is essential. For this reason, the Chamber urges Congress to enact a "clean" bill. Consideration of other tax provisions, including TJTC or alternatives, should be deferred until S. 683 has been adopted, but should then be given prompt attention in the ongoing work of this Committee.

WORK DISINCENTIVES CAUSED BY GOVERNMENT POLICIES

Certain government policies, meant to achieve numerous social goals, also have the effect of raising the costs to the employer of hiring workers or reducing workers' take-home pay, or both. For instance, employers must pay an additional 6.85 percent of each employee's wages for social security; the social security tax paid by employees reduces their take-home pay by the same amount. Employers must pay unemployment insurance and worker's compensation, and most employers provide leave, pension plans, health insurance, and other benefits. The latest U.S. Chamber Employee Benefits Survey of 922 employers found that in 1979, total employee costs other than pay for time actually worked averaged 36.6 percent of payroll, divided as follows:

	Percent
Legally required payments (employer's share only)	9.0
Pension, insurance, and other agreed-upon payments (employer's share only)	12.1
Paid rest periods, lunch periods, etc.	3.5
Payments for vacations, holidays, sick leave, etc.	9.5
Profit-sharing payments, bonuses, etc.	2.5
Total	36.6

Laws and regulations setting minimum hours, standards for safety clothing and equipment, and a multitude of other federal, state, and local requirements raise employers' costs further. At the same time, employees face disincentives to work from high income tax rates.

The net result is that government-imposed costs are a substantial wedge between the cost to the employer and the worker's net pay, thus reducing both the employer's demand for labor and the number of individuals willing to work. This "wedge" can be especially difficult for low-skilled or inexperienced individuals to overcome, because they may initially not be productive enough to make it possible for employers to cover the costs of establishing the job, and the pretax wage that employers can afford to offer these individuals may not be enough to induce them to go to work. In such cases, a TJTC or other measure may be an appropriate way to reduce this wedge and thus improve both the supply and demand for labor.

To illustrate, an employer who would be willing to hire a worker at $4.00 per hour must pay approximately 40¢ an hour more in payroll taxes for social security, unemployment insurance, and workers' compensation, in addition to any benefits the employer may voluntarily offer. The worker in turn pays social security and income taxes on each additional hour of work of roughly $1.00 per hour, leaving take-home pay of $3.00. Thus, taxes alone raise the employer's costs to at least $4.40 in order to offer a worker enough to net $3.00. This difference is a substantial disincentive to both job-providers and job-seekers. Benefits increase the gap even more. By giving employers a tax credit for part of the wages paid to certain types of workers, TJTC narrows this disincentive.

Description

The targeted jobs tax credit was enacted in 1978 to replace the general jobs tax credit that had been in effect during 1977 and 1978. According to the General Explanation of the 1978 Tax Reform Act, Congress had determined that the unemployment rate had declined sufficiently so that it was "appropriate to focus employment incentives on those individuals who have high unemployment rates even when the national unemployment rate is low, and on other groups with special employment needs." The credit is available to employers for wages paid between January 1, 1978, and December 31, 1981. The credit is equal to 50 percent of the first $6 000 of wages paid by the employer during an employee's first year and 25 percent of the first $6,000 of wages paid to the employee during the second year. The taxpayer's deductions for wages paid is reduced by the amount of the credit.

Employers can obtain the credit only by hiring members of one of seven groups identified in the law: vocational rehabilitation referrals, economically disadvantaged youths, economically disadvantaged Vietnam-era veterans, supplemental security income recipients, general assistance recipients, youths participating in cooperative education programs and economically disadvantaged ex-convicts.

Because these groups are so specific, the responsibility for determining whether an individual is a member of a targeted group is left to the employment services agencies in each state rather than to the employer. These are generally the agencies responsible for unemployment compensation as well. In addition to designating an agency in each state, the Secretaries of Labor and the Commissioner of the IRS are required by the act to take whatever steps are necessary and appropriate to "keep employers apprised of the availability of the credit."

Additional rules are provided in the statute to prevent abuse of the credit. To keep employers from only hiring individuals that are members of the targeted groups, the total first year wages eligible for the credit cannot exceed 30 percent of the employer's total wages subject to federal unemployment tax. For sole proprietorships, partnerships, and corporations under common ownership, this 30 percent limit applies to all of the wages paid by the controlled group. The wages must also be paid for employment in the employer's trade or business. Finally, special rules are provided for agricultural and railway labor.

Questions to consider

TJTC replaced a broader jobs tax credit which did not focus on hard-to-employ workers. TJTC had a much lower revenue cost than the general jobs credit, yet because TJTC is targeted, it may increase employment more. Unfortunately, this cannot be determined for certain, although some companies have reported increasing their employment as a result of the credit being available.

Congress should try to determine whether TJTC is cost-effective. One measure of cost-effectiveness would be the revenue cost per additional employee hired as a result of the credit. But even employers who do not hire extra workers may make a greater effort to retain eligible employees and improve their job skills. Two Chamber member firms which specialize in educating companies about the credit and helping workers become certified state that because of the credit employers *do* make greater efforts with these workers. Such efforts make the credit more cost-effective by turning marginal workers into productive, taxpaying individuals rather than letting them drop back into being unemployed, non-taxpaying transfer recipients.

If TJTC moves significant numbers of people off unemployment and welfare rolls or keeps them from dropping back onto those rolls, the credit probably saves far more in government outlays than it costs in tax revenues. On the other hand, if most employers collect the credit for individuals whom they would have hired and kept on the payroll anyway, the credit is not cost-effective.

Congress also must weigh the cost of TJTC against other types of tax relief. As we have stated, we believe the President's tax proposals will have the greatest benefit for the economy, including the unemployed. Once those changes are enacted, Congress should consider whether a TJTC or other provision aimed at the hard-to-employ is still a necessary and desirable form of tax reduction.

A number of other issues concerning the use of tax credits to implement employment policy should also be studied. A tax credit, such as the TJTC, is an attempt to stimulate a specific action. The difficulty comes in defining what behavior will be eligible for the credit. Those who believe that the activity should be encouraged will want the tax credit to be available under broad, general rules that make it easy to obtain. The IRS, however, is concerned that taxpayers do not obtain tax benefits they are not entitled to and will require strict documentation to prove eligibility for the credit, as it does for all credits and deductions.

A second issue concerns the effect on the tax base. In recent years, the number of tax credits designed to stimulate specific economic activity has increased substantially. Each of these credits reduces the taxes paid by some individuals and businesses, but not others. Since the total revenue needs of the government have not declined, the needed revenue must be found through either higher tax rates or greater government borrowing. This means that those individuals and businesses that are not eligible for tax credits must bear a higher proportion of the increased costs. As a result of the various credits, across-the-board rate reductions no longer affect all groups equally. Those groups already benefiting from credits may want additional benefits to insure that they get a fair share of the tax cut. Those groups not benefiting from the credit, however, will also want added benefits since the other groups already are being taxed at lower rates.

On the other hand, using the tax code may be the most efficient way to stimulate the desired economic activity. It may be more cost-effective to have taxpayers make the decision in the first instance as to whether or not they are eligible.

Finally, if Congress does decide to retain the credit, several modifications should be considered. The categories of eligible individuals should be considered. The categories of eligible individuals should be reviewed to make sure that those people most needing this type of help are receiving it and that employers are not getting a tax break for employing people they would have hired anyway. Operation of the credit and the certification process should be simplified, if possible, to minimize burdens on small employers, and to ensure that compliance costs do not wipe out the tax saving. The provisions regarding retroactive payments, the two-year eligibility period per individual and the percentages and dollar amounts also should be reviewed in light of expericne to date and the future goals of the program. If the program is continued, more should be done to make potential users aware of it—employers, jobseekers, and employment agencies.

CONCLUSION

Congress must move swiftly to adopt the President's recommended reductions in taxes and federal spending, and must support efforts to ease regulatory burdens and maintain steady, slow monetary growth. These actions will pay off in greater investment, employment and output growth, the demand for transfer payments will drop sharply. Once these changes are adopted, Congress should address the problems created by laws which raise employers' costs of hiring workers while reducing workers' take-home pay, and decide if the targeted jobs tax credit or an alternative is an effective way of dealing with these problems.

STATEMENT OF JOHN J. MOTLEY III, DEPUTY DIRECTOR OF FEDERAL LEGISLATION, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

SUMMARY

On behalf of the National Federation of Independent Business (NFIB) and its over half million small and independent member firms, I appreciate the opportunity to express our views on the impact of government-imposed labor costs on small business.

Government-imposed increases in the cost of labor have a severe and adverse impact on small businesses. These government-imposed costs are expensive to all segments of business, only the burden of these costs rest disproportionately on the small business community. The most debilitating government-mandated cost for most small firms are payroll taxes (Social Security and Unemployment Compensation), since most of these firms are labor-intensive and have limited capabilities in passing on increased costs. Payroll taxes, which directly raise the cost of labor, have increased more than any other tax in the last decade, and they are scheduled to increase even further over the coming years. The policy ramifications of these scheduled payroll tax increases are highly significant, since those taxes contribute to the inherently high turnover rates among new small firms—the principal creators of jobs in the last decade. By diverting needed resources which allow these new businesses to survive, payroll taxes affect their ability to borrow and grow. Consequently, these labor-intensive and undercapitalized firms face heavy government-induced drains on their cash flow at the most critical stages in their development. The end result is that payroll taxes act as a drag on employment growth by placing a disproportionately large tax burden on those very firms that generate the majority of jobs in this economy.

For this reason, NFIB strongly supports the Bradley-Gephardt bill which would provide a 10 percent income tax credit for social security taxes paid. This bill has the added feature of being limited to two years, which puts pressure on Congress to overhaul the deteriorating Social Security system. NFIB also feels that state unemployment compensation programs should be prodded by the Federal government into exploring new ways in which unemployment tax rates can more accurately reflect a firm's propensity to lay-off employees.

In addition to payroll taxes, minimum wage laws and the Davis-Bacon Act directly increase the cost of labor, which is inflationary and further reduces the demand for labor. Minimum wages have particularly disastrous effect on the ability of young, inexperienced workers to obtain jobs, in addition to being another drain on the cash flow positions of small firms. NFIB strongly endorses the concept of a youth differential in minimum wages and/or the significant raising of the small business minimum wage exemption. Finally, the Davis-Bacon Act, which raises the cost of public construction and reduces the number of jobs available in the construction work force, should be abolished.

Conclusion

If we are to achieve balanced economic growth, lower unemployment and reduced inflation, the Congress will have to do its part in dismantling the structural impediments that prevent us from reaching those goals. Small business cannot continue providing employment growth in this country so long as it is saddled with laws and regulations that make it prohibitively expensive to remain in business. The evidence is clear and we need the Congress' cooperation. NFIB will do all it can to do its part.

GOVERNMENT-IMPOSED INCREASES IN THE COST OF LABOR

On behalf of the National Federation of Independent Business (NFIB) and its over half a million small and independent member firms, I appreciate the opportunity to express our views on the impact of government-imposed labor costs on small businesses.

Government-imposed increases in the cost of labor have a severe and adverse impact on small businesses. Although such government-imposed costs are expensive to all segments of the business community, the burden of government-mandated increases in labor costs costs rest disproportionately on the small business community. This is principally because most small firms are labor intensive (i.e., they spend a greater proportion of their total costs on labor relative to most larger firms), and have a more limited capability of passing on increased costs than do their larger competitors. Consequently, government actions that result in an increase in the cost of labor help undermine the competitiveness of small firms already beleaguered by high and volatile rates of interest and inflation (see Table 1).

Payroll taxes and small business

For most small businesses, the most crippling of all government-mandated increases in the cost of labor are payroll taxes. Of all the forms of direct taxes paid by small business, payroll taxes (Social Security and Unemployment Compensation) are cited as being the costliest by a majority of small firms (see Table 2, and Figures 1 and 2).

In 1979, small business paid a conservatively estimated $28 billion in total payroll taxes, which amounted to about 41 percent of the total paid in by private sector employers.[1] An estimated $22.5 billion was paid by the small business sector in Social Security taxes.[2]

Despite the existing level (and adverse consequences) of payroll taxes, higher and higher levels are anticipated. The Social Security Financing Act of 1977 raised tax rates from 5.85 percent to 7.15 percent and the wage base from $16,600 to $42,600 over a ten year period. Even that will not be adequate to cover legislated benefits. We already have a "temporary" cash flow problem in the OASI fund which some feel may not be covered by "borrowing" from the funds.[3] We face a conservatively estimated $632 billion (1977 dollars) long term shortfall in OASI along[4] and tax rates possibly doubling those today.[5] And that is only Social Security.

The National Commission on Unemployment Compensation recently recommended gradually raising the minimum average wage base to 65 percent to finance an increase in unemployment compensation benefits.[6] At the same time, the past recession has added pressures in several states to consider raising payroll taxes to cover increased unemployment compensation costs. As a result, small businesses face the possibility of having to withstand the debilitating effects of another round of payroll tax increases.

Payroll tax effects on business starts.—The policy ramifications of additional payroll tax increases are highly significant when considering the impact those proposed increases would have on new business formations. In addition to demonstrating that two-thirds of net employment gains originated in firms employing less than 20 people in the period between 1969 and 1976, Professor David Birch of MIT found that the number of new business starts had a significant and positive effect on employment growth. Thus, the ability of new, small firms to attain stable growth is highly critical in attaining equally stable employment growth.

The average new small firm, however, is typically underfinanced, has a marginal cash flow, has little capital available for investment purposes and has problematic sales. Not surprisingly then, these new firms are extremely vulnerable and their turnover rate is inherently high. Thus, the impact of payroll taxes on these new firms is particularly onerous. Payroll taxes raise the fixed cost of doing business exactly when the business is most vulnerable and most in need of capital. Since payroll taxes are levied on employees, the entrepreneur's tax is not related to the income derived from the business. So, regardless of how little money is made at the early stages, new small firms must pay a high level of taxes unrelated to their profits or losses.

Existing payroll taxes are regressive for both employers and employees. But in a very real sense, payroll taxes are more regressive for new entrepreneurs than for any other group. The payroll tax levy on employees at least bears some relationship to earnings. That is not true with the new entrepreneurs. In fact, quite the opposite appears to be occurring. While regrettably no data exists to support or refute our observations, it appears that because a new venture tends to be undercapitalized, the labor-capital mix is heavily tilted toward labor and will continue to be so until such time as the business is sufficiently profitable to begin substituting capital for labor. Thus, the taxes paid on labor bear most heavily on the new entrepreneur.

Second, because the new venture is so frequently undercapitalized, the wages paid to the employees tend to be lower than in comparable firms of greater longevity. That means a larger percentage of payroll will be subject to taxation. Note, both FICA and UC have "wage bases". Once those bases are exceeded, no tax is levied. Thus, as a general rule, the greater the range in wages paid and the higher the wages paid, the lower the tax as a percent of payroll.

Third, unemployment compensation tax rates can actually be higher for new firms than most established firms. Each State determines its unemployment compensation tax rate based on the experience of the firm in having former employees collect from the fund. These "experience ratings" have a ceiling and a floor. Depending upon the individual state, firms must accumulate unemployment experiences from one to three years before receiving a tax rate based on their actual

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[1] Total unemployment compensation contributions were $15 billion in 1979 and small businesses were assumed to have paid $6 billion, or 40 percent of the total.

[2] This figure is based on 1977 small business employee wage distribution and therefore underestimates today's actual figure. $22 billion should be regarded as the absolute minimum.

[3] See testimony of William C. Hsiao, Associate Professor of Economics, Harvard University, before the Senate Budget Committee, Feb. 27, 1980.

[4] See Michael J. Boskin, Professor of Economics, Stanford University and Director, Social Insurance Research Program, National Bureau of Economic Research, forthcoming paper.

[5] A. Robertson, "Financial State of Social Security Amendments of 1977", Social Security Bulletin, March 1978.

[6] National Commission on Unemployment Compensation, Unemployment Compensation: Final Report, July 1980.

unemployment experience. New firms in 39 states must pay an effective tax rate of 3.4 percent until they are assigned an experience rating. Moreover, this tax rate does not vary across industries, and therefore does not take into account the employment stability a new firm is likely to achieve in a particular industry, based on the industry's historical unemployment stability record. Consequently, two scenarios are likely to develop. First, new firms may benefit relative to their experienced rated competitors if they are in an industry which is usually assigned maximum rates under experience rating. Second, new firms will be at a disadvantage relative to their experience-rated competition if the industry has a very stable employment history.

Finally, payroll taxes impede the development of new businesses by diverting needed resources to allow the firms to survive and grow. The two principle areas involved are cash flow and reinvestment, both of which affect a firm's ability to borrow and become a healthy business. Since both are important to a business and frequently misunderstood, each is explained with an example below:

It has been common practice for small business to receive a 2 percent discount on goods paid for within 10 days. If the goods are paid for in more than 30 days, a 2 percent penalty is added. If the firm has a healthy cash flow, it can take advantage of the discount and vice-versa. Thus, on the purchase of $20,000 worth of goods in a year's time, the difference between a good and bad cash flow is 4 percent or $8,000. That margin is sufficient to determine whether a new firm lives or dies.

With energy costs rising and energy costs per dollar of sales inversely related, an energy conservation investment(s) may reduce overhead. Reducing overhead improves both the short-term and long-term profitability of the business. The more profitable it becomes, the more it can reinvest to become more profitable, and the greater its prospects for survival.

Unfortunately, we do not know at this time how many new firms have failed due to the payroll tax burden. However, it seems reasonable to contend that the extreme vulnerability of new small firms is enlarged by the excessive payroll tax burden.

The impact of payroll taxes on established small business.—The impact of payroll taxes on established small businesses is generally similar to that found on new small business, only less severe. Many of the financial handicaps experienced by starting entrepreneurs are either no longer present or are considerably reduced, including the ability to borrow. Yet, it would be erroneous to assume that payroll taxes do not have a significant adverse impact on established small businesses.

The first point to recognize is that as a group, small business spends a greater portion of its gross sales on payroll than larger firms (see Table 3). That combined with the fact that small businesses have a greater portion of their payroll covered by "wage bases" means small businesses are paying a disproportionate amount in terms of percent of gross sales. Due to difficulties in handling the data for propietorships, the comparison can't be made on the basis of percentage of profits.

Second, analysis of the actual unemployment experience rating of business, by size of payroll (as measured by the amount of benefits charged per dollar of contributions to the system), indicates that the smallest firms have in fact lower benefits to contribution ratios than larger firms. According to research conducted by Professors James T. Bennett and Manuel Johnson of the George Mason University, small experience-rated firms in the states of California, Wisconsin, New Mexico, Oregon and North Carolina all had lower unemployment insurance tax rates (see Table 4-8).[7] There is no reason to believe that these states are atypical.

Third, while it is popular to view small entrepreneurs as "well-healed" and hence capable of absorbing payroll taxes with only a modest reduction in their standards of living and no business impact, that clearly is not the case. NFIB survey data corraborated by Census figures, indicate a very wide range in the dollar amounts taken out of a business. For the year 1976, we estimated 7 percent were taking $50,000 or more from their businesses (salary, profits and return on investment) while 19 percent earned less than $10,000.[8]

Considering the hours worked, the latter group was earning less than $2.85 per hour (a figure approximating the then minimum wage). Not surprisingly, the larger the small business, the greater the return.

Two other pieces of data indicate the lack of capital for cash flow and investment purposes small businesses now face. Over the last two years record numbers of small firms are borrowing. Approximately one of every two are now regular borrowers (defined as generally borrowing once every quarter) which is up from one in three only a few years ago.[9] One would, therefore, expect massive capital invest-

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[7] James T. Bennett and Manuel H. Johnson, "Unemployment Insurance and Small Business: Economic Impacts and Policy Implications", unpublished paper, The George Mason University.
[8] NFIB Employment Report for Small Business, 1977.
[9] NFIB Quarterly Economic Report, January 1981.

ment. Yet, between the fourth quarter of 1979 and the same quarter in 1980, the percentage of small firms making capital investments, dropped from 59 percent to 51 percent, respectively.[10] To the extent that payroll taxes reduce the amount of funds available for investment purposes, payroll taxes also act as an impediment to anti-inflationary productivity increases.

In short, payroll taxes act as a drag on employment growth by placing a disproportionately large tax burden on those very firms who generate the majority of jobs in this economy.

For this reason, NFIB strongly supports the Bradley-Gephardt proposal, which would provide a 10 percent income tax credit for social security taxes paid, almost a dollar-for-dollar credit for the FICA increases which went into effect this past January 1. The Bradley-Gephardt bill has another favorable feature in that it is limited to two years, thereby putting more pressure on Congress to overhaul the deteriorating Social Security system. At the same time, state unemployment compensation programs should be prodded by the Federal government into exploring new ways in which unemployment tax rates can more accurately reflect a firm's propensity to lay-off employees. We need these measures now. Payroll taxes are a hindrance to the job-creating capability of small business, and they have increased more rapidly than any other tax in the last decade. This trend must be halted and reversed.

Additional Government-imposed increases in the cost of labor

In addition to payroll taxes, small businesses must bear the burden of other government-induced increases in the cost of labor. Although all of these other mandated labor cost increases are not as encompassing in their effects, relative to payroll taxes, they nevertheless represent added factors that reduce the profitability of small firms and discourage the hiring of labor.

Minimum wage.—As of January 1 of this year, the federal minimum wage was increased by 8 percent from $3.10 an hour to $3.35 an hour. The timing of this wage increase couldn't be worse for small firms, who are already being squeezed by soaring inflation and high interest rates. It is important to note, however, that small business is not the only sector that is severely affected by the existence and recent increases in the minimum wage. Since rising labor costs place such a heavy strain on small firms, they have been forced to lay off employees, in addition to raising prices (when they can), and cutting back on service, product quality, and non-wage compensation benefits.

Unfortunately, the disemployment effects associated with the rises in the minimum wage fall most heavily on our young, inexperienced workers—those most in need of entry level employment opportunities. Numerous studies have indicated that the price elasticity of demand for teenagers is particularly sensitive.[11] As a result, teenagers are the ones most likely to lose their jobs, assuming they can even find one. Furthermore, the minimum wage appears to disproportionately affect minority youth.[12] With the black teenage unemployment rate running at over 35 percent, it is imperative that a serious and critical look be given to the merit of minimum wage laws. In our view, the Congress should pass a youth sub-minimum wage and/or raise the current small business minimum wage exemption from the $250,000 to $500,000 sales range, to at least $2,000,000 in sales. Given that the small business community is such a major employer of teenagers, it would make sense that the Congress allow small firms to pay young inexperienced workers a wage that is truly commensurate with their productive capabilities at that stage in their lives. In this way, teenagers are at least given the opportunity to develop the skills and work ethics that will eventually allow them to earn and deserve higher compensation. By allowing a youth sub-minimum wage and/or a larger small business exemption, both small business owner's benefit from reduced costs (which is also anti-inflationary), and teenagers benefit from expanded employment opportunities.

Davis-Bacon.—According to the Davis-Bacon Act, employees working on federally-assisted construction projects must be paid the prevailing market wages. Unfortunately, the Labor Department has used prevailing union wages as a measure of market wages. These wages are typically higher than what small, non-unionized construction companies can pay their own employees. As a result small construction

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[10] NFIB Quarterly Economic Report, January 1981.

[11] See for instance, Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes", Brookings Papers on Economic Activity, 2 (1976), 409-461. Finis Welch, "Minimum Wage Legislation in the United States", excerpt from Evaluating the Labor Market Effects of Social Program, by Orley Ashenfelder and James Blum. Princeton University Press: Research Report series No. 120, 1978.

[12] Walter Williams, "The Minimum Wage and Minority Employment Opportunities", NFIB Public Policy Discussion Series.

firms often refuse to bid on federally-supported work, which means less competition and higher costs in public construction. Moreover, fewer jobs are available to the construction work force as the artificial costs of Davis-Bacon hold down the number of projects that can be constructed.

For those firms that decide to bid for a contract and do so successfully, the actual labor costs exceed that required by the Labor Department because of the extreme amount of employee-related paperwork. The Department of Labor, in enforcing the Davis-Bacon Act, requires a weekly submission to Federal contracting agencies of wage and employment information from each construction contractor (prime or subcontractor). In addition, the Copeland Act requires a weekly statement that wages paid by constractors are in conformity with Davis-Bacon.

In sum, the Davis-Bacon Act amounts to another inflationary government disincentive to put people to work, at a time when unemployment remains high and inflation runs rampant.

Conclusion

If we are to achieve balanced economic growth, lower unemployment and reduced inflation, the Congress will have to do its part in dismantling the structural impediments that prevent us from reaching those goals. Small business cannot continue providing employment growth in this country so long as it is saddled with laws and regulations that make it prohibitively expensive to remain in business. The evidence is clear and we need the Congress' cooperation. NFIB will do all it can to do its part.

TABLE 1

QUESTION: *What is the single most important problem facing your business today?*

	1979		TABLE 1 1980								1981	
	OCT		JAN		APR		JULY		OCT		JAN	
MOST IMPORTANT PROBLEM	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	2	14	3	15	3	13	1	18	3	15	3	16
Inflation	1	37	1	35	1	36	1	33	1	34	1	32
Inadequate Demand For Product	8	2	8	3	6	3	5	7	6	5	4	5
Interest Rates & Financing	3	13	2	16	2	26	3	15	2	19	2	25
Minimum Wage Laws Cost of Labor	7	5	7	4	6	3	8	3	8	3	7	4
Other Government Regulations, Red Tape	5	7	4	9	4	6	4	8	4	7	4	5
Competition from Large Business	5	6	5	5	5	4	6	5	4	7	4	5
Quality of Labor	4	8	5	5	6	3	6	5	7	4	8	3
Shortage of Fuels, Materials or Goods	8	2	8	3	9	1	9	1	9	1	9	1
Other; No Answer	-	6	-	5	-	5	-	5	-	5	-	4
Total	100%		100%		100%		100%		100%		100%	

*Less than 0.5%

Source: NFIB Quarterly Economic Report, January 1981.

TABLE 2

COSTLIEST BUSINESS TAX FOR SMALL BUSINESS — 1977

	TYPE OF TAX				
Form of Business	Payroll[1]	Business Income[2,3]	Inventory, Property	Other	Undecided
Proprietorship	43%	37%	16%	2%	7%
Partnership	46	32	16	2	4
Corporation	61	27	7	1	4
Annual Gross Receipts (in thousands)					
less than $50	31%	42%	21%	2%	3%
$50 - $99	44	34	17	2	3
$100 - 199	50	31	14	2	4
$200 - 349	58	28	9	1	4
$350 - 499	61	26	9	1	3
$500 - $749	62	28	6	1	3
$750 - $999	60	26	8	2	5
$1,000 - $2,999	60	32	5	-	3
$3,000 and above	46	41	6	2	6
Sector					
Retail	50%	31%	14%	1%	4%
Wholesale	49	36	8	1	6
Manufacturing	32	57	8	2	2
Construction	66	27	4	1	2
Non-Professional Services	53	32	11	2	3
Finance	62	28	4	1	5
Transportation	65	22	26	2	6
Professional Services	44	40	12	1	3
Agriculture	32	34	33	1	1
Unclassified	35	41	11	8	5
TOTAL	52%	32%	12%	1%	4%

[1] Includes any payroll tax, e.g. Social Security and Unemployment Compensation
[2] Includes State and local income taxes where applicable
[3] personal income tax for proprietors and partners; corporate income tax for corporations

SOURCE: unpublished tabulations, National Federation of Independent Business, 1978.

Figure 1

COSTLIEST FORM of BUSINESS TAX by INDUSTRIAL SECTOR - 1977

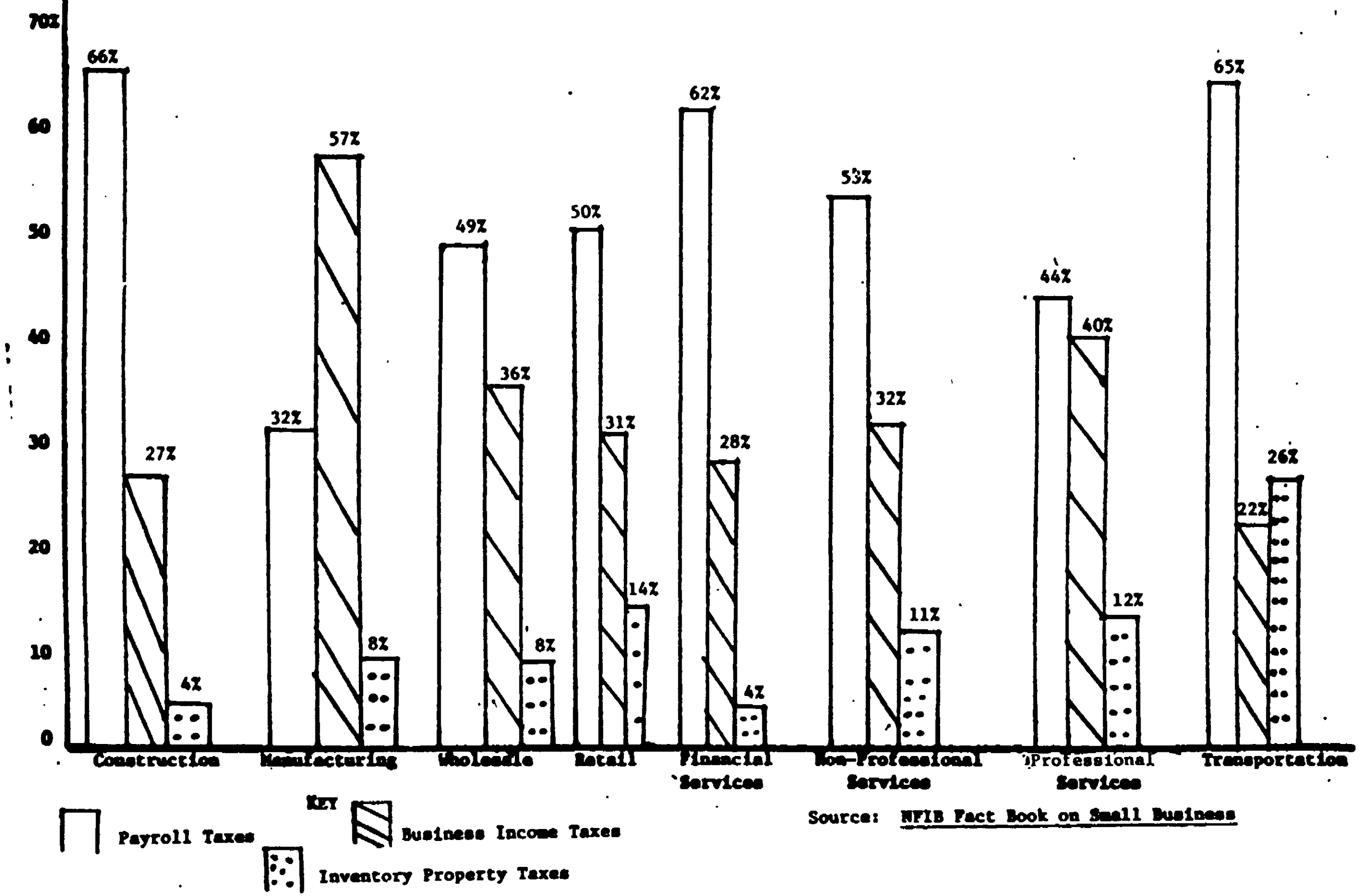
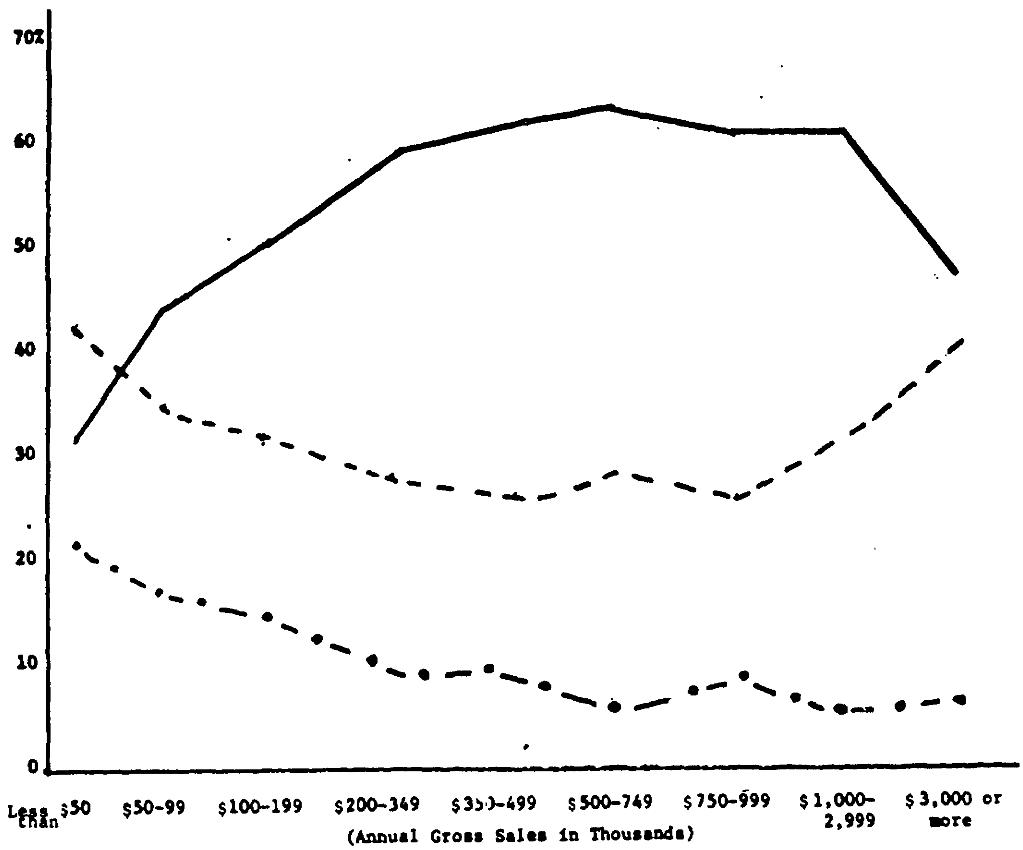


Figure 2

COSTLIEST FORM of BUSINESS TAX by FIRM SIZE -1977



KEY

Payroll Taxes
Business Income Taxes
Inventory, Property Taxes

Source: NFIB Fact Book on Small Business

Percentage Point Difference in Payroll as a Percent of Gross Receipts Between Firms Annually Grossing $250,000 or More and Selected Other Size Firms - 1972

Gross Receipts (in thousands)	Industry Sector: Construction	Manufacturing	Wholesale	Retail	Selected Services
$200 - 499	4	12	8	--	14
$1,000 - 4,999	3	4	5	-2	14
$50,000 - 99,999	-	1	-1	2	10

Source: Developed from Enterprise Statistics, U.S. Bureau of the Census, Dept. of Commerce.

Table 4

Contributions and Benefit Charges for Fiscal Year 1975
for Experience-Rated Firms in the State of California by Taxable Wage Interval

1974 Taxable Wage Interval	Number of Employers	Contributions July 1, 1974 to June 30, 1975	Benefits Charged July 1, 1974 to June 30, 1975	Ratio of Benefits to Contributions
$ 1 - 4,999	86,445	$ 7,138,804	$ 9,002,321	1.261
5,000 - 9,999	63,216	11,155,881	15,746,936	1.412
10,000 - 24,999	92,381	33,262,252	49,681,510	1.494
25,000 - 49,999	48,790	37,230,114	60,830,088	1.634
50,000 - 99,999	29,412	45,066,423	81,413,654	1.870
100,000 - 249,999	20,091	67,996,778	130,412,059	1.918
250,000 - 499,999	6,789	50,608,879	103,781,997	2.051
500,000 - 999,999	2,983	44,921,820	91,231,286	2.031
1,000,000 - 2,499,999	1,619	52,367,457	106,371,509	2.031
2,500,000 - 4,999,999	507	33,870,676	66,580,840	1.966
5,000,000 - 9,999,999	243	32,344,755	68,424,316	2.115
10,000,000 - 24,999,999	142	41,116,951	71,979,824	1.751
25,000,000 - 49,999,999	33	21,268,362	37,020,995	1.741
50,000,000 and Over	32	46,275,593	59,289,556	1.281

Source: State of California, Employment Development Department, <u>1976 California Employer Contributions to the Unemployment Fund</u>, Report 515, Sacremento, 1976, p. 104.

Table 5

Weighted Average Experience Ratings for Rated Firms in Wisconsin and New Mexico in Rate Year 1978 by Taxable Payroll Interval and by Weighting Scheme

Taxable Payroll Interval	Wisconsin			New Mexico		
	Taxable Payroll	Taxable Payroll	Firms	Taxable Payroll	Total Payroll	Firms
<$1,000	2.40	2.21	2.25	1.35	1.29	1.40
1,000 - 24,999	2.86	2.72	2.84	1.42	1.36	1.41
25,000 - 49,999	3.06	2.95	3.05	1.47	1.44	1.46
50,000 - 99,999	3.28	3.20	3.27	1.53	1.49	1.53
100,000 - 249,999	3.42	3.40	3.41	1.67	1.65	1.66
250,000 - 499,999	3.65	3.68	3.66	1.73	1.70	1.72
500,000 - 999,999	3.75	3.74	3.75	1.76	1.67	1.77
1,000,000 - 2,499,999	3.66	3.64	3.66	1.70	1.62	1.69
2,500,000 - 4,999,999	3.67	3.63	3.68	1.68	1.64	1.65
5,000,000 - 9,999,999	3.63	3.81	3.67	1.45	1.42	1.47
10,000,000 - 24,999,999	3.02	3.16	3.09	1.72	1.63	1.74
25,000,000 and Over	2.62	3.09	2.71	.90[a]	.90[a]	.90[a]

Source: Wisconsin and New Mexico state ES-204 Reports for rate year 1978.

[a]Only one firm in this size interval.

Table 6

Weighted Average Experience-Rated Tax Rates for Firms in Oregon and North Carolina by Taxable Payroll Interval for All Rates and Excluding Maximum Rates, for Various Years

Taxable Payroll (000's)	Oregon[a]						North Carolina	
	1976		1977		1978		1977	
	All Rates	w/o Max	All Rates	w/o Max	All Rates	w/o Max	All rates	w/o Max
<10	3.11	2.91	3.08	2.90	3.05	2.87	1.76	1.59
10 - 25	3.19	3.05	3.17	3.04	3.14	3.01	1.79	1.68
25 - 50	3.28	3.23	3.24	3.15	3.22	3.12	1.70	1.63
50 - 100	3.37	3.29	3.33	3.25	3.30	3.22	1.74	1.67
100 - 250	3.43	3.36	3.40	3.33	3.38	3.31	1.88	1.82
250 - 500	3.45	3.39	3.43	3.37	3.43	3.36	1.98	1.92
500 - 1000	3.47	3.42	3.47	3.42	3.47	3.40	2.06	1.95
1,000 - 2,500	3.47	3.43	3.43	3.38	3.45	3.40	2.06	1.97
2,500 - 5,000	3.28	3.24	3.33	3.33	3.35	3.31	2.14	2.09
5,000 - 10,000	-	-	-	-	-	-	2.11	2.08
10,000 - 25,000	-	-	-	-	-	-	2.00	2.00
> 25,000	-	-	-	-	-	-	1.83	1.83

Source: State Reports

[a]For Oregon, the taxable payroll interval 2,500 - 5,000 represents all taxable payrolls in excess of $2.5 million.

Table 7

Distribution of Rated Firms by Taxable Payroll Interval and by Tax Rate for Wisconsin, 1978

Tax Rate (%)	All Rated Firms	Taxable Payroll Interval					
		<10,000	10,000-24,999	25,000-49,999	50,000-99,999	100,000-999,999	1,000,000 and Over
0.0	27	2	0	0	3	5	17
0.5	12,787	8,695	2,865	880	269	78	0
1.0	3,479	1,311	1,148	627	268	124	1
2.0	14,538	4,884	4,233	2,704	1,563	1,103	51
2.5	9,950	2,032	2,459	2,029	1,618	1,654	158
3.0	8,197	1,488	2,008	1,656	1,287	1,583	175
3.5	6,417	1,169	1,688	1,163	925	1,303	169
4.0	3,244	494	749	688	529	702	82
4.5	2,977	617	768	583	420	521	68
5.0	625	199	184	118	70	49	5
5.2	650	275	214	88	50	22	1
5.5	1,861	421	500	348	266	284	42
6.0	1,489	421	386	252	187	221	22
6.2	580	295	172	65	35	13	0
6.5	5,858	1,688	1,506	983	751	856	74
Total	72,679	23,991	18,880	12,184	8,241	8,518	865

Source: ES-204 Report, State of Wisconsin, 1978.

Table 8

Distribution of Rated Firms by Taxable Payroll Interval and by Tax Rate for New Mexico, 1978

Tax Rate (%)	All Rated Firms	Taxable Payroll Interval					
		<10,000	10,000-24,999	25,000-49,999	50,000-99,999	100,000-999,999	1,000,000 and Over
0.6	5,865	2,920	1,614	784	350	189	8
0.9	2,247	523	600	502	337	267	18
1.2	2,078	362	507	449	345	382	33
1.5	1,359	176	319	281	246	307	30
1.8	803	91	174	161	149	204	24
2.1	459	64	114	84	99	122	12
2.4	333	40	83	69	63	74	4
2.7	250	48	54	58	37	49	4
3.0	225	39	57	60	28	40	1
3.3	171	44	48	43	21	14	1
3.6	158	39	44	30	27	17	1
3.9	68	17	19	16	7	8	1
4.2	1,634	785	385	201	116	140	7
Total	15,686	5,148	4,018	2,738	1,825	1,813	144

Source: ES-204 Report, State of New Mexico, 1978.

Senator HEINZ. Our next panel consists of Mr. Howard Weeks, Mrs. Powell Cozart, and the record should indicate that Mr. Weeks and Mrs. Cozart also represent the Interstate Conference of Employment Security Agencies, Inc. in Washington, D.C., as well as their respective employment services.

Mr. Weeks, would you be our leadoff?

STATEMENTS OF A PANEL CONSISTING OF HOWARD WEEKS, DIRECTOR, GEORGIA EMPLOYMENT SERVICE; MRS. POWELL COZART, DIRECTOR, MICHIGAN BUREAU OF EMPLOYMENT SERVICES; MR. WEEKS AND MRS. COZART REPRESENT THEIR STATE EMPLOYMENT SECURITY AGENCIES

Mr. WEEKS. Thank you very much, sir.

I have submitted a written statement that I would like to request be made part of the record.

Senator HEINZ. Without objection, your entire statement will so appear.

Mr. WEEKS. And then I would like to make a very few comments and attempt to answer any questions you might have, sir.

I am Howard Weeks, the director of the employment service in the State of Georgia, a position that I have held for the past 14 years.

In that position one of the most difficult things—problems that we face in the State employment service and one of the most difficult situations to explain is how even in the best of time, we can have thousands of job openings that we cannot fill and thousands of job applicants that we can't place, and one of the main reasons for that, of course, is the fact that so many of the job applicants do not have the skills, or the aptitudes, or the requirements that the employers are looking for. Now, a number of programs have come along since the early 1960's designed to address that problem.

I guess the most recent one being this TJTC. I would like to state in the beginning that we in Georgia wholeheartedly endorse this approach. We have found it very successful. It has been very beneficial to us in finding jobs for people that are otherwise hard to place.

We have found that it accomplishes its stated purpose, plus it opens the doors for us in the employment service that have been previously closed. That is, we are able to deal with employers when they start placing their job openings with us to which we can refer members of these targeted groups, plus other equally deserving people.

So, it has been a catalyst, so it goes beyond the pure measurements of the program in our State. As I said, this enables the ES to refer and place members of the targeted groups, as well as others. Now, that doesn't mean that we wouldn't suggest some minor modifications in the program. We would like to see it extended as is, or with some minor modifications.

For example, lower the age for the youth, disadvantaged youth, lower it to 17 instead of 18. That would include some school dropouts that need some assistance.

We would suggest maybe to raise the age of the Vietnam-era veterans from the present age of 35 to 40, because as time goes along here, we're having veterans that are still having problems that are beyond that age of 35.

We think that maybe the provision of the target group for ex-convicts and the handicapped can be a little less restrictive and would like to see some provisions for older workers.

Another suggestion we would like to make is that coordinate all the tax-incentive-type programs in order to reduce confusion in the business community and simplify the administration.

Now, I'd like to state a figure or two here at this time that extract from our written statement. During fiscal year 1980 employers in Georgia listed with us 819 openings with local employment offices for TJTC eligible only. And 4,920 openings where TJTC eligible would be acceptable to the employer.

Now, during this fiscal year, just through February, the corresponding figures were 418 for TJTC only and 3,501 where TJTC would be acceptable.

We have been able to fill from 78 to 88 percent of these openings. Interest is increasing in Georgia as more and more employers realize the potential—tax saving potential—of the program.

Now, our goals—we were assigned goals for certification. In our State, our goal for fiscal year 1980 was 7,860 certifications. We actually produced 19,915.

The fiscal year 1981 goal is 14,763, and through February we had already reached 9,575.

Now, let me say without reference to the amount of the credit or the length of time the credit can be claimed or administrative details and other things of that nature, I, as a State employment service director, endorse the concept of doing what is necessary to get persons with employment barriers on the payroll in the private sector.

That first step is awfully important. Any type of incentive to get an employer to give these individuals a chance is a very important first step.

We have had considerable comment, and I think maybe other witnesses of maybe, given the retroactive provisions of the act, had a little more attention than it deserved.

In our State, most of our retroactives have resulted from the late start on the program. In fact, it had been in existence for several months before the program ever got underway, and the act provided for, I think, going back to September 26, I believe.

That constitutes most of our retroactive, but even that served a very useful purpose in our State because that was a door opener for us where we could visit employers and perform a service for him and thereby establish a rapport that resulted in job openings listed with us to which we could refer future members of these target groups and others as well.

So, we had no problem with the retroactive portion of it.

Senator HEINZ. Does that complete your testimony?

Mr. WEEKS. Yes, sir.

Senator HEINZ. Mrs. Cozart.

Mrs. COZART. Thank you, Senator Heinz.

I am Powell Cozart, director of the Bureau of Employment Services of the Michigan Employment Security Commission. I, like my predecessors, wish to thank you for the opportunity to talk about the TJTC program and especially wish to thank you for giving the States who are responsible for implementing the program, to give you our direct opinion about it.

I also have written testimony that I would like to be included for the record.

Senator HEINZ. Without objection, your entire statement will be made a part of the record.

Mrs. COZART. Thank you.

Initially, the reaction to the TJTC program was slow getting started in many of the States. Part of the problem was the slowness, quite honestly, in getting the publicity materials, the forms, the procedures, et cetera, from the U.S. Department of Labor national office. In fact, the States were expected to implement a program without some materials to do so.

Second, earlier in the program the vouchering for the three income-disadvantaged groups was limited to CETA prime sponsors. The policy was an impediment. CETA was not very interested in vouchering, because they were not given additional funds. They were expected to absorb these activities within their given budgets.

At that time, however, Micigan and another State in the Midwest felt very strongly that this policy was a disservice to many individuals whc were already registered in our files, but now would have to travel to different locations to obtain a voucher. So, we insisted that we be given the authority to issue the vouchers without benefit of additional funds. This was granted after some extensive discussion, however, we did so without additional funds.

We certainly want you to know that we, too, promote the continuance of the program and want to be much more involved than we are presently. The impediment there is the fact that as Assistant Secretary Angrisani mentioned to you, we are expecting a budget cut that will further limit our staff. The States, under job service, have been severely handicapped for a long time inasmuch as we have been restricted to a set number of positions, 30,000 to be exact, since 1966. During this same period, the labor force has grown some 40-plus percent. So, it is a problem, but I do want to emphasize in spite of that, we do want the program to proceed.

Senator HEINZ. This is a Senate Finance Subcommittee. Unfortunately, your problem will be considered by the Appropriations Committee. [Laughter.]

Mrs. COZART. Well, we just wanted to spread the message wherever we can.

I do want to make note that Michigan is a Midwest State, but we do rank very high in the TJTC program. In fact, at the end of the first quarter of fiscal year 1981 we were fourth in the Nation. That might surprise a lot of people because not only do we rank high there, we are at the top when it comes to unemployment, as you probably well know, exceeding some 14-percent statewide and higher levels in the urban areas.

We think that the reason we haven't done better, of course, is because of the recession and the limited number of jobs in the manufacturing industries. We're not making the impact that we feel we could if the jobs were available. I rather envy my colleague here who says they have so many jobs available. We have few jobs available and those that are available do have some highly technical skills, and so forth that are needed everywhere. But as far as the TJTC program is concerned, we endorse it. We think one of the most positive aspects of the program is that it is simple for the employer, if you can just get them to accept that fact.

Initially there is reluctance because, again, as many have said, if you are talking about the possibility of opening your books to Internal Revenue agents, there is a little bit of hesitancy; but once you can overcome that, it is a very simple process. So, it can be used. In fact, we are making it one of our main marketing tools right now to secure job openings in Michigan because we realize that the employers are hurting in Michigan also. And whatever we can do to assist them, at the same time assists those persons who have the hardest time getting a job. Even in the best of times, these persons have difficulty getting a job, and so it is even worse in such high-unemployment times.

We are certainly promoting the program. We like it, but there are some factors that we would like considered, which we think could improve it. They have been touched on by some of the other persons testifying:

One: Extend the life of a voucher for a definite timeframe rather than having to reissue a voucher, sometimes within a week. Establishing a timeframe, 60 to 90 days, 60 or 90, preferably 90 would be a reasonable validity period for vouchers.

Two: Increase the target groups, or at least clarify the target groups to include special education students who are in high school, and who have graduated. As you well know, this is another group which is not specifically targeted in the law that does have extreme problems in locating employment. We would suggest including them in high school and up to 24 years of age after they've graduated.

Three: We would like to extend the coverage to nonprofit employers, because this is an overlooked group of employers wherein some of the greatest expansion of jobs are occurring, specifically hospitals. We think of them as being in the private sector, but at the same time they cannot benefit from the TJTC. We would recommend that a refund of some kind be given to them to create a hiring incentive. Not only do they have the jobs, but they are of the nature that are upward mobility jobs, which would mean that these targeted individuals would not be locked in at the lower realm of the ladder.

Four: Regarding retroactivity of certs, I've listened to the testimony and much of our experince occured like Mr. Weeks'. This was in the earlier stages of the program wherein the credit was not known to employers. When they found out, they wanted to take advantage of it and we assisted them in doing so. But, there was a great benefit that came out of that, and that is that certain employers who felt that they didn't hire those types of persons indeed had them on their payrolls, and that they were very effective employees. In this regard, therefore, we suggest that with the educational aspect of the program behind us, we could limit the retroactive certification to a 60- to 90-day period and still retain it on that basis.

Five: Again, we support some other recommendations for lowering the age of the disadvantaged high school graduate to 17 or below, as long as they are high school graduates.

Six: We've heard talk about the ceiling on wages or rather the cost, or percentage this applies to the low income versus the higher income paying jobs. We would suggest that the ceiling be eliminated or increased at least up to $10,000 and this would be a greater incentive to employers who have the better paying jobs to use the tax program.

In conclusion, I would like to reemphasize that we do support continuation of the tax credit program. One of the aspects we would like to have considered would be funds—increased funds for administration. Much of the problem with marketing and vouchering is that there were not adequate funds made available.

Thank you.

Senator HEINZ. Thank you very much, Mrs. Cozart.

Both of you are on the firing line, and hopefully, on the hiring line, too. You have intimate knowledge about this program.

Some people have been critical of certain programs. For example, they say that the cooperative education program is not carefully targeted. Indeed, there is some evidence that that is the case. Virtually all vouchered cooperative education students are hired, and their employers take the tax credit. Doesn't this suggest a performance rate that is so good that it is troublesome?

Mr. WEEKS. We are not greatly involved in that targeted group. I can recognize where that might need some attention. I think that some have stated that the school/employer arrangements in the cooperative education program could be made irrespective of the TJTC program. From an employment service point of view, I would not object to that—to amendments in that portion, even the deletion of that group from the targeted area.

Senator HEINZ. We will probably hear a differing point of view from our next panel. [Laughter.]

Another point made is that people are being hired without their employer knowing they have vouchers. Now, that suggests clearly that some people receive vouchers that don't need them.

Mrs. COZART. I haven't had that impression about the hiring after they have a voucher. I think most of the objections, in terms of the retroactivity, has been when there has not been a voucher issued. Once the employer learns of the program, they usually want someone to come out and look over employees and see perhaps if someone meets the eligibility.

The voucher problem, as I mentioned, is——

Senator HEINZ. We don't permit—excuse me, let me interrupt. We don't permit retroactive vouchering as well as retroactive certification, do we?

Mrs. COZART [continuing]. Well, yes; you do.

Senator HEINZ. I know we permit the certification.

Mrs. COZART. Because of the—as Howard mentioned, there was a very extensive time wherein the vouchering which had to precede the certification was not even in place when employers were allowed to take retroactive credit in the early part of the program.

Senator HEINZ. Why should we permit retroactive vouchering?

Mrs. COZART. I don't know, except it was a part of the law itself——

[Laughter.]

Mrs. COZART [continuing]. You know, so——

Senator HEINZ. The fact that it is in the law doesn't make it right.

Mrs. COZART [continuing]. Well, no, that's what I'm saying.

I can't respond to why, except that it is a fact.

Senator HEINZ. Is there any reason we should not seriously restrict retroactive vouchering?

Mrs. COZART. We are suggesting that it be limited, especially now. One of the problems though to tell you is——

Senator HEINZ. You also suggested, that we extend the life of the voucher——

Mrs. COZART [continuing]. Right.

Senator HEINZ [continuing]. For a definite period. And you also suggested restricting the time period after the hiring date when a tax credit should be granted.

Mrs. COZART. Right.

Senator HEINZ. I didn't hear you say anything about retroactive vouchering. Maybe it is in your full statement?

Mrs. COZART. It is happening, unfortunately, because of some of the problems related to the life of the voucher. Persons are getting to an employer, being considered, and then they are coming back to the vouchering source and vouchers are reissued. It is a fact. Because of the time constraints——

Senator HEINZ. That doesn't strike me as a good practice.

Mrs. COZART. It is not. It is not. But it is because of the limited time of the vouchers that a lot of agenies are reluctant to issue them.

Senator HEINZ. What is the time limit now?

Mrs. COZART. Right now it is—you have to consider the income 60 days preceding the month in which the voucher is issued. So, for instance, if you issue a voucher on the last day of the month, then it is conceivable you have to go back and reissue one in the next several weeks, because that's the timeframe.

Senator HEINZ. So that is why vouchers may have to be issued retroactively?

Mrs. COZART. Yes.

Senator HEINZ. That strikes me as an important administrative problem.

Are both of you fairly confident that your agencies really know when to issue and when not to issue a voucher?

Mr. WEEKS. Yes, sir.

Mrs. COZART. Yes; that is not a problem to whom we issue vouchers.

Senator HEINZ. I am confident you meet the legal tests in eligibility.

Mrs. COZART. Yes.

Senator HEINZ. Are there other problems?

Mr. WEEKS. The vouchering, I guess it has different uses in different States as far as the extent is concerned. A voucher serves the purpose of giving a voucher to an individual that he can put in his pocket and go out searching for a job on his own and he has that as a selling point to an employer.

Now, that isn't used extensively in our State since we are trying to work with employers through our employee relations people getting the job openings and working with the employer and making a direct placement with the applicant going straight from the employment office to the employer. So, not too many are circulating with a voucher in their pocket looking for a job on their own.

Mrs. COZART. I might say, Senator, that in recent months, although initially the CETA prime sponsors were not too interested in the program, lately in Michigan we have seen a surge of interest and there are a lot of vouchers being issued for the marketing purpose that you mentioned. That they had them and they go out and find a job.

We have urged our staff also to do this for the individual as an assistance, but there, again, we don't always get the response that we want because we have so many other functions to perform and this is not an immediate point that we can see a benefit from. They don't respond—all of them—as quickly as we'd like.

Senator HEINZ. The Treasury and the Labor Department were somewhat critical of the program, or implied they were that because it did not serve more than a very small percentage of the eligible population. They raised the question whether or not this program was inherently flawed. And as a result, it could never serve more than a small proportion of the eligible population. Is that a legitimate worry? Is there something about the targeted jobs tax credit approach that makes it impossible to help more members of targeted groups than are now being helped?

Mrs. COZART. I don't think so. I don't know because many of the problems that have resulted from the program have been because of certain limitations, of certain inefficiencies by the two departments that made the comment.

Second, as far as I know, and I need to be corrected if this is not right, there have been goals set by the Department of Labor for the States in terms of vouchering since the program came into existence, and it is my understanding that we have exceeded this goal; is that right, Howard?

Mr. WEEKS. That's right.

Senator HEINZ. Are the goals also ceilings?

Mrs. COZART. Oh, no; they're goals. They're not ceilings; no. It is a goal that is set for the entire State and we have met the goals.

Senator HEINZ. Now, the Assistant Secretary of Labor, Mr. Angrisani, suggested that there is so much going on in the local office——

Mrs. COZART. Yes.

Senator HEINZ. That this was just one more element of the job that got lost in the shuffle; is that the basic problem?

Mrs. COZART. It comes back to funding. You see, when Assistant Secretary Angrisani mentioned so much going on, he was speaking to the fact that our staff has remained constant; that we have had a number of programs given to us over the years to implement without additional staff and that was one of the problems that I was mentioning. The administration of the program would be greatly increased in terms of effectiveness, if a greater amount of funds were made available to administer it.

Mr. WEEKS. Now, Senator, our local office people consider this more of an additional resource than they do an additional duty because it does give something else that they can offer to employers, and employers have the jobs. Unless we have those job orders, those job openings from employers, we aren't able to do anything. And this is additional resources as far as they are concerned. Now, we don't claim this is a cure-all, and because it can't do everything, I don't think is a good reason to throw it out.

Another point I would like to make. I don't believe the program has had a fair chance yet because it is growing now. It got a late start and the employers are just now getting onto it really. We are having more and more calls and visits from employers wanting to know the details, and it has been a very difficult task reaching employers and explaining the program to them.

As I indicated in my written testimony that one of the most effective ways that we have found have been through employer associations and organizations, and when they understand the program, and then they put out the information through their own newsletters, and so on, then those employers start contacting us.

Senator HEINZ. As I recall, Mr. Angrisani referred to an Ohio State study where 25 employers were interviewed. The employers said they would have hired the same members of targeted groups without the credit. Therefore, the tax credit did not enter into the hiring decision.

Is that possible?

Mr. WEEKS. I am not familiar with that study. I've not seen it. I believe they mentioned Georgia being one of the States, if I heard him correctly. But he wasn't talking to the same employers that I'm talking to, whoever conducted the study.

Mrs. COZART. I think the only group that that has been suggested has been with the co-ops. This is not an across-the-board situation.

Senator HEINZ. I forgot to ask him whether he was referring only to cooperative education students or to all young people.

Mrs. COZART. Yes.

Senator HEINZ. One last question for Mr. Weeks.

Mr. Weeks, you indicate that local procedures for administering the program are crucial to its acceptance. Your success bears this out. Would you favor standardized procedures across the country for the vouchering and certificating process since, on a State-by-State basis, the results have been very uneven?

Mr. WEEKS. I think I would. Now, we have the—the success that we have enjoyed has been in spite of the regulations, but we were able to get nonfinancial agreements with all the other agencies concerned. Had they not elected to go along with us on those agreements as I'm sure has been the case in some States, it would have been a mess.

Senator HEINZ. So, you recommend that we take a look at those Department of Labor regulations and make appropriate modifications? Are those modifications spelled out in your statement?

Mr. WEEKS. Not in detail.

Senator HEINZ. Can you supply more detail as to the kinds of modification we should seek?

Mr. WEEKS. Yes, sir.

Senator HEINZ. Very well.

I think you have been very helpful. We appreciate your coming such a long distance.

Mrs. COZART. Thank you for having us.

Mr. WEEKS. Thank you.

[The prepared statements of Mr. Weeks and Mrs. Cozart follow:]

STATEMENT OF HOWARD WEEKS, GEORGIA DEPARTMENT OF LABOR

For the record, I am Howard Weeks, Director of the Georgia State Employment Service (Job Service), a division of the Employment Security Agency, Georgia Department of Labor, a position I have held for the past fourteen years.

I am pleased to be able to discuss the Targeted Jobs Tax Credit (TJTC) program from a State Employment Service perspective. Let me begin by saying that in Georgia we have found this program to be a direct and highly effective way of placing people on jobs that would otherwise be very difficult to place.

This assessment is reenforced by our belief that the ultimate solution to the employment problems of those who have been bypassed by the growing economy lies within the private sector. We also believe that the difficult first step, that is, getting these people on a payroll, is important enough to justify providing a financial incentive to employers in the form of Tax Credits. The TJTC program does just that.

I must confess to some apprehension when it was first discovered that the Revenue Act of 1978 provided for still another program for the Employment Service to administer. This was the 25th Federal law involving the Employment Service to be enacted since the passage of the Wagner-Peyser Act of 1933, establishing the Federal-State Employment Service. In addition to these laws there have been 17 executive orders and 16 national agreements that gave added responsibilities to the Employment Service (Employment and Training Report of the President—1980). Virtually all of the workloads resulting from these laws, orders and agreements have been absorbed by a system that has been held at a 30,000 personnel ceiling nationwide since 1966, while the labor force has grown by over 40 percent.

When we learned the details of the TJTC program, however, and realized its potential for involving the business sector in a very critical economic and social area we became enthusiastic about it and started planning immediately for its implementation.

We assigned highly competent staff members to the tasks of obtaining nonfinancial agreements with other agencies involved and in the training of local office personnel for their new responsibilities.

We soon learned that the most difficult and yet most essential of all the tasks before us was to get the word to employers. They simply were not accustomed to uncomplicated government programs that could save them money. They were skeptical of a procedure that appeared just too simple to be true.

In addition to the use of mailings, press conferences involving the Governor and Commissioner of Labor, personal visits to employers and the use of the media, we were able to obtain the cooperation of trade associations, Chambers of Commerce and other organizations and associations to which employers belong. The "word" about TJTC through these channels proved to be highly effective.

It is extremely difficult, if not impossible, to accurately measure the results of the TJTC program. Even if we were able to determine precisely how many members of the targeted groups were hired for the sole purpose of qualifying for tax credits, we would still not have a true measure of the impact of the program.

For example, the retroactive provisions of the Act whereby employers are given credit for those already hired before they were aware of their eligibility for tax credits serves a useful purpose. In Georgia, that very provision gave the Employment Service an opportunity to render a meaningful service to employers, some of whom had not previously listed their openings with the local offices of the Employment Service, which resulted in additional job listing to which applicants could be referred, including members of the targeted groups.

During fiscal year 1980, employers in Georgia listed 819 openings with local employment service offices for TJTC eligibles only and 4,920 openings where TJTC eligibles would be acceptable. During this fiscal year through February, the corresponding figures were 418 and 3,501. From 78 to 88 percent of these openings have been filled. Interest is increasing as more and more employers realize the Program's tax saving potential.

In Georgia, all TJTC groups, except Cooperative Education students, are certified by local employment service offices. Those six groups are: economically disadvantaged Vietnam-era veterans, economically disadvantaged youth, economically disadvantaged ex-felons, persons served through vocational rehabilitation, recipients of Supplemental Security Income (SSI) and general assistance. Non-financial agreements were entered into by the Employment Service with all Comprehensive Employment and Training Act (CETA) prime sponsors and Federal/State/local agencies who could verify eligibility for the six groups. The non-financial agreements provide for the Employment Service to determine eligibility, voucher and certify for each of the six groups.

The prime sponsors and other agencies (Vocational Rehabilitation, Department of Human Resources, Veterans Administration, Department of Offender Rehabilitation, Social Security Administration, OIC's, etc.) only have to refer their clients to the nearest local office of the Employment Service for eligibility determination, vouchering and certification, when hired. Likewise, employer inquiries about TJTC are referred to the Employment Service. Publicity, forms preparation and reporting is the responsibility of the Employment Service. This basically gives the employer a single service point for TJTC service. Arrangements are made between local employment service offices and the other participating agencies/prime sponsors in order that eligibility and other relevant information can be established and/or shared.

Local office staff members adjust their work hours to accommodate employer shift changes in order to assist them at the worksite and thereby cause as little disruption as possible. Pre-screening forms are given to employers to aid in eliminating from consideration employees who do not need to be involved in the eligibility determination process. When possible, eligibility determination, voucher and certification paperwork are completed at the worksite.

As a result of our experience with the TJTC program there are some modifications that we would like to suggest for your consideration:

Increase Vietnam veterans age to a maximum of 40. The present maximum of 35 years screens out some veterans that are experiencing employment difficulties that need to be included.

Lower the minimum age of economically disadvantaged youth from 18 to 17. This would take in some high school dropouts that are not now eligible.

Add a category for older workers.

Make the section pertaining to ex-offenders less restrictive. It is now limited to those convicted of felonies and hired within 5 years after conviction or prison release.

The section on handicapped persons is likewise restrictive. It is limited to those handicapped persons receiving or having completed vocational rehabilitation. Some handicapped persons just need a chance that an incentive in the form of a Tax Credit to the employer might provide.

In addition, we are convinced that if the local employment service offices handled eligibility determinations, vouchering and certification—as we do in Georgia—there would be a wider acceptance of the program and a greater number of members of targeted groups served. This observation is based on comments made to us by employers who have operations in other states where various other agencies are involved in these processes. This is causing a proliferation of consultant firms contracting with employers to aid them in getting their employees certified.

Also, we believe that employers would be more receptive, and less confusion would exist, if all tax credit programs designed to encourage the hiring of specific categories of workers were consolidated into one program with standard procedures rather than the fragmentation that now exists.

Even in the best of times, which these are not, there are those that have extreme difficulty in competing in the labor market. In my state at this time we have the paradox of job openings listed with the Employment Service that we cannot fill and large numbers of job applicants that we cannot place.

In recent years we have referred to many of those without jobs as "unemployable", "hardcore unemployed" or "disadvantaged", but when they are examined at close range we find just plain citizens who for various reasons, and sometimes for multiple reasons, are not working. Some of the more typical cases are:

The middle-aged person whose limited skills are no longer needed due to technological changes;

The young school drop-out who has developed no marketable skills and has been turned away from so many job sites that he or she is no longer searching for work;

The female head of a houshold with limited experience and with children to care for;

The middle-management individual who loses a job due to reorganization, plant closing or for other reasons before retirement age and where relocation is not feasible;

The ex-offender who constitutes a risk in the minds of employers;

The handicapped worker who might require some job modifications;
Others such as the alcoholic, the epileptic, the older worker and the victim of prejudice.

As a long time Employment Service worker, I can testify that we need all the help we can get in reducing the barriers to employment for the above mentioned and others. I am not suggesting that the program under consideration address all of these situations but it is a move in the right direction.

Any program that provides incentives to employers to make room for some of the hard-to-place job seekers is welcome.

The Targeted Jobs Tax Credit program has proven to be very helpful in the state of Georgia and this is why we would like to see it continued.

Statement of Powell L. Cozart, Director, Bureau of Employment Service, Michigan Employment Security Commission

I am Powell Cozart, Director of the Bureau of Employment Service, of the Michigan Employment Security Commission. I am pleased to have been given the opportunity to testify on the effectiveness of the Targeted Jobs Tax Credit Program.

Michigan is one of the leading states in the nation in the issuance of tax credit certifications to employers. The program has been very well accepted by large segments of the employer community. Unfortunately, because of the recession—which has had the hardest impact on Michigan's manufacturing industries—we have not had the activity from our manufacturing companies that we had hoped for. These jobs are considered the "cream," since many of them pay $6-$10 per hour.

A very positive point of the targeted tax credit program, as it was conceived and as it is now operating, is its relative simplicity. Although there are some areas that could be streamlined—which I will discuss in a moment—there is almost no "paperwork" or "red tape" burden placed on the employer. We would hope that this aspect of the program would be maintained to continue the high degree of employer acceptance.

There are certain areas that we feel could be modified, to improve the program, without seriously altering the current operation.

FIRST—LIFE OF VOUCHER

There have been some complaints, and some hesitancy to issue vouchers to the disadvantaged groups because of the way income is determined. Currently, the income for the six months prior to hire is the determinant factor. Therefore, if a voucher is issued in January, the income from the preceding July through December is used. If the applicant is then hired in February, a new determination must be made, now using the period August through January. This then requires a new voucher to be issued.

We know of instances where agencies do not issue vouchers until after the person has the job, which runs contrary to the purpose of having vouchers at all.

We would recommend that the "life" of the voucher be at least 60, or even 90 days, to avoid double vouchering and to promote the use of vouchers by participating agencies.

SECOND—INCLUSION OF SPECIAL EDUCATION STUDENTS AND GRADUATES

There is approximately 10 to 12 percent of our student population who need all the help they can get to secure employment, and who would benefit greatly from inclusion in this program. They are the Special Education students, which includes the physically handicapped, the learning disabled, emotionally handicapped, mentally handicapped, etc. Difficult as it is for a healthy student to find a job, it is 10 times more difficult for the Special Education student.

The Special Education programs we are familiar with are almost all vocationally oriented; however, they are not totally effective, because of the reluctance of employers to hire the impaired. The tax credit, by itself, will not solve this problem, but it is a step in the right direction.

We would recommend that Special Education students, and Special Education graduates up to the age of 24, be included as a target group.

THIRD—NON-PROFIT EMPLOYERS

Approximately six percent of Michigan's private employment is effectively excluded from participation in this program, because they are non-profit, and, as such, do not pay federal income taxes. This includes most hospitals, credit unions, and health and welfare agencies. The nature of these organizations would tend to make them predisposed to hiring the target groups. They would be additional employment outlets for TJTC if there were some monetary incentives. These types of organizations also tend to offer upward mobility to their entry level employees.

We would propose that some type of credit or direct payment to non-profit agencies be considered so as to expand the targeted credit program to *all* private employers.

FOURTH—RETROACTIVITY OF CERTIFICATIONS

Allowing employers to claim retroactive credits for employees already hired has been termed a "windfall" and has been criticized. We do not have any empirical data, but we have seen an increased interest in hiring of targeted group applicants by those employers who have received retroactive certifications. One of our Michigan multi-plant employers, who was cool toward the TJTC program initially, was very impressed with the plant by plant tax savings after the retroactive certifications were tallied.

However, at this point we feel there should be a time limit placed on the retroactivity. Sixty to 90 day limits should be employed in the retroactive certifications.

FIFTH—ECONOMICALLY DISADVANTAGED HIGH SCHOOL GRADUATES UNDER THE AGE OF 18

We feel that this group should be included in the Economically Disadvantaged Youth group. Despite economic hardships, these students have completed high-school; however, they are one of the groups with the highest unemployment. Inclusion as a target group would accelerate their transition from school to work.

SIXTH—$6,000 CEILING ON WAGES

The fact that only the first $6,000 in wages can be considered in computing the tax credit makes the program more attractive to employers who pay the lower wages. For an employer paying the minimum wage, 85 percent of the wages paid qualify for the tax credit. For an employer paying $6.00 an hour, only 48 percent of the wages paid would qualify.

Although the dollar amount of tax credits to both employers could be the same, the relative impact of the percentage of payroll saved is much greater for the lower paying employer.

We would propose that the $6,000 ceiling on eligible wages either be eliminated or raised to $10,000, to increase the attractiveness to the higher paying employers.

OTHER CONSIDERATIONS

We have heard of other suggested changes, which we feel should be carefully considered before thay are included. These are:

1. Expand the Convicted Felon group to include all ex-offenders. If this is done, and the CETA definition of ex-offender used, we would be including anyone who had ever been arrested, for any offense, regardless of how minor the offense.[1]

This would create some real administrative problems. Where it is legal to ask persons if they have ever had a felony conviction, it is illegal to ask individuals if they have ever been arrested. Even if the arrest information could somehow be legally determined, it would be extremely difficult to verify the arrest, and virtually impossible to verify any acts committed while the person was a minor.

2. Remove the income requirement from the disadvantaged groups. We are afraid that this would open the door for all kinds of subjective determinations, and erode the integrity of the program. Although we can see many groups who would benefit from the tax credit, we feel that objectivity and consistency must be maintained, to avoid any appearance of the program being prone to fraud or abuse.

Senator HEINZ. I am going to recess the hearing for 5 minutes, or less, and then we will have our next to the last panel, Mr. Graves, Mr. Giery, Mr. Bartlett.

[Whereupon, at 3:12 p.m., the hearing was recessed, to reconvene at 3:17 p.m.]

Senator HEINZ. I see our next witnesses are assembled and let me ask Mr. Graves to lead off.

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[1] Public Law 95-524 Oct. 27, 1978, 20 U.S.C. 2461 sec. 18.

Thank you.

TESTIMONY OF A PANEL CONSISTING OF LEWIS H. GRAVES, VICE PRESIDENT FOR ADMINISTRATION, CHARTER BUSINESS SERVICES, INC., FORT LAUDERDALE, FLA.; WILLIAM G. GIERY, EXECUTIVE SECRETARY, FOODSERVICE & LODGING INSTITUTE, WASHINGTON, D.C., ACCOMPANIED BY MARSHALL SCOTT, KENTUCKY FRIED CHICKEN, ST. LOUIS, MO.; MS. DARLENE PFEIFFER; AND JAMES BARTLETT, GOVERNMENT PROGRAMS COORDINATOR, MUNFORD, INC., ATLANTA, GA.

Mr. GRAVES. Mr. Chairman and members of the committee, good afternoon.

It is a pleasure to have this opportunity to offer testimony regarding the targeted jobs tax credit program. I hope that the next few minutes will serve to provide some of the relevant field information you need concerning the success of the program in Florida.

I am here today to bring you a message from the south Florida business community. TJTC works. It reduces unemployment by putting targeted groups to work that would otherwise be supported by the tax-paying community. It creates new jobs by offering taxpaying business incentives to make more jobs available to targeted groups.

It creates better jobs for those most in need because targeted groups are traditionally retained longer on the job, increasing the likelihood that promotional opportunities will present themselves.

TJTC tax incentives increase cash flow for businesses thereby providing those businesses with additional capital for expansion. And expansion, again, creates new jobs.

Since TJTC's inception, retroactive certifications have served to promote and market the program by enlightening business and targeted groups alike creating special interests in the hiring and retaining of qualified candidates, thus new jobs, job security and intensified interest are generated.

As a result of that, attention is then focused upon an ongoing policy to hire and retain targeted job applicants.

TJTC has helped to improve overall living standards within Florida communities because of successful implementation of the intent of the program, those two factors being the creation of new jobs and the retention of candidates during the critical first 2 years of employment.

Some of our recommendations are: A 3-year extension for an ongoing program, not requiring extensive renewal efforts.

We feel a bit more time is needed to put the program into full swing. After that, we feel that it will tend to be self-perpetuating. We are also reemphasizing the tool of retroactive certification because we feel it's an excellent promotional device for the program.

Thank you.

Senator HEINZ. Thank you, Mr. Graves.

Mr. Giery, please proceed.

Mr. GIERY. Good afternoon, Mr. Chairman, my name is William Giery, and I am executive secretary of the Foodservice & Lodging Institute, a Washington, D.C. based trade industry group of 34 of the Nation's major multiunit, multistate restaurants and lodging companies.

Collectively, these companies own, operate, or have franchise agreements with more than 40,000 individual eating and drinking establishments and employ in excess of 2 million persons. I am accompanied by two franchisees from one of our institute members, the KFC Corp. in Louisville, Ky. They are, on my left, Marshall Scott, a franchisee from St. Louis, Mo., and on my right, Ms. Darlene Pfeiffer, a franchisee from Kingston, N.Y. They are here to provide some insight as to how small business utilizes the program.

We have filed a rather lengthy statement with the subcommittee and will summarize from there, but request that the statement be made part of the record.

Senator HEINZ. Without objection, your entire statement will be made a part of the record.

Mr. GIERY. The targeted jobs tax credit program is one that we have supported and will continue to support enthusiastically. We wish to relate to you some of our experiences with the program to suggest some modifications and, most importantly, to urge this subcommittee, the full Senate Finance Committee, and the entire Congress to extend this program for 3 additional years.

We also respectfully urge that the categories be modified to respond to structural employment and changes in the economy's labor requirements.

As suggestions for modifications along these lines we suggest that the credit be extended to persons whose families are receiving aid to families with dependent children. We believe that another category could be persons who have been out of work for 30 or 60 days or more. We believe that it could also be extended to all youths under the age of 20. We believe unemployed CETA graduates or those CETA employees who have—or who will soon lose their jobs under the administration's budget cuts could be another category.

We believe it should also be extended to persons seeking civilian employment out of being out of the military service. These are just but a few categories.

The program should be flexible enough to consider other categories. One need not remind Members of Congress of the tragedies of unemployment. The February rate for 16- to 19-year-old youths was 19.3 percent. The rate for black youths nationwide was 35.4 percent. In many of the inner cities the rate exceeds 50 percent. By targeting youths the overall problems of youth unemployment might not disappear, but at least they will begin to fade.

With regard to CETA employees, there will be within this year more than 200,000 persons losing their jobs through termination because of the administration's budget cutting.

A specific CETA targeted category would relieve State unemployment trust funds of some of the massive burdens they expect to face when the actual cuts start coming.

We also believe that along with a 3-year extension and the broadening of categories, Congress should consider authorization of funds to pay for some State and administrative expenses which are being incurred by State and local agencies. Part of the problem with the program is that the financially strapped State and local governments did not and still do not have the financial wherewithal to handle certifications on a grand scale. The authorization of funds would alleviate that situation.

Before we can get into an answer as to whether the targeted jobs tax program has accomplished its objective, we must first determine what its objectives were.

The critics talk about substantial job substitution and creating new jobs. In our industry, it is a different situation. We are a labor intensive industry. We hire hundreds of thousands of kids. We hire hundreds of thousands of people. Many of these jobs are substitutions, the way the State and the IRS, and the Labor Department look at it, but it's not true. These people are not substitution employees. These people are replacement employees. I mean a man in a business would have no sense if he didn't try to seek out targeted job eligibles when replacing departing employees.

In fact, these statements—when they talk about substitution—are reflective of the misunderstandings of the intent of Congress in passing the law. While Congress may have hoped that the provision would extend or increase employment, such a result would have been an ancillary benefit. The principal purpose of the act was to provide employment opportunities for the structurally unemployed by giving employers an incentive to hire targeted individuals rather than noneligible candidates.

This sentiment was expressed in legislative history, which is quoted substantially on page 8 of my statement.

We also believe that the substantial job substitution comments that critics make are overstated. No employer, at least none in our industry would fire a noneligible worker just so he can hire one to get the credit.

Our industry is labor intensive and the employee turnover is high. Since the industry as a whole and the institute's members in particular have given the program an extremely high priority, it is quite natural that when one of our members has an opening, that member would try to hire from a qualified target category.

Is this job substitution? It's smart business sense. In our industry, labor costs account for approximately 30 percent of total costs, second only to food costs.

It is only quite natural that we, as an industry, would strive to lessen our labor costs impact in any way possible. That is what the targeted jobs tax credit is all about. Therefore, we firmly believe that the targeted jobs tax credit is accomplishing an objective. Could it be better? Yes.

Could it accomplish its objective faster? We also think, yes.

In the interest of time, I am not going to review the problem areas to a certain extent. They are spelled out in our printed statement, and also Ms. Pfeiffer, on my right, would be better to give first-hand information from the actual workplace.

Before concluding, I would like to make one more comment about complaints about employer windfalls. We're in a damned-if-we-do-and-damned-if-we-don't situation. If a company makes extensive use of the program and receives a large amount of tax credit, the company is accused of taking unfair advantage of the program.

If a company does little, it is accused of not caring about structural unemployment.

The targeted jobs tax credit is as much a windfall to employers in labor intensive industries as the investment tax credit is to capital intensive industries.

There are also arguments that the category students between 16 and 19 years old in cooperative education programs should be eliminated. The arguments will be made that specific category is used too widely and effectively.

Some will also say that cooperative education students are not necessarily disadvantaged.

Some will also argue that the cooperative education students certification has resulted in a windfall. The bottom line is that the cooperative education program is the most successful because the schools and their TJTC coordinators did the best job since the inception of the program to link eligible students with job openings, to promote the program and to expedite certification of individuals.

If we are to tell these coordinators that they did such a good job in the past 3 years, that their students are no longer eligible for the program, that would be a crime.

For many years, there has been a bias in the Nation's tax laws against labor. An individual making a gross salary of $10,000 a year costs his employer a minimum of $10,985 because of employer-paid social security and unemployment compensation.

Add to that the cost of various fringes, including hospitalization, life insurance and this gross labor cost to the employer builds rapidly. The targeted jobs tax credit lowers that cost to labor significantly and reduces the distortion between labor intensive and capital intensive industries. It has done a good job and if extended and modified, it will do a better job in the next 3 years.

We thank the subcommittee for this opportunity.

Senator HEINZ. Thank you, Mr. Giery.

Mr. Bartlett.

Mr. BARTLETT. My name is James E. Bartlett. I am an employment generalist currently retained as a tax consultant by Munford, Inc. of Atlanta, Ga. Munford is known throughout 26 States in the country as Majic Markets and World Bazaar.

We have in any one year approximately a 5-to-7-time turnover which is horrendous in our industry. New store openings, and temporary help all run our personnel requirements to about 25,000 to 30,000 a year.

I was retained by Munford to develop programs whereby they could maximize the benefits gained on the targeted jobs tax credit program, essentially in the retroactive areas. The retroactive area offers employers an incentive. It really gets people going on this sort of thing, the next step being, as I put it, and I'll put it bluntly, "What's in it for the Labor Department?" which is doing all the work?

The Labor Department, as has been brought out, is underfunded, and I am speaking now of the local level Labor Department offices. They are underfunded, and overworked. This program is one of 75 other viable programs that the local office managers generally have to put up with.

I happen to have been in the Georgia Department of Labor when the program first came out and I know the feeling of having had this thing thrust upon me. On the one hand, I thought it was great. One of the reasons I thought it was great was because I expected employers to run to my door by the dozens to get in on the gravy train. It didn't happen.

The program had to be sold and eventually it had to be sold on the basis of the retroactive aspects. The Labor Department in all the States that I work with, and I work with most of the 26 that we have holdings in, really do not have the personnel that are sophisticated enough to go out into the field and introduce this program, hence the growth of consultants in the area. Consultants provided a sort of a selling force to sell TJTC to employer based on retroactive activities and it has been highly successful. But I wish that they would take more of their employers and take them to the Labor Department offices around the country and get them together, get them to know the Labor Department, put in the job orders and get things rolling.

I called my secretary this morning, so far we have the March figures in, we hired 153 TJTC eligible people from the Labor Department offices around the country. In addition to that approximately 300 others from the employment service.

It became mandatory in February of this year for all our regional district managers in Munford to maintain personnel contacts with the Labor offices in their areas and to put into the job banks of the State labor departments, the job orders for all of our Majic Markets World Bazaars, and our warehouse divisions.

We are beginning to build something that has all the prospects of a perfect example of the business community's cooperation with the employment service. So, naturally, I favor the extension of the program and I would like to see it extended for approximately 3 years because that will give the employment service time to really do the job that they are capable of.

They have shown extremely good progress. I am in contact almost on a daily basis with some targeted job tax credit coordinator in one of the States, usually at a local level.

Their morale is high. They think well of this program. They are somewhat annoyed at the retroactive aspects of it because, as I say, companies do not give their job orders and hire from the Department. As has been brought out in previous testimony, they would generally hire whoever comes to the door and whether or not they're eligible.

I recommend the elimination of the SSI portions of the targeted job tax credit program and adding to it older workers, 45 and over, who are economically disadvantaged. There is very little activity at the SSI area and also the coordination between social security to determine whether or not the individual is indeed an SSI recipient is a difficult thing for ES employees to handle.

All handicapped people should be included. It is a discrimination not to do so, because the vocational rehabilitation referrals again do not work particularly well down at the State level. It takes personal contact. There are plenty of financial—nonfinancial agreements as was brought out in Mr. Weeks' testimony, but that isn't what makes it work. What makes it work is the personal contact of the people in the local offices with their counterparts in the local vocational rehab offices. This whole program is right—

"our town" sort of thing. It works best when the people in the local offices work with the people in industry; work with the people in their sister agencies and they get it down without a lot of gobbledegook from upstairs.

The veteran category should probably include all veterans, but most particularly those with 30 percent or more disability. Those that are known as special disabled veterans.

And with my time running out, I want to put in the concept of doing away with the welfare tax credit program, which is extremely inefficient and ineffective and doesn't get sold in the local areas where it should be. Simply add all AFDC recipients to the targeted job tax credit program.

I believe, sir, that you asked earlier on whether all AFDC recipients were eligible. They are if they meet the criteria of the other programs or were on AFD for 90 days preceding hire. But if we could do away with the welfare—tax credit and combine that with TJTC it would help.

Senator HEINZ. Thank you, Mr. Bartlett.

Mr. Graves, you made an interesting statement. You indicated that the targeted jobs tax credit provides an incentive for employers to retain workers hired under the program?

Mr. GRAVES. Yes, sir.

Senator HEINZ. Could you elaborate on that?

Mr. GRAVES. During the course that I've been sitting here the last 3 hours or so, people have been systematically avoiding that portion of the intent of the bill, but the first portion was to, naturally, create jobs.

The second portion was to retain those employees for the critical first 2 years of their employment. I don't see much sense in hiring people if you are not going to retain them.

The situation involves—is really dovetailed with retroactive certification. Let's say an employee has been on for 6 months, or 60 days, let's take. He is then certified retroactively. The employer then knows that he has a targeted job applicant employee, and he will be more likely to retain him, you see, because what we have here is—let's say there is a layoff, or a firing of some sort. Generally, the employer—all things being equal, generally the employer is going to keep the targeted group applicant working.

Senator HEINZ. I am not certain that can be documented. Almost every employee from a targeted group hired under this program has been on the job less than 2 years, the subsidy period.

Mr. GRAVES. Right. Well, I'm speaking from empirical knowledge in my area. All right. In the area where we operate, I'm speaking on an empirical basis.

Senator HEINZ. In terms of layoffs?

Mr. GRAVES. Yes, sir.

Senator HEINZ. Are you saying that people hired under the targeted jobs tax credit program were not the first to be laid off?

Mr. GRAVES. That's correct.

Senator HEINZ. Would you restate again the reason for that?

Mr. GRAVES. The reason for that is—I can't really get into the reasoning in the man's mind, the employer, but probably all things being equal, is that he is going to save money. He's got an incentive to keep the targeted applicant rather than the applicant.

Senator HEINZ. Because he is getting a subsidy.

Mr. GRAVES. That's correct.

Senator HEINZ. If true, this creates a new problem. Somebody else is getting laid off because we're paying that employer to keep people who may be less qualified.

It certainly opens us up to that charge.

Mr. GRAVES. It is a possibility, a possibility.

Senator HEINZ. Mr. Giery, earlier we were talking about the cooperative education students. What evidence is there that cooperative education students, but for the targeted jobs tax credit, would become structurally unemployed?

Mr. GIERY. Well, I think the original inclusion of the cooperative education category was evidence that——

Senator HEINZ. Congress made a decision, which is not necessarily evidence of anything terribly deep.

Mr. GIERY. In our industry, it is very difficult to say, sir, because since we are so labor intensive, I would say that they probably would be hired to a certain extent, but I think that they would not be hired to the same degree—without the existence of the program. I think that the employers, when they're looking for individuals, would look for individuals who were targeted certification eligibles. They would be more in line for the job than——

Senator HEINZ. I'm not questioning the fact that the cooperative education students who receive vouchers are not successful. They are extraordinarily successful. They are much more successful getting jobs than anybody else. They are five times more successful than the average and they're the only—targeted group that's above the average. Everybody else is at 30 percent of an average placement rate. That suggests to me, that a lot of those students would be hired in any event. There is no other obvious answer.

Mr. GIERY. Well, I think because there is red tape involved in identifying other targeted groups, which does not exist in the cooperative education program gave co-op a head start, because the school does the certification. I think the lack of IRS regulations on the subject—I wouldn't label it foot-dragging—but the slow down of any definitive information coming from the Labor Department gave the cooperative education students a head start or the cooperative education category, a lead over all other categories. I saw a study by the U.S. Employment Service which was done as of June 30, 1980, which showed that every person in the cooperative education program who obtained a voucher obtained a job. I mean, I think that is a magnificent exercise of trying to make the program work.

Senator HEINZ. Well let me come back to that. The purpose of the program is to reduce the number of structurally unemployed people. Therefore, Congress has to make a judgment whether these students would be employed or unemployed, absent the targeted jobs tax credit, after graduating.

Now, my question to you is: What evidence is there that many of these students would become structurally unemployed if there were no targeted jobs tax credit?

Do you maintain that 100 percent of them would become structurally unemployed?

Mr. GIERY. No, sir, I doubt that.

Senator HEINZ. Fifty percent?

Mr. GIERY. I doubt that, too.

Senator HEINZ. Twenty-five percent?

Mr. GIERY. I would say that the slow down of hiring from that category would result.

Senator HEINZ. I agree there would be a slow down in hiring. All I am trying to get at is the extent which you think these student's would get jobs without the tax credit.

Mr. GIERY. I couldn't even venture to answer, sir.

Senator HEINZ. Thank you.

Mr. Bartlett, are you the reason the State of Georgia is doing so well?

Mr. BARTLETT. Part of it.

Senator HEINZ. I thought so.

Mr. BARTLETT. Before I resigned that was part of the reason.

Senator HEINZ. You indicated there was a problem getting State bureaus of employment security interested in the targeted jobs tax credit program.

Mr. BARTLETT. Yes, sir.

Senator HEINZ. We had two people from the bureaus, Mr. Weeks and Mrs. Cozart, who said it is a very helpful tool.

If it is a helpful tool, why do we need to pay our public servants to provide public service, over and above what we already pay in wages?

Mr. BARTLETT. I don't think we do, sir. I think that as I said, in referring to my statement, at this present time, the local office morale is pretty high as far as TJTC is concerned. When I use the term "what's in it for ES," ES is not funded for his thing down at the local level to begin with. They have to do it and they get no credit. By the way, I don't want to get into that in terms of how the ESAR's reporting works, but thus far there has been no service credit given to a local office manager for the work that these people do on the targeted job tax credit. As a matter of fact in some States, and most particularly——

Senator HEINZ. You say there is no credit given?

Mr. BARTLETT. Yes, sir.

Senator HEINZ. No recognition?

Mr. BARTLETT. Well, it is not that. It's a reporting within the, what is called ESAR's, Employment Service Automatic Date Reporting System. Now, under that an interviewer and all persons in the Employment Service report their activity under various codes for this, that, or the other.

Senator HEINZ. That would seem like a correctable problem.

Mr. BARTLETT. In my opinion, it is. It has been nothing but postponed because the program lacks viability in the eyes of the people concerned. For example, I happen to know that one of the DOL regions has already proposed a modification of a reporting form, which is known as 515 in some States, and, I guess, 516 in others, that this reporting form be utilized so that the local offices get the credit due them on TJTC work whether or not it is of a positive or a negative nature. By that I mean, whether or not it results in a certification, because you see, for every certification, for every interview that takes place whether it is a retroactive interview, or whether in the course of everyday work, if nothing comes out of this in terms of an elgibility determination, then that work credit is lost. The people that do this work, the people that go out and certify on-the-site certification vouchering, that do the vouchering onsites, or do the vouchering in their own offices, Lord, and I've been out in the middle of throughways, and up on skyscrapers doing it myself, this is a problem, which, as I say, they get no credit for. Where the payoff comes, is when the people that they're doing this work for give them job orders.

When this is done on a cooperative basis, when it's done on a followthrough communications basis, person to person, eyeball to eyeball, it satisfies the need for "credit." Our district managers in the corporation that I consult are required to establish personal relationships with their local office managers. They go in and sit down and work out their problems so that it leads to activity in the WIN program, in the CETA program, and so on, and so forth. That's what we're doing.

We have some CETA—not much CETA activity yet, very little WIN, but we've only actually been into it for a couple of months, but it is there and it requires the cooperative effort.

Senator HEINZ. Perhaps the Department of Labor may.

Cooperation may be low now since prior experience with the Labor Department has been unfavorable. Many employers do not look at State bureaus of employment security as providing a service. They look at them as providing a headache.

Mr. BARTLETT. A what, sir?

Senator HEINZ. A headache.

Mr. BARTLETT. Oh, yes; indeed.

Senator HEINZ. I know employers who say the last place they would seek new employees is the State Bureau of Employment Security. They fear being subject to an equal employment opportunity suit if they don't take any applicants on. I know employers who just say, no thanks, we'll run our own want ads. We will not go near the Pennsylvania Bureau of Employment Security.

Now, that may be a testimony to the record of the Pennsylvania State Bureau of Employment Security, during the term of our previous governor, Governor Shapp. I can't say for sure that it is still an attitude now under the new administration, but it might very well be.

Mr. BARTLETT. Sir, that is a prevalent attitude across the Nation. It can be corrected with communications. This, as I say, is one of the reasons why we require our Munford management personnel to get with Employment Service management personnel because then they see that they are the same kind of people, the same kind of problems where the Federal Government is a big monster to both of them and we get on with the matter of describing what it is that we want. A job order that actually tells the Employment Service what you want is what is required. That is where the breakdown usually occurs.

There is too much of a tendency to call up and say, hey, I need somebody to sling hash in my restaurant, or I need a forklift operator. All these types of things. But what is required is a description of what the job actually amounts to. What kind of a forklift, really, or what kind of hash, and so on, and so forth. And that is all the lowlevel, down at the grassroots sort of thing in the hometown type of place, and that is where it has got to be done or it will never be done.

Senator HEINZ. I think you have brought up a useful point. The targeted jobs tax credit program could bring about a change in attitudes of employees toward the State bureau. That the credit, the opportunity to offer the credit on the part of the employee or the Bureau of Employment Security. It could get employers to look at the Bureau of Employment Security as a friend, not an enemy.

Mr. BARTLETT. Absolutely. For the record, probably one of most interesting ways of getting an employer to recognize the importance of the targeted jobs tax credit program comes about routinely in the vouchering of a number of employees in another company.

One will interview one of these people and they will not be eligible for the particular company that they are in now, but they are eligible for the company that they were formerly with by virtue of their economic situation prior to their first job.

Senator HEINZ. Let met ask the members of the panel if they have any additional comments?

Mr. GIERY. Mr. Chairman, Mr. Scott who accompanied me here today has a short, prepared statement.

Senator HEINZ. Excuse me, I didn't know that was the case. Mr. Scott, please proceed.

Mr. SCOTT. We chicken people try to stay low key.

My statement, I would like to have it entered into the record.

Senator HEINZ. Without objection, your entire statement will be made a part of the record.

Mr. SCOTT. I would just like to summarize it just for a few seconds if I can, and I'd like to defer Ms. Pfeiffer who is with me and let her relate a couple, three paragraphs about some of the things that she's had to do with the TJTC.

The 900 Kentucky Fried Chicken franchises, who operate more than 3,700 stores nationwide and employ 60,000, support the extension and expansion of targeted jobs tax credit program to increase employment among disadvantaged youth. The KFC system is expected to employ some 13,500 under TJTC. The TJTC program gives the KFC operators incentive to hire disadvantaged youth who might not otherwise be competitive.

The TJTC can help the Nation avoid development of a permanent underclass as predicted by many social scientists. Simply extending the TJTC law would be excellent and TJTC's could be even more effective.

KFC's franchise legislative action group, FLAG, recommends several improvements to TJTC.

One: Streamline the program so that applicants could go only to one office for certification.

Two: Provide a training program for State TJTC interviewers.

Three: Standardize paperwork to facilitate processing by multistate employers.

Four, use only one form to voucher and certify, which will be signed by the interviewer and the employer.

Five, train co-op education counselors on how to fill out the TJTC paperwork.

Six, remove age limit. An unemployed 25-year-old is just as desperate and hungry as an unemployed 24-year-old.

Seven, allow displaced Federal and State employees to qualify.

Eight, allow the 200,000 CETA employees who soon will be without jobs to qualify under TJTC.

And something that I might note that is not down on paper is that it is not just the low-end, low-entry employees that we're looking forward to, or trying to do something about on this targeted jobs credit plan, it is also management trainees and obviously at a much higher level of pay than the young man that's going to help us cook chicken and wash the pots and pans back in the kitchen.

We really think it has a lot of potential.

The biggest problem we have had is that most of our franchise system didn't really even know about this program really, and that may be terrible ignorance on our part, but we are just now becoming aware of it, so I think it has tremendous potential for down the road someplace.

Senator HEINZ. I thank you all. You've been very helpful and I appreciate your comments.

Many of you have come quite a distance to be here today.

[The statements of the preceding panel follow:]

Charter Business Services, Inc.
3471 North Federal Highway
Suite 511
Fort Lauderdale, Florida 33306
Telephone (305) 561-3225

TO: Senate Finance Sub-Committee on Economic Growth, Employment, and Revenue Sharing.

SUBJECT: Targeted Jobs Tax Credit (Revenue Act of 1978, P. L. 95-600, Section 321)

The intent of this document is to submit to the Honorable Senators Heinz, Roth, Mitchell and Moynihan, members of the Senate Finance Sub-Committee on Economic Growth, Employment and Revenue Sharing, relevant field information supporting the success of the Targeted Jobs Tax Credit Program in Florida. It is further intended that this report clearly convey to the Honorable members of the Sub-Committee that all original and amended requirements set forth by the Senate and Congress for the Targeted Jobs Tax Credit Program, have served to further enhance the partnership between the employment and training system and private sectors in <u>solving</u> the problems of the disadvantaged and unemployed.

The Targeted Jobs Tax Credit Program has had a positive impact in Florida, especially South Florida; Charter Business Services, Inc., a regional accounting firm, implementing the T.J.T.C. Program for its clients, is endorsed by the largest participating group of Industrial Associations in South Florida actively engaged in the T.J.T.C. Program:

1. South Florida Homebuilders Association - 1275 corporations.
2. Associated Builders and Contractors - 500 contractors.
3. South Florida Manufacturers Association - 45% of all industry in Florida.
4. Broward Builders Exchange - 280 contractors.
5. Palm Beach County Builders Exchange - 175 contractors.

Since its inception on November 6, 1978, the Targeted Jobs Tax Credit Program has provided to Florida Industry Associations and Manufacturers the necessary incentives to create new and better jobs for the disadvantaged, and to <u>retain</u> those workers in the critical first two years of employment.

The most practical and effective approach coordinated by businesses and employment-training systems in Florida, is in accordance with the three basic principles of the Bill:

(1) <u>WORK</u>, as a way for the disadvantaged to gain the skills, training, and experience they need to succeed. This is assured to a great degree by <u>Retroactive Certification</u> to presently employed T.J.T.C. candidates. It virtually

guarantees sufficient job security and gives the candidate ample time to develop those vital skills and gain necessary experience. It serves no purpose whatsoever to put people to work without a reasonable length of time to develop trade or vocational skills. Thus, the present legislation is an incentive for hiring new T.J.T.C. candidates and retaining those candidates.

(2) EMPLOYMENT in the Private Sector, as the most efficient way of solving the problems of structural unemployment, and,

(3) RESOURCES TARGETED on those candidates most in need.

The T.J.T.C. Program has been well received in the private industrial community, especially in the area of Retroactive Certification. Retroactive Certifications serve to enlighten private businesses and targeted group candidates alike; without such certifications, hundreds, perhaps thousands of disadvantaged employees would otherwise be excluded from a program designed for their benefit, and would not have the added "job security" provided by the Bill's employer incentives.

80-595 O—81——8

Charter Business Services, Inc., has conducted a survey of 7 Florida corporations with 2207 employees. The results indicated that 100 % of the corporations give special consideration in layoffs to T.J.T.C. employees, all other factors being equal (see Survey Form).

Charter Business Services and the above Associations strongly recommend continuance of the T.J.T.C. Program in its present form, or with amendments possibly offering expanded coverage into new targeted areas. The T.J.T.C. Program represents the most equitable employment device now in effect. We are asking for your assistance in obtaining renewal of this legislation so vital to the well-being of every American community.

Lewis H. Graves
Vice President, Administration
Charter Business Services, Inc.
3471 North Federal Highway
Suite 511
Fort Lauderdale, Florida 33306

Charter Business Services, Inc.
3471 North Federal Highway
Suite 511
Fort Lauderdale, Florida 33306
Telephone (305) 561-3225

Survey Results - Random Sample

Total Companies 7 Total Work Force 2207

	Yes	No	Not Sure
1. Retroactive certification gives certified targeted groups extra consideration in layoffs.	100%	0%	0%
2. Private agencies, not state agencies, promoted the greatest awareness of T.J.T.C. among corporations who had access to both sources.	100%	0%	0%
3. T.J.T.C. has caused personnel departments to give extra consideration to immigrants (Haitian, Cuban, etc.)	57%	0%	43%
4. Average percent of labor force which is certified.	10.86%		

	For	Against	Unsure
5. Targeted groups favored by employers.			
Ex-felons	71%	29%	0%
Disadvantaged youths	100%	0%	0%
Vietnam-era veterans	100%	0%	0%
Vocational rehabilitation referrals	57%	0%	43%
New immigrants - Haitian, Cuban, etc	57%	0%	43%
General Assistance recipient	43%	28.5%	28.5%

TESTIMONY OF

FOODSERVICE AND LODGING INSTITUTE

ON THE

TARGETED JOBS TAX CREDIT

BEFORE THE

UBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING

COMMITTEE ON FINANCE

UNITED STATES SENATE

April 3, 1981

-::-

Presented by

William G. Giery, Executive Secretary
Foodservice and Lodging Institute

TESTIMONY OF FOODSERVICE AND LODGING INSTITUTE

Good afternoon Mr. Chairman and members of the Subcommittee on Economic Growth, Employment and Revenue Sharing. My name is William G. Giery and I am executive secretary of the Foodservice and Lodging Institute, a Washington D.C.-based trade industry group of 34 of the nation's major multi-unit and multi-state food and lodging companies. Collectively, these companies own, operate or have franchise agreements with more than 40,000 individual eating and drinking establishments and employ in excess of two million persons.

Several member companies of the Institute are also appearing here today as witnesses evidencing the strong support and the enthusiastic backing our orgainization has given to the entire Targeted Jobs Tax Credit program. To say that we support the program is an understatement.

I am accompanied here today by Thomas W. Power, general counsel of the Institute, and together we bring to you the greetings of our members as well as their congratulations upon your assumption as chairman of this distinguished Subcommittee.

I am also accompanied by two franchisees of one of the Institute's members, KFC Corporation of Louisville, Kentucky. They are Marshall Scott, a franchisee from St. Louis, Missouri, and Ms. Darlene Pfeiffer, a franchisee from Kingston, New York. They are here to provide some insight as to how small business views the program.

We are here today to talk about the Targeted Jobs Tax Credit, a program which we have supported enthusiastically. We wish to relate to you some of our experiences with the program; to suggest some modifications, and, most importantly, to urge this Subcommittee, the full Senate Finance Committee and the entire Congress to extend the program for three additional years.

Four years ago, in testimony before the Senate Finance Committee as well as before the House Ways and Means Committee, we urged enactment of the new Targeted Jobs Tax Credit. We called the provision, which eventually became part of the Revenue Act of 1978, "one of the first real positive steps being taken by the Federal Government to enlist business and industry in the massive fight to reduce unemployment within specific hard-to-employ sectors of the population." Despite some problems encountered by our members in certain areas of the country with respect to obtaining certifications for some qualified employees, nothing that has occurred in the three ensuing years after passage of that Act to temper or reduce our enthusiasm for the program. The program has worked well and should be continued.

RECOMMENDATIONS OF FLI

We respectfully urge this Subcommittee to recommend an extension of the Targeted Jobs Tax Credit for an additional three years. We also respectfully urge that the targeted categories be modified to respond to structural unemployment and the changes in the economy's labor requirements. Along this line, we believe that the categories of targeted individuals could include:

1. persons whose families are receiving AFDC payments (Aid to Families with Dependent Children);
2. persons who have been out of work thirty or more days;
3. all youths below the age of twenty;
4. unemployed CETA graduates (i.e., those employed under CETA who have exhausted their eligibility to continue in program);
5. persons seeking civilian employment after being out of the labor market because of military services.

These are but a few categories which could be incorporated into the program. Perhaps the two that stand out the most are (a) all youths under age twenty; and (b) unemployed CETA graduates.

One need not remind members of Congress of the members nor the tragedies of youth unemployment; the February rate for 16-19 year olds was 19.3%; the rate among black youths nationwide was 35.4%. In many of the inner cities, the rate exceeds 50%. By targeting youths, the overall problems of youth unemployment might not disappear but at least it will fade distinctly.

With respect to CETA persons, there will be within this year more than 200,000 CETA employees throughout the country terminated because of the Administration's budget cutting plans. A specific CETA targeted category would relieve state unemployment trust funds of some of the massive burdens they expect to face when the actual cuts start coming.

There are some who criticize the program as a "windfall" for employers. That may be so. It is also however a "windfall" for the Federal, state and local governments which, when a targeted individual is hired, are relieved of unemployment insurance payments, general assistance payments, etc. Additionally, a working individual is transformed from a financial burden into a taxpaying citizen.

We also believe that, along with the three year extension and the broadening of targeted categories, Congress should consider the authorization of funds to pay for some of the administrative expenses which are being incurred by state and local certifying agencies. Part of the problem with the program is that financially-strapped state and local governments did not, and still do not, have the financial wherewithal to handle certifications on a grand scale. The authorization of funds would alleviate that situation to some extent.

BACKGROUND OF TARGETED JOBS TAX CREDIT PROGRAM

The Targeted Jobs Tax Credit, as modified by the Revenue Act of 1978, provided employers an incentive to hire the chronically and structurally unemployed, or at least, persons who, by their background or personal problems, were considered hard to employ. Seven targeted groups were established:

- handicapped persons referred from vocational rehabilitation agencies;
- youths, between the ages of 18 and 24, from economically disadvantaged families;
- Vietnam-era veterans, under the age of 35, from economically diadvantaged families;
- general assistance recipients -- individuals receiving income maintenance payments, based on need, under state and local programs;

- Supplemental Security Income recipients -- elderly and disabled persons who are not eligible for Social Security payments;
- students, between the ages of 16 and 18, participating in cooperative education programs (a technical amendment recently increased the upper age limit of this group to 19 years); and
- ex-convicts from economically disadvantaged families who are hired within five years of release from prison or date of conviction, whichever is later.

If an employer hired a person who fit into one of these seven categories, the employer could obtain a tax credit equal to one-half of the eligible employee's FUTA wage ($3,000) during the first year of employment and 25 percent of the FUTA wage during the second year. One point should be made here. This is not a direct tax credit of $3,000 and $1,500 for the employer. The employer's deduction for wages paid to a person who has been certified would be reduced by the amount of the tax credit. In other words, the portion for which a tax credit is claimed may not be deducted as a business expense and, as a result, the actual tax savings ranges from $2,490 per employee for a company in the lowest tax bracket to $1,620 per employee for a company in the highest tax bracket.

There have been limitations on the credit, also. For instance, the law provided that qualified first year wages could not exceed 30 percent of aggregate FUTA wages for all employees during the calendar. That limitation was designed to prevent targeted employees from displacing a substantial number of nontargeted employees. Second, the credit was limited to 90 percent of an employer's tax liability.

The credit was available for any member of a targeted group hired after September 26, 1978. Since the law was not enacted until November 6, 1978, employers who made an effort could receive the credit, retroactively, for employees who qualified and who were already on the payroll. Critics have called this retroactive credit a "windfall". Perhaps, this was one of the drawbacks of the whole program for employers who took advantage of the retroactivity provision were getting the credit for doing nothing more than searching their payroll records. It should be noted however that Congress set this date; employers did not; employers only took advantage of it. But, it is too late to rectify this.

HAS THE PROGRAM ACCOMPLISHED ITS OBJECTIVES?

Before we can answer whether or not the Targeted Jobs Tax Credit program is accomplishing its objective, we must first determine what was the objective of the law. This has been subject to a great deal of misinterpretation.

Critics of the program, we believe, are not fully aware of the actual purpose of the law. For instance, the Congressional Research Service of the Library of Congress states that "job substitution," replacing non-eligible employees with eligible employees, has been substantial. Further, the Northeast-Midwest Institute, an independent, non-profit research center, published a report[1] in September 1980, which states:

> "Evidence suggests that a large portion of the credits authorized under the program are "windfalls" to employers and are not creating new jobs."

1. Northeast-Midwest Institute, "Putting the Targeted Back to Work," by Mary Fitzpatrick, September 1980.

These statements, which may or may not be true, are reflective of the misunderstanding of the intent of Congress in passing the law.

While Congress may have hoped that the provision would expand employment and create new jobs, such a result would have been an ancillary benefit. The principle purpose of the Act was to provide employment opportunities for the structurally unemployed by giving employers an incentive to hire a targeted individual rather than hire a non-eligible candidate. This sentiment was expressed in the legislative history:

> "The purpose of the targeted jobs credit is to encourage employers to hire employees from certain enumerated groups, the hiring of which the Committee believes is deserving of special incentives."
>
> -::- (House Report 95-1445)
>
> "The committee believes that the unemployment rate has declined sufficiently so that it is appropriate to focus employment incentives on those individuals who have high unemployment rates."
>
> (Senate Report 95)
>
> -::-
>
> "This Committee recognizes that the term structural unemployment is a cold, clinical term which really does not capture the human dimension of the problem. Too many blacks, too many Hispanics, too many young people remain jobless and often without much hope of participating in the economic life of our nation. The recommendations in this Report [#13 of which is a recommendation that the Administration undertake a major effort to inform businessmen and women about the new Targeted Employment Tax Credit Program.] would not solve the problem completely. But they are sound, solid recommendations that underline the obligation - the economic, moral and humanitarian obligation - we as a nation have to foster opportunities for employment."
>
> (1979 Economic Report, Joint Economic Committee)

In our industry we have made a conscious effort to accomplish this objective.

We also believe that the substantial "job substitution" the critics speak of is overstated. No employer, or at least none in our industry, would fire a non-eligible worker just so he or she could hire a targeted individual in order to claim the credit. Our industry is labor intensive and employee turnover is high. Since the industry as a whole and the Institute's members, in particular, have given the program an extremely high priority, it is quite natural that when one of our member's has an opening in their employment force, that member would seek to hire a qualified targeted individual. Is it "job substitution" if the previous employee was a non-eligible? Hardly. That is just smart business sense. In our industry, labor costs account for approximately 30 percent of total costs; second only to food costs. It is only natural that we, as an industry, would strive to lessen our labor cost impact in any way possible. That is what we have attempted to do through the Targeted Jobs Tax Credit.

Therefore, we believe firmly that the Targeted Jobs Tax Credit is accomplishing its objective. Could it be better? The answer is yes! Could it accomplish its objective faster? Another emphatic yes!

FACTORS AFFECTING THE SLOW UTILIZATION OF THE TARGETED JOBS TAX CREDIT

If the finger of blame has to be pointed at the cause for low utilization of the program, it must be pointed, not at employers, but rather at the federal agencies charged with the administration of the program. Further, some of the blame must be shouldered by Congress itself.

The law was signed by President Carter on November 6, 1978 to become effective on January 1, 1979. It was April of that year before the program "officially" became operational; on April 2, the Internal Revenue Service issued interim regulations. Even today, nearing the end of the program, the IRS has yet to issue final regulations.

Back in January of 1978, the Institute, realizing the potential of the new law to reduce members' labor costs, began a thorough, effective campaign to inform them of the credit. Then we waited while the program grew from its embryonic stage to a near-full scale bureaucratic nightmare.

For example:

--The Department of Labor was late implementing their plans for state and local agencies. Nobody at the state and local level knew what to do; in several areas of the country the state and local agencies responsible for certifying individuals had no idea of what a Targeted Jobs Tax Credit was. Further, when they received the certification forms, they had no idea what they were for and therefore were not certifying anyone as eligible.

--The Department of Labor, which designated the State Employment Security agencies to set up organizational structures to deal with administration and promotion of the program, and certification of eligible workers; then provided SESA's with no funds to carry out these responsibilities.

--CETA prime sponsors were given authority to issue vouchers to the "ex-convict," the Vietnam-era veterans and the youths between 18 and 24 categories. This proved to be a wrong move since many CETA officials feared that wide TJTC utilization by employers would put some CETA programs, most notably "on-the-job training" programs, out of businss.

In an effort to justify their existence, they did very little with TJTC. The same situation exists today.

--The Internal Revenue Service published interim regulatory proposals on April 2, 1979 and held hearings on them at which the Institute testified. As of April 2, 1981, these proposals have not yet been finalized. This delay incidentally, has had the effect of thwarting employer utilization of several categories of otherwise eligible individuals.

--The "red tape" involved in the certification process was enormous just as much for the certifying agency as for the employer and targeted employees. Repeated trips by the employee to the certifying agency were sometimes needed.

At this point, I'd like to share with you remarks by one of our members in California detailing one incident depicting the red tape they faced during the early days of the program:

> "Pursuant to our telephone conversation of April 3, 1979, here is a brief description of my contacts with the State of California Employment Development Department (the EDD). On the morning of April 3rd I contacted the State of California EDD for Orange County (telephone 714/558-4544). I was advised that as of April 3rd Orange County has not yet entered into an agreement with any agencies to issue vouchers. Thus, no vouchers are currently being issued and in fact employers cannot yet determine who will be the issuing agency. Thus, it is currently impossible for us to supply its store management with full information regarding who to contact to obtain the necessary vouchers. The Orange County EDD is presently merely taking the names of employers who contact the Department so that when agreements are entered into, the EDD can get a list of issuing agencies to employers. I understand that the bottleneck with regard to the execution of an agreement with the issuing agencies is concern over potential liability for certification of non-qualified individuals.

"While no agencies in Orange County are currently issuing vouchers, I was advised that in San Diego County there are agencies that are presently able to issue vouchers. Thus, I contacted the EDD office for San Diego County at 714/237-7715 and 714/237-7706. The San Diego County EDD was unable to supply any information but instead it stated they were referring people on to the State of California EDD in Sacramento. The toll free number I was given is 800/952-5606.

"Upon calling Sacramento, I spoke with one Lillian who was quite enthusiastic about the program. However, Lillian advised me that because the program was so new, many of the State of California EDD offices do not yet have the appropriate forms and instructions. I understand that the State office in Sacramento develops the implementing procedures for the Targeted Jobs Credit program and Sacramento now is in the process of informing its local offices of these procedures. It is, of course, the local field of the EDD that is going to have to implement the program as far as employers are concerned. Lillian stated that the delay in implementing the program was due to the slow response on the part of the Internal Revenue Service, but that the program should be gettting into full gear shortly.

"According to the fact sheet currently issued by the EDD, the employer should contact the field office of the EDD nearest to the employer for information as to who in that particular area will be handling certification. The agencies involved will differ in each county and currently there is no plan for a directory of issuing agencies with addresses and telephone numbers. Such directory would of course be of great use to employers doing business throughout the State."

Granted, this confusion over the implementation of the program occurred some time ago. However, our members are still having a host of problems obtaining certifications in California, primarily because the delay in the issuance of regulations by the Internal Revenue Service has created a "Catch-22"-type situation.

The proposed regulations issued by IRS on December 28, 1979, required that in order for cooperative education students to qualify for the TJTC, he or she had to be in a job which was directly related to the course of study. Despite the fact that there were assurances from IRS Commissioner Jerome Kurtz that this provision would be modified (Mr. Kurtz's letter to Senator Richard Stone is attached to our testimony), the California Department of Education is following the original proposal to the letter and will continue to do so until the proposed regulations are final.

The problems our members have and continue to face in California are the exceptions rather than the rule.

In many states, the program has been successful. State officials in Georgia, Kentucky, and other areas of the South made a firm commitment at the beginning to make the entire program a success, and they accomplished that goal. In Georgia, for example, a TJTC coordinator was assigned to each key Employment Services office. Those coordinators visited plants, factories and businesses to talk with employers and employees alike. Many eligible individuals were certified right at the job site.

Before concluding, we would like to make one more comment about complaints from critics about employer "windfalls".

We are in a "damned if we do and damned if we do not" situation regarding utilization of the Targeted Jobs Tax Credit. If a company makes extensive use of the program and receives a large amount of tax credit, the company is accused of taking unfair advantage of the program. If a company does little to utlize the program, it is accused of not caring about structural unemployment. There is no happy medium.

The Targeted Jobs Tax Credit is as much a "windfall" to employers in labor-intensive industries as the Investment Tax Credit is to capital intensive industry.

WORK STUDY STUDENTS SHOULD NOT BE REMOVED FROM TARGETED JOBS TAX CREDIT

There are also arguments, quite possibly some of them will be raised today, that the category of "students between the ages of 16-19 years in qualified cooperative education programs" should be eliminated. The arguments will be made that this specific category is used too widely and effectively. Some will also say that cooperative education students are not necessarily disadvantaged. Again, some will argue that allowing cooperative education students to be certified has resulted in a "windfall to employers."

These arguments are specious to say the least. In fact, they should carry litte weight at these hearings.

Like those who will want to eliminate the cooperative education student category, we also are aware that this is the most widely-used category. Where we differ is in the reasons.

The bottom line is that the cooperative education category is the most successful because the schools and their TJTC coordinators did the best job, since the inception of the program, to link eligible students with job openings, to promote the program and to expedite certification of eligible individuals. If we are to tell these coordinators that they did such a good job in the last three years in finding jobs for their students that they can no longer participate in the program, it would be a crime.

We also believe that those who say that cooperative education students are not necessarily "disadvantaged" have carefully avoided the facts.

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The work-study program is not in the traditional high-school mold. It mixes work experience with classroom study for one specific reason: to keep that student in the classroom! Without the work-study program, many of these participating students would have dropped out long ago.

The typical work study student is from a low income family. A 1975 survey of post high-school work study students indicated that 77.7 percent of the students were from families with income levels below $12,000 yearly. A 1976 survey in eight Southern states indicated that 65 percent of the high school work study students were from families with income of $10,000 or less. Moreover, many work study students are dropouts who have been persuaded to return to school. The work-study program encourages the return to school and employment of dropouts. It recognizes that a young person, perhaps struggling in school with a full-time curricula, can be easily led by his or her peers, or by the lure of earning money.

Again we will hear that trite "windfall" argument. As a Senator, and as a member of the House of Representatives before that, how many times have you heard of the term "loophole." Some provision may have been part of the tax code for fifteen or twenty years. It becomes a "loophole" when people start using it. The same can be said for the Targeted Jobs Tax Credit. It becomes a "windfall" to employers when employers start qualifying for it by hiring persons whom Congress believes deserves a little help on to the economic ladder. Isn't that why Congress passed this law in the first place?

Let me relate to you some information. Recently, I had the opportunity to review an Annual Report of a restaurant company -- a non-member of the Foodservice and Lodging Institute -- who is a competitor of my friends from KFC here today. That company too, sells chicken. These stores are located in predominantly low and lower-middle income areas and they hire, even prior to the credit, predominantly disadvantaged kids from the local neighborhoods. They made a bundle of money utilizing the credit. But they also hired a heck of a lot of disadvantaged ghetto kids, giving to them their first taste of self-respect and gainful employment and a steady income.

Isn't that what the Targeted Jobs Tax Credit is all about?

CONCLUSION

For years there was a bias in the nation's tax law against labor. An individual making a gross salary of $10,000 costs his employer a minimum of $10,985 because of employer-paid social security taxes and unemployment compensation. Add to that the costs of various fringes, including hospitalization insurance, life insurance, etc., and this gross labor cost to the employer builds rapidly. The Targeted Jobs Tax Credit lowers that cost of labor significantly and reduces the distortions between labor intensive and capital intensive industries.

It has done a good job and, if extended and modified, it will do a better job in the next three years.

The Foodservice and Lodging Institute thanks the Subcommittee for this opportunity. We would be happy to answer any questions.

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

February 26, 1980

Honorable Richard B. Stone
United States Senate
Washington, DC 20510

Dear Senator Stone:

You have raised a question of whether Section 51 (d)(8) of the targeted jobs credit as applied to youths participating in qualified cooperative educational programs, requires that the youths employment be in the same field as his vocational training. You suggested that our regulations require, for example, that if a student is taking vocational training in carpentry his employment will only qualify for the credit if it is in the field of carpentry. Our regulations are not intended to impose any such rigid requirement. They intend only to reflect the provision of the law, Section 51(d)(8)(B) which says "but only if these two experiences /education and employment/ are planned by the school and employer so that each contributes to the student's education and employability

The final regulations will make clear that such test may be met through a variety of employments which need not be in the same technical field as the vocational education.

With best regards,

Sincerely yours,

Department of the Treasury Internal Revenue Service

BEST COPY AVAILABLE

Summary of KFC-FLAG Testimony
Before
U.S. Senate Subcommittee on Economic Growth
On
April 3, 1981

The 900 Kentucky Fried Chicken franchisees, who operate more than 3700 stores nationwide and employee 60,000 people, support the extension and expansion of Targeted Jobs Tax Credit program to increase employment among disadvantaged youth.

The KFC system is expected to employ some 13,500 people under TJTC.

The TJTC program gives KFC operators incentive to hire disadvantged youths who might not otherwise be competitive. TJTC can help the nation avoid development of a permanent underclass as predicted by many social scientists. Simply extending the TJTC law would be excellent, but TJTC could be even more effective.

KFC's Franchisee Legislative Action Group (FLAG) recommends several improvements to TJTC.

1. Streamline the program so applicants go only to one office for certification.
2. Provide a training program for state TJTC interviewers.
3. Standardize paperwork to facilitate processing by multi-state employers.
4. Use only one form to voucher and certify which will be signed by interviewer and employer.
5. Train co-op education counselors on how to fill out the TJTC paperwork.
6. Remove age limit. An unemployed 25-year-old is just as desperate and hungry as an unemployed 24-year-old.
7. Allow displaced federal and state employees to qualify.
8. Allow the 200,000 CETA employees who soon will be without jobs to qualify under TJTC.

MARSHALL SCOTT TESTIMONY

April 3, 1981

Good afternoon. Mr. Chairman and members of the Subcommittee on Economic Growth, my name is Marshall Scott and I am the operator of 10 Kentucky Fried Chicken restaurants in St. Louis, Missouri. I am also a vice chairman of the Franchisee Legislative Action Group (FLAG) composed of Kentucky Fried Chicken's operators nationwide.

Also with me today is Ms. Darlene Pfeiffer, a Kentucky Fried Chicken franchisee from Kingston, New York. Ms. Pfeiffer owns three Kentucky Fried Chicken restaurants and has been using the Targeted Jobs Tax Credit program since its enception. She is prepared to comment on the time and personal efforts she has spent working her way through the certification process for her employees.

As you may know, there are some 900 KFC franchisees -- all members of FLAG -- who operate more than 3,700 units and employ some 60,000 people.

At the request of our state, regional and natonal officers I am representing FLAG and Kentucky Fried Chicken franchisees across the country at this hearing.

KFC franchisees support the extension and expansion of the Targeted Jobs Tax Credit program.

TJTC can work to increase employment among disadvantaged youths. As you know, the unemployment rate among teenage blacks is a horrendous 60 percent.

It wasn't possible within the time allowed to gather statistics from all franchisees, but we can glean some idea of how effective this can be from looking at results being realized by our franchisor, KFC Corporation, which operates 775 stores in this country.

Although KFC only began using the TJTC program in January, the number of certified employees in Atlanta, Chicago and Detroit, for instance, has increased 50 percent. At the start of the program, less than 20 percent of employees qualified under the provisions of the TJTC act. Now more than 30 percent qualify. And by June 30, the company predicts that more than 50 percent of new hires will be TJTC certified.

The company projects that it will have between 1,500 and 2,500 employees under the TJTC program by mid-year. By extension, the entire KFC system will be employing some 13,500 people. And we are just one chain.

The KFC system is only now becoming aware of the program. Our franchisor tested the program during the winter and told the franchisees about the program at our annual meeting in March. It is in the process of holding field seminars for franchisees.

There is some feeling, as I understand it, that TJTC hasn't been a success. Certainly, if my fellow franchisees and I had been aware of the program we would have used it. I have put the wheels in motion in my own organization to recruit TJTC candidates. Many of my fellow franchisees have had some experience with TJTC and they support the program fully.

TJTC gives employers like me an incentive to hire disadvantaged youths who might not otherwise be competitive. It gives them job skills and an opportunity to get a toe in the mainstream of the American economy. They learn how to take direction, work with peers, and handle their own and others' money.

Not all TJTC jobs are entry level. The KFC system is hiring more and more manager trainees who are TJTC certified. Our short experience shows that of the new hires under the TJTC program, 69 percent were economically disadvantaged youths, 29 percent were from qualified high school cooperative education programs, and the remaining two percent were Vietnam-era veterans or ex-offenders.

It's through programs such as this that we can help avoid having a permanent underclass that many social scientists are forecasting.

Simply extending the TJTC law would be an excellent move, but TJTC could be made even more effective if the vouchering certification process were streamlined and standardized.

In some states, the CETA people are screening and interviewing, but the state Jobs Centers do the certifying. In at least one city in Texas, CETA interviewers improperly apply CETA qualifications to TJTC candidates. Potential employees have been required to bring birth certificates for the entire family to verify how many were in the family and to prove their own age. Most other places, a driver's license is enough proof of age.

In some areas, vouchering is more trouble than it is worth. From the potential employee's point of view, it's a hassle to have to go to two or three different offices to get certificated.

Turnover of government TJTC personnel has caused problems in some states. New TJTC people usually have very little knowledge of the program. As a result, the company reports, it spends a lot of time educating government TJTC people about their own program.

There's a lack of standardization on which programs are qualified. In California, for instance, TJTC has taken the astounding position that working in food service production and sales in KFC stores will not qualify for theri co-op work experience program. This in spite of the fact that food service is the largest single employer in the country.

In some states, we cannot get interviews unless we first obtain family and income information from employees. Some families are understandably reluctant to give that to their potential employer. And this would seem more reasonably to be the responsibility of Job Service.

KFC's FLAG organization has several recommendations to improve utilization of the program by private industry.

1. Streamline the program so the applicant goes only to one office to become certified.
2. Provide a training program for state TJTC interviewers.
3. Standardize the paperwork to facilitate processing by multi-state operators.
4. Have only one piece of paper to voucher and certify, which will be signed by the interviewer and the employer.
5. Provide co-op education counselors with training about the program and how to fill out the paperwork.

FLAG also has some suggestions about ways to make the TJTC program more equitable and valuable.

1. Remove the age limit. A 25-year-old without a job is just as desperate and hungry as a 24-year-old without a job. Maybe more so.

2. Allow displaced federal and state employees to qualify.
3. Allow the 200,000 CETA employees, who will soon be without jobs, to qualify for TJTC.

The private sector is willing and able to take up some of the slack in helping the disadvantaged find jobs. Recognizing that, in the short term at least, many of these employees are not as productive and that they take more training, business needs some incentive. Otherwise productivity and efficiency will decline, placing it at a disadvantage from competitors who hire fully qualifed people going in.

In summary, TJTC can work and is working. It could do more and better.

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SUMMARY

Statement of James E. Bartlett, Atlanta, Georgia

I can best translate my experience with the Tax Credit Programs during my ES and private sector employment in terms of "lessons learned."

- The ability of the Employment Service to conduct the program has shown constant improvement.

- Private sector skepticism is rapidly being overcome, largely because of tax credit benefits gained from the retroactive area of the program.

- The degree of cooperation and coordination between ES offices and other agencies involved with targeted groups varies greatly from location to location.

- The TJTC program relates mainly to youth and Vietnam era veteran targeted groups. Employers often reject the program as it appears to focus on least desirable employees.

- The retroactive aspects of the program are creating an increasing workload for ES, which they are not staffed to handle.

Overall Recommendations: Extend the TJTC program and expand it through the following actions:

1. Eliminate SSI recipients. Add older workers, 45 and over, who meet economic disadvantaged criteria.

2. Include all handicapped persons (criteria to be determined) who meet economic disadvantaged criteria.

3. Modify veteran category to include all veterans either economically disadvantaged or specially disabled with 30% or more disability. (Eliminate dishonorable discharges.)

4. Eliminate General Assistance Category and replace with all AFDC recipients.

5. Modify ex-felon category to include all current participants in government operated work-release programs meeting economic disadvantaged criteria.

My name is James E. Bartlett. I am an Employment Generalist currently retained as a Tax Credit Consultant by Munford, Inc., of Atlanta, Georgia. In this brief paper I shall attempt to relate my experience with, and lessons learned from, the three major Tax Credits Programs stemming from the Revenue Act of 1978. I shall present some recommendations which I hope will assist the Committee.

Munford, Inc., consists of approximately 1,200 convenience stores known as Majik Markets. The World Bazaar Division operates or franchises 165 Specialty Gifts stores. Dry Storage Warehouses and Distribution Centers support the corporate operations. There are additional holdings and properties. The Corporation operates in twenty-six (26) states and has approximately 9,000 full-time employees. With consideration for turnover, seasonal, temporary and part-time positions, the annual personnel requirements exceed 25,000 people.

I was retained by Munford to develop programs to maximize the acquisition of tax credits and improve relations with government agencies serving as personnel resources. Prior to my work with Munford I had worked for the Georgia Department of Labor (ES). I was involved almost exclusively in the TJTC program from March 1979 until my resignation in October 1980. From November 1, 1980, to February 1, 1981, I contacted TJTC, WIN and Health and Human Services offices in Washington. I worked down to Regional and State levels in order to develop a concept of mutual cooperation and make contacts. A corporate policy was developed based on a two-way street concept. Munford could best gain assistance by cooperating with the agencies involved to the fullest extent possible. Emphasis was placed on communications at the local level with State Employment Service offices. Management at Division, Region and District levels received orientation and instruction in the operation of ES, particularly placement activity. As of February 1, 1981, it has become mandatory that all job vacancies in the corporation be placed with ES Job Service. All managers are required to establish contact and counsel with ES Local Office Managers in their operational areas.

To date over 100 job orders have been placed. Approximately 300 hires were made in February and early March, including over 100 TJTC eligible personnel. The program is expanding rapidly. Munford is benefitting from the retroactive aspects of the TJTC program and has acquired over 400 certifications since July 1980. The retroactive activity led directly to the current program. The corporation is involved with several OJT programs and is attempting to recruit WIN registrants. AFDC recipients have been hired and we are looking for all we can get who meet our job qualifications.

While with ES I promoted (sold) the program to all areas of the business community. I worked closely with Vocation and Offender Rehabilitation Services, the VA, SBA and CETA subcontractors such as the Urban League and OIC and various unions. I made over 500 TJTC presentations to employers and interviewed thousands of employees and job applicants for eligibility determination.

I can best translate my experience with the Tax Credit Programs during both my ES and private sector employment in terms of "lessons learned."

- The ability of the Employment Service to conduct the program has shown constant improvement.
- Private sector skepticism is rapidly being overcome, largely because of tax credit benefits gained from the retroactive area of the program.
- The degree of cooperation and coordination between ES offices and other agencies involved with targeted groups varies greatly from location to location.
- The TJTC Program relates mainly to youth and Vietnam era veteran targeted groups. Employers often reject the program as it appears to focus on least desirable employees.
- The retroactive aspects of the program are creating an increasing workload for ES, which they are not staffed to handle.

Overall Recommendation: Extend the TJTC program and expand it through the following actions:

1. Eliminate SSI recipients. Add older workers, 45 and over, who meet economic disadvantaged criteria.
2. Included all handicapped persons (criteria to be determined) who meet economic disadvantaged criteria.
3. Modify veteran category to include all veterans either economically disadvantaged or specially disabled with 30% or more disability. (Eliminate dishonorable discharges.)
4. Eliminate General Assistance Category and replace with all AFDC recipients.
5. Modify ex-felon category to include all current participants in government operated work release programs meeting economic disadvantaged criteria.

Mr. GRAVES. Our last panel consists of Dr. Stuart Butler and Mr. John Bishop.

Gentlemen, first of all, let me thank you for your patience. I know we've gone a little longer than we intended. I hope we haven't inconvenienced you.

Dr. Butler, please proceed.

STATEMENTS OF A PANEL CONSISTING OF STUART M. BUTLER, THE HERITAGE FOUNDATION, WASHINGTON, D.C., AND JOHN BISHOP, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN, MADISON, WIS.

Mr. BUTLER. Thank you, Mr. Chairman, I appreciate the opportunity to testify before the subcommittee.

I have a prepared statement, which I would like to have inserted in the record.

Senator HEINZ. Without objection, the entire statement will be a part of the record.

Mr. BUTLER. I would just like to make a few comments based on that prior to questions.

My experience in examining the whole issue of job creation stems from my interest in the problem of very depressed urban areas, and, in particuar, work that I've done associated with the concept that has become known as the enterprise zone.

Although I have not made a precise study of the targeted jobs tax credit, the experience and the information that I've gathered in examining depressed urban areas makes me very skeptical of the program as a general program to improve employment. I think that the problems in the city areas that I am more familiar with are merely an extreme form of the general problem that pervades the country of unemployment and I think it's important to appreciate the type of employers that do exist within the depressed areas of cities in producing new employment.

In particular, new small businesses are by far the greatest creators of new employment. This is generally true across the whole country, as David Birch of MIT has shown. Something like 66 percent of new—net new jobs come from businesses of less than 20 people. And he's also shown that in cases in the most depressed areas, in most declining cities, that proportion is even higher. And that the problem within these areas is that—is not so much that existing companies are not going fast enough, or that they're moving out of these areas, but that the birth rate of new companies is extremely low.

The problem, in other words, in these areas of very high concentrations of unemployment is that the establishment of new companies is extremely low and that is the basic problem. And various studies of these types of businesses have shown that the major problem that they face tends to be acquisition of capital that is taxed as such is very low priority in terms of their problems and that, therefore, mechanisms that relate to the tax base are less likely to be effective in encouraging them to start and to grow.

We should be looking at rather different mechanisms. The small tax base that these new small businesses do have, I think, would severely limit any kind of program that aims at reducing the tax burden as such on new small businesses.

Also, I should point out that such small businesses have a very poor record in terms of dealing with Government agencies, the very kinds of people that tend to go into business for the first time, new entrepreneurs are not the kind of people that tend to take advantage of many programs that are in existence, and I think that the statement from the Treasury pointed out that the very low takeup of the tax credit among very small companies, I think, shows this very clearly.

So, I think there is a certain, very important general conclusion that comes from any analysis of the types of firms that do create jobs in very depressed areas. They tend to be new small firms. They tend to have a very low tax base and they also tend to be firms that don't sit well with the complexity of Government and, therefore, any type of program aiming to generate employment through Government programs based on the tax base are less likely to be effective than other types.

So, it seems to me that the targeted jobs tax credit is unlikely to be very effective as a long-term creator of new employment. It may have certain benefits for certain types of categories of a hard-core unemployed although I noticed that most of the people preceding me have suggested extending this to ever-increasing numbers of categories. One wonders at what point this process should end.

I think it is also important that even if one can show some improvement of employment as a result of the tax credit, one should balance this, of course, against the disincentive effects of having to apply taxes elsewhere to raise the revenue for that type of program and the broad effect that has on employment.

My broad conclusion is that we should be looking much more in terms of mechanisms that facilitate the creation of new small businesses rather than looking at mechanisms that encourage existing businesses to hire more people. Certainly my line of analysis in looking at the enterprise zone has been primarily to look at mechanisms of doing that.

My broad feeling is that incentives that apply much more to investors in small companies, to encourage them to put capital into new ventures to create new business in that is far more likely to be effective in generating employment among the structurally unemployed, and the very severe cases of unemployment than any kind of tax credit approach.

Senator HEINZ. Thank you for your statement, Dr. Butler. Mr. Bishop, you may proceed. I understand you have a written statement, and without objection, it will be entered into the record.

Mr. BISHOP. Thank you.

My name is John Bishop, as a project associate at the Institute for Research on Poverty at Wisconsin, I have been doing research on these private sector employment subsidies for a number of years.

Let me start with a standard disclaimer that I'm speaking for myself and not for anyone who employs me, or who has funded my research.

Theory predicted, and experience has shown that policies like local public works, public sector employment and transfer payments for the able-bodied distort the economy and waste money.

Theory predicted, and experience has shown, I feel, that well-designed employment tax credits are extremely effective methods of increasing employment of the disadvantaged and reducing total unemployment.

We now have the experience with three tax credit schemes and there are some important lessons to be learned. A tax credit for general expansions in employment for which employers can calculate and certify their own eligibility will very quickly achieve a very high participation rate.

More than 50 percent of those eligible employers—1.1 million—received the new jobs tax credit in the second year of that program. That is more than 30 percent of all employers in the Nation.

Employers do expand employment and cut prices in response to such a tax credit. There have been three studies of the new jobs tax credit and they have all found that there was an increase in employment in the firms that used or knew of the program. The estimate is between 300,000 and 700,000 jobs.

The only study that has examined prices found an effect in lowering prices of $4 to $7 billion, which is approximately the order of magnitude of the tax credit handed out.

There is a danger, however, that employment and output expansion produced by a program like the new jobs tax credit that was not targeted will, if labor markets are tight, cause an acceleration of wage increases and there is some evidence that that may have occurred in the course of the new jobs tax credit even while price increases are going down.

That might mean that in the long run you haven't achieved any benefits on the inflation front.

Now, what have we learned about the targeted programs? A tax credit for employing stigmatized target groups will not quickly attract the participation of many employers. We've had WIN. In fact, WIN has been underway for 10 years and it hasn't achieved a high rate of utilization, though I'll talk about why that is the case in a second.

The second thing we've learned is that complicated eligibility rules and the resulting necessity of Government certification of a worker's eligibility rather than employer's certification, with audit, is a substantial barrier to a program's effectiveness.

Finally, the necessity of Government involvement means that if the Government bureaucrats who administer the program fail, the program fails. That is all too common.

Your example of the discussion you had with someone—an employer in the State and his attitude toward the Employment Service, when that is the attitude, and it is very prevalent in the Nation as a whole toward the Government agencies that are attempting to elicit the cooperation of the employers, you're not—you have a big barrier to overcome and they don't believe paperwork is small on this program even though once people have started using it, it does turn out to not be too difficult.

But up front they think it is going to be very complicated.

These problems with the targeted programs have resulted in only 10 percent or less of the employed TJTC eligibles being certified and 20 pecent or less of the WIN eligibles.

The reason for that is employer lack of knowledge. Less than 16 or 17 or 18 percent, or so, of firms are even aware of TJTC. The WIN placement officers, who are helping WIN people find jobs do not, in most cases, tell the employer that they are eligible for a WIN tax credit. The employer does not know, has not heard of, or does not think of the program.

In most Employment Service offices, they are not routinely vouchering people who come into the office who are eligible. They do not voucher someone until they have a placement arranged, where an employer has asked for a TJTC employee. So that the process by which this—the word is getting out, or as the word gets to an employer that an individual who is eligible is not, as many of your questions have reflected, that people are walking around with vouchers telling employers, "I am eligible, why don't your hire me?"

That is a very minor part of the whole process partly because workers are reluctant to tell employers that they have these stigmatizing characteristics and their honor leads them to want to get the job on their own. Many employment and training peopole who are advising people how to search for work feel it is a bad idea to tell people about TJTC; they want people to get the job on their own.

The way it works is that employers find out about it and they start—well, the five people that I hired last time, two of them were eligible, they looked like that, and next time I'll watch for people who look like that. The general impression as to who is eligible is not—they don't know the specific rules, it's minorities. It is the general characterization like that.

So if the program has an effect, it doesn't necessarily have an effect through the employer knowing in advance of hiring somebody that that individual is eligible.

The way an effect might occur is through a general impression that people of a particular class are eligible and then certification and the vouchering process will often occur.

Senator HEINZ. If I may interrupt.

Mr. BISHOP. Yes.

Senator HEINZ. Reversing people's hangups about targeted groups is very important.

Mr. BISHOP. Yes.

Then that is exactly—in fact, the extent the program is going to have a good effect, and that is a good impact of the program that is the way it's going to happen because the Employment Service is a rather unimportant part of the total process by which people find jobs. Only 5 percent of the jobs that are found are found through the Employment Service, or through other Government agencies. So, referrals from Government agencies are a very minor portion of all jobs that people get. So a program that requires a referral inevitably limits its scale and that's the major reason why this program, and WIN preceding, have been very small.

The other is that you had two of the better Employment Service people who are really pushing the program. In other States, in our State, Wisconsin, for instance, the head of the Employment Service is opposed to the program and puts no resources of their own into the program, only the resources that the Federal Government gave them are committed to the program. So if that is the message coming from up above, you know, very little gets done down below.

If the particular person in a local area feels—thinks that the program is great, they can get the utilization rate of the program up about 10 times what it is in the rest of the State.

In Georgia, Georgia's utilization rate is around eight times what it is in California, for instance. So where people really want to make the program work, they can.

So those are my comments about the program, as it operates, and the preceding program. There are three options that I want to suggest or recommend.

If you decide to stick with a program like TJTC, I think you need to set up a reward system. This system of accounting, the ESAR system, which rewards local offices for what they are doing, doesn't currently reward them for TJTC vouchering and certification. So, all their incentive system is oriented toward other things and so TJTC tends to get shortchanged unless the people feel that it can be used as an advertising and as a entree to employers. That is the case in some States and not the case in other States.

But something specifically needs to be done to encourage the local offices to promote the program, and that is the most crucial thing of all.

A time limit on how long after hiring certification occurs would be desirable. Including adults who are disadvantaged, as well as just youth, is also desirable. I see no point in limiting it to youth and leaving out the parents.

You have been asking about high school work study students. You could target that more effectively by limiting it to high schools that have high numbers of low-income students, or you could require they be economically disadvantaged. When you do that, however, you are increasing greatly the complexity of the program which is one of the things that I think is wrong with it.

While improving the administration could maybe double or triple utilization, it can't get the utilization up to 50 or 60 or 70 or 80 percent. Another type of program could do that and there are two types that I would like to suggest. One is revising and expanding the earned income tax credit by making it a function of the hours worked and the difference between the worker's wage and the target wage of, say, $7 an hour. The current EITC raises the marginal tax rate faced by many lower income families and dicourages their work effort. This is above the kink point in the EITC.

The proposed EITC that I'm talking about would raise the average and marginal return to working for everyone benefiting from the program. It also better targets on the truly needy for it helps most of those families that work hard, but are poor nevertheless, because they work at such low wage rates and avoids helping the high-wage worker who works only part of the year and is getting unemployment insurance.

The other approach is to go back to something like the new jobs tax credit, but to target it much better, and to design it better and set it up so that it lasts for a couple of years.

Targeting would be wage rate and possibly by location of the enterprise.

One could pick out enterprise zones and expansions of employment in this area would receive subsidy. I would recommend this tax credit be equal to $1 for every extra hour worked by people in the firm, let's say, in 1982 over 1980, subject to a take back of some portion of the tax credit if the firm's average wage is more than 18 percent above its 1980 average.

There would be a similar determination for 1983 when subsidy threshold would be the higher of 1980 or 1982 total hours worked and the take back would be for increases in the wage rate above 25 percent above 1980.

The take-back is an important targeting device for it means that overtime labor receives a lower subsidy, and it also means that low wage workers effectively bring more subsidy to the firm.

When a firm hires a worker lower than average in wage rate for its firm, it gets more than $1 an hour in effective tax credit.

Another effect of the take-back is that it discourages firms from raising wages, which was, as I pointed out before, the danger that was inherent in the new jobs tax credit and I think the primary reason why the new jobs tax credit was not extended. It was a general employment stimulus introduced at a time when the economy had lot of slack, but by the time it was coming up for renewal, we had gotten down to 6 percent unemployment and that was considered full employment and it wasn't thought desirable to continue a general employment stimulus at that time. But if you put on this take-back, as well as targeting it further by making it a function of hours worked and not a function of the FUTA wage base, I think you would have a targeted program that would gain within 3 years, it would have 50 or 70, or so percent of the firms in the Nation would be receiving something. It would cost around $6 billion, something like that.

Senator HEINZ. Dr. Butler, what do you think of two alternatives proposed by Mr. Bishop?

Mr. BUTLER. Well, I would at this stage be very skeptical about an extension of the program. The idea of adding some form of tax credit to an enterprise zone is at least something that should be attempted and experimented with. I would have no problem with that, although I don't believe it would be a very successful experiment.

But in terms of expanding the program generally, I feel that it would be folly to do that. If we are going to extend the program, it should be very much on an experimental basis so that we can get a fuller set of figures as to precisely how the program is working. I don't believe in any way that the program has been shown indisputably to be successful.

Senator HEINZ. Dr. Butler, let's focus on enterprise zones. You indicated in your statement that you were thinking in terms of tax incentives for investment in enterprise zones. What is your current thinking on this?

Mr. BUTLER. Well, let me just emphasize that the reason I think that is important is as that as the National Federation of Independent Businesses, and many other small business groups have argued, that tax credits for businesses are not very effective to them in terms of starting——

Senator HEINZ. It's true they don't pay a lot in taxes at first.

Mr. BUTLER [continuing]. And capital is the problem. My thinking runs along various lines there that I think ought to be tried on an experimental basis. One might be, for exmaple, to allow a deferment of capital gains tax on an investment in a small company in a selected area for an experiment providing that when that investment is liquidated it is put into another small business, much as we do with housing. I think that that would be an approach.

Senator HEINZ. Why not eliminate the capital gains tax on the sale of small businesses with a zone?

Mr. BUTLER. That would be another possibility, although, of course, you could argue that at least in the long run you would be getting something by just deferring it, but if the investor finally decides to pull out of the area, he, in a sense, suffers a disincentive, and that you end up getting something in terms of tax revenue from him. But other than that, I would have to——

Senator HEINZ. Of course, for every seller there must be a buyer, and he is putting his capital in.

Why is the person who is pulling out doing something wrong?

Mr. BUTLER [continuing]. Well, you are really arguing with somebody that doesn't want an argument on this issue. I don't feel very strongly one way or the other about that. I'm merely taking a more liberal position in terms of suggesting only a deferment rather than an elimination.

I think also another possibility might be to examine means whereby credits that are available in theory to a firm but which does not have tax base to enjoy them, might be passed through in some manner to the investor in that firm.

Recently—in the last budget that was announced in Britain, which I have not had a chance to study carefully, there was such a program suggested there, whereby credits available would be able to be passed through to an investor on a very experimental basis.

Senator HEINZ. Isn't there a precedent for this? In subchapter S corporations losses are passed through to shareholders as if they were partners instead.

Mr. BUTLER. Yes; some tax experts suggest that it is an extension of subchapter S to a much wider base locating particularly in enterprise zones as an experiment might be a very sensible way of approaching it.

Those kinds of measures are the ones that we should be looking at.

Senator HEINZ. I beg your pardon?

Mr. BUTLER. I said, I believe that type of approach is the one that we should be looking at rather than a credit that applies to the company itself.

Senator HEINZ. Another approach would permit firms without income tax liability to offset payroll taxes instead. This would have to be done in a careful fashion, however.

Mr. BUTLER. Yes; that would be, I guess, more effective than just a standard job tax credit. And, of course, the original Kemp-Garcia bill, to create enterprise zones went along the route of exempting, or reducing social security tax. That was a tax——

Senator HEINZ. That approach might aggravate the insolvency problems facing the social security trust funds.

Mr. BUTLER [continuing]. Required general revenues to reimburse the funds but the idea of tampering with the fund caused, I think, caused a good deal of concern among many sections.

George Sterning of Rutgers University, did a study on this which suggested that the impact of that on low income workers, disadvantaged workers would be very minimal and that the greatest benefits would be achieved by those on higher income levels. That could be corrected to some extent, but one hesitates to move to something which becomes more complicated because I think one of the big problems is not just access to capital and so forth in terms of creating new businesses, but the complexity of doing so. I think one of the major criticisms of the targeted jobs tax credit is that more and more you try and target it precisely, the more complicated it necessarily becomes. I think that you will find the takeup rate declining even more among smaller businesses.

Senator HEINZ. The targeted jobs tax credit, enterprise zones, and the general economic program have different objectives. Enterprise zones are, in a sense, the equivalent of 10/5/3 and Roth-Kemp, but targeted only at small businesses in distressed areas.

Targeted jobs tax credits, are aimed at helping people who might otherwise be left in a lurch.

Do you think that we need a program to go and identify the more difficult to employ and to try and bring them into the work force?

Mr. BUTLER. My feeling is that the route to do that would be through a general improvement in the economy.

I feel that all approaches that are targeted for selected groups of people are very difficult to achieve great success particularly for those people who are generally employed by smaller businesses. You have a very severe tradeoff. The more and more you try and make the program efficient, the less and less it is acceptable to the very type of people who are going to create the jobs.

So, in principle—from a philosophical point of view, if you'd like, I would not have a great problem with the idea of something aimed at the most unemployable people. But in practice, it is going to be extremely important.

The enterprise zone is merely, really a way of looking at areas where there is undoubtedly a very high concentration of unemployment. And something which may have in a more diluted form, an application across the whole country.

Senator HEINZ. Mr. Bishop, you suggested that there should be incentives given to State employment agencies to make targeted jobs tax credit, or a similar idea, work if we decide to retain it. You cited Wisconsin, your own State, where the Bureau of State Employment Security was opposed to the targeted jobs tax credit.

What kind of incentive would you propose?

Mr. BISHOP. The State Employment Service has a very complicated system of rewarding and allocating budget that depends upon activities and placements. They get rewarded for WIN placements, for instance. They get rewarded if they arrange a CETA OJT contract.

It turns out that when you look at the data, that the incidence of use of CETA OJT and WIN goes up terrifically if an employer reports using the State Employment Service.

It doesn't significantly go up if the use of TJTC does not go up.

Senator HEINZ. Yes.

Mr. BISHOP. When you report the use of the State Employment Service.

Senator HEINZ. That was touched upon by one of our witnesses. I think it was Mr. Bartlett.

Mr. BISHOP. Right.

I want to support what he said in that regard. And the thing that—the program is self-limited. I agree with many of your comments. The very desire to target and pick out the most disadvantaged people creates the problem because you've—that group of people are stigmatized and the employers don't—don't think of calling up and saying please send me a disadvantaged ex-con. I mean, that's not the kind of person you would imagine. These people get jobs by not telling their prospective employers their characteristics.

Senator HEINZ. You've made that point before. I've heard it. How do you know this is the case? How do you know that they do not tell people?

Mr. BISHOP. Tell?

Senator HEINZ. Yes.

Mr. BISHOP. We haven't heard any employer tell us that they've had somebody come up and tell them about it.

Senator HEINZ. Have you asked them?

Mr. BISHOP. That they are eligible. Well, we've had a few, but it is not very common at all.

Senator HEINZ. But the way you obtain this information is significant.

Were you asking employers——

Mr. BISHOP. Yes.

Senator HEINZ [continuing]. Specifically, how often do vouchered individuals inform potential employers of their eligibility status?

Mr. BISHOP. We would like to ask that in a later survey, but whether that gets funded——

Senator HEINZ. It seems to me that unless you confront that question directly——

Mr. BISHOP. Yes.

Senator HEINZ [continuing]. This stigmatizing theory cannot be verified or invalidated, either.

Mr. BISHOP. I agree. More research needs to be done.

Senator HEINZ. Spoken like a true researcher.

Mr. BISHOP. Yes; these kinds of reports come from talking to the people who deal with the clients and the clients tell them why they are not using it as a technique.

The various job search assistance programs that I have had some contact with, their philosophy is not to press this.

It is something that it would be desirable to find out if we were to train people looking for work to use this as a selling tool. Will it work? Will it actually hurt their chances? It is possible. That seems to be a lot of people's belief.

So, I think it is something that we definitely need to know more about, but right now.

Senator HEINZ. Mr. Bishop and Dr. Butler, thank you very much for your helpful testimony. It has been provocative and useful.

[The prepared statements of the preceding panel follow:]

STATEMENT OF STUART BUTLER, THE HERITAGE FOUNDATION

My main area of interest in the last year has been the problem of unemployment and enterprise creation in highly depressed urban areas. I will examine the broad issue of employment subsidies and job creation from that perspective. I feel this is a very important perspective, not only because such areas are characterized by very high rates of unemployent among young and unskilled people, but also because the lack of jobs presents an explosive social problem that must be tackled.

In assessing the potential of mechanisms aimed at encouraging firms to create employment in distressed neighborhoods, it is necessary to examine what types of employers actually do provide employment in these areas. Work by David Birch at MIT, and others, sheds light on this question. Birch examined the process of job generation in the United States, drawing on the employment records of over 5 million businesses, accounting for about 80 percent of all private sector employment. He found that for the whole country, two-thirds of all net new jobs are created by businesses of less than 20 employees. Moreover, in the more depressed regions of the country, Birch discovered that small companies account for all the net increase in employment that occurs. Large corporations, as a whole, show a steady net reduction in employment. In general, Birch found, the more depressed an urban area is and the more the population consists of minority groups, the more it is the case that very small companies create the only jobs that do appear.

The nature of the small firms that generate most of the employment is also important. In the main they are independent firms, rather than branches. They tend to be very young, volatile companies. They run a high risk of failure, but if they survive the first few years, they usually expand rapidly. They also tend to be in the service sector, employing people with below average skills, rather than manufacturing companies requiring more skilled employees.

The use of employment subsidies to encourage such firms to increase the number of people they employ presents certain problems. The new firms increase the number of people they employ presents certain problems. The new firms that do generate the most jobs often have a very low tax burden. A recent survey by the National Federation of Independent Business, for instance, revealed that taxation is not a significant problem for new, small companies in urban areas—it ranked seventh out of 10 as a perceived obstacle to growth. Lack of capital is the principal problem such companies face. Thus, a subsidy which takes the form of a tax credit is not likely to have much of an impact on the hiring decisions of the firms most likely to create employment in depressed areas. It may be argued that the logical conclusion would therefore be to provide a subsidy to smaller firms in the form of a refundable tax credit, or some other form of direct cash payment to the employer.

But even if some direct form of subsidy is used, it is debatable whether it is the most effective means of securing increased employment in depressed areas. If the effect of a subsidy is merely to artificially reduce the cost of unskilled and low skilled labor, such that marginally productive workers are added to the payroll, then the recipient employer is unlikely to continue employing these workers when the subsidy is withdrawn. Some would argue that to avoid either the firing of workers when the subsidy ends, or the extension of the subsidy without any time limit, there should be a requirement that the firm must provide a training program as a condition for receipt of the employment subsidy. But most small companies do not have a formal training program, or the means to provide one. Such a requirement would therefore tend to cancel out the hiring incentive offered by the subsidy.

The employment-subsidy approach must be viewed with some skepticism, particularly as a means of generating jobs in distressed neighborhoods. It is doubtful whether it can achieve lasting benefits in these areas. Large companies, which may have the resources to provide training for marginal workers, have shown themselves more inclined to move out of inner city locations than to expand in them. The decision of such a firm to change its level of employment is not likely to be significantly influenced by an artificial reduction in the cost of local workers. On the other hand, small, new companies are not very responsive to tax incentives, nor do they usually have programs of job training. It is unlikely that a short-term subsidy would be effective in creating long-term jobs in small sector.

A more productive approach might be to recognize that the real "log-jam" in the economic process in depressed areas is that insufficient new businesses are being established. Birch's work shows clearly that the principal difference between neighborhoods that are depressed and those that are developing is the comparative "birth-rate" of new businesses. The problem is not so much that existing firms are not hiring enough people, in other words, but rather that there are not enough new firms coming into existence and doing the hiring.

Entrepreneurs find the acquisition of capital the principal hurdle they must overcome in starting a business. Traditional lending institutions are generally wary of small, new companies. Loans to such firms are risky. The size of the loan, compared with the cost of processing and administration, makes it unattractive to banks. Entrepreneurs creating new firms also tend to be less inclined than most businessmen to deal with government and its attendant bureaucracy. A survey by NFIB, conducted in 1979, showed that less than 3 percent of new small businesses obtain the major element of their start-up finance from Government sources. Almost two-thirds of start-up capital comes from personal savings or direct investment by friends or other individuals.

Encouraging the creation of more new, small companies, and hence more jobs, requires a mechanism which can provide small entrepreneurs with a better access to capital. If that could be achieved, at reasonable cost, we would bring about the establishment of firms that have shown themselves well able to generate employment in areas of very high unemployment—and employment of the kind that is needed in such areas.

Facilitating the creation of new businesses has another advantage over a mechanism designed to give an incentive to existing companies to hire some additional marginal workers. Rather than merely achieving a temporary expansion in the employment level of existing firms, we would enable companies to come into being that could provide a permanent, expanding source of jobs. Yet, support to entrepreneurs would not require long-term commitment; it would only need a mechanism that could provide the capital for a firm to enable it to reach the position where it could require finance from more cautious, institutional sources. In effect, to get the firm "off the ground."

The needs and nature of new, small firms would suggest that the most effective way of achieving a higher birth rate of such businesses would be to provide tax incentives to the investor rather than the company itself. If a business has a small, or zero, tax bill, seemingly attractive allowances and credits will have little effect. But if an investor in a small, new firm could enjoy a tax benefit, there would be more reason to put money into such companies, despite the higher risks associated with them.

A number of mechanisms might be worth considering. Allowing investors in small companies to deduct the firm's losses for a specified period against their personal taxes would allow the investor to enjoy tax relief that was of little value to the company itself. This would encourage investors or high personal tax rates to look much more favorably on new ventures. Allowing investors to defer the payment of capital gains, providing the proceeds from an investment were placed in another small start-up company, would also increase the flow of finance into young business. The tax-cost of such incentives, it should be noted, would only be the additional tax savings obtained by the investor, compared with existing tax-shelters. The leverage of new business investment—and hence job-creation—achieved from each tax dollar would almost certainly be higher than that from direct grants or loans to firms; and the number of permanent jobs created would in all probability be greater than that from a jobs tax credit or similar subsidy.

The creation of new businesses is vital to the economy. New firms do not merely provide most of the expansion in the Nation's employment level. They also provide new blood to the business world—ideas that may ultimately grow into new industries. Incentives that only cause existing firms to grow larger, and to make small addition to their workforce, will not provide a sound base for general economic expansion and job-creation.

AN EXAMINATION OF U.S. EXPERIENCE WITH EMPLOYMENT SUBSIDIES

By John Bishop
Project Associate, Institute for Research on Poverty
University of Wisconsin-Madison
President, Bishop Associates

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Executive Summary

AN EXAMINATION OF U.S. EXPERIENCE WITH EMPLOYMENT SUBSIDIES

There are important lessons to be learned from the U.S. experience with employment tax credits--the New Jobs Tax Credit, the WIN Tax Credit, and the Targeted Jobs Tax Credit. There are dramatic contrasts between take up rates. In 1979 fewer than 25,000 firms received a TJTC and fewer than 10,000 received a WIN Tax Credit. In 1978 1,100,000 firms, more than 30% of all the nation's employers and more than half of the eligible firms, received a New Jobs Tax Credit. In contrast, less than 20% of the private employers that hire WIN eligibles obtain certifications of their eligibility and less than 10% of the employers that hire TJTC eligibles obtain certifications.

Take up rates in TJTC and WIN are extremely low for three reasons:

1. Most job seekers and employers are not aware of or only vaguely aware of the program.

2. Even when they know of the tax credit's existence, employers are unable to use it because they cannot determine on their own which job applicants or employees are eligible. Their general distrust of bureaucrats and fear of paperwork, and the real costs of changing their recruiting methods cause them not to ask employment service for referrals.

3. Except for the high school work study students (the only group with a high take up), there is a stigma attached to being a member of a TJTC target group. This makes workers unwilling to advertise their own eligibility and employers reluctant to ask for eligible workers.

There is also a dramatic contrast between the impacts of these programs on employment and prices. All three studies of New Jobs Tax Credit have found that it increased employment. The NFIB study estimates 300,000 extra jobs, the Perloff and Wachter study 700,000 jobs and the Bishop study estimates 150,000 to 670,000 jobs in construction and distribution alone. Bishop's study found that reductions in the margin between retail and manufacturers wholesale prices induced by NJTC saved consumers between \$3.8 and \$7 billion.

Studies of TJTC have only just begun but what evidence there is at this point suggests that it causes a small increase in the retention rate of certified workers and in total employment, but it has almost no influence on the selection of which workers arehired. 75% of all certifications occur after the worker is hired. It is very unlikely that these hiring decisions were influenced by the program.

Both the take up and retroactive certification problems are caused by the complicated nature of the eligibility rules. With these rules only government can perform the vouchering and certification function and if they fail to perform this function well or employer's are reluctant to deal with government, the program fails to achieve its goal of increasing the employment of disadvantaged workers.

Most WIN placement counselors do not tell the private employer he is eligible for a tax credit when they place a welfare recipient. Job seekers coming to the employment service for assistance routinely provide the information necessary to determine eligibility but most ES offices do not tell him he is eligible for TJTC unless he specifically asks or unless they have arranged a referral to an employer that has requested TJTC eligibles. Significant improvements in local WIN and ES office performance will not occur unless federal contributions to their budget are made a function of both vouchering and certification activity. Special rewards for certifications in small firms are necessary. Shortening the time period after the hire, during which a certification can be obtained to two months or so, is also desirable.

Only 5.1% of the people hired by private employers in 1972 were referred by a government agency. Less than 20% of all employers listed a job at the employment service in 1979. Even if the local ES offices were to really promote this program, most employers will not take TJTC eligibility into account when they hire because they cannot tell who is eligible without ES help (partly because job applicants hide their eligibility for fear of being stigmatized). They do not want to use ES referrals because they prefer to hire walk ins and referrals of current employees.

The problem is inherent in the decision to target the subsidy on hard to identify and stigmatized groups of people. A subsidy of private sector employment will reach a scale and cost efficiency sufficient to make a real dent in structural unemployment, only if

1. Employers are able to simply certify their own eligibility.
2. The behavioral response desired of employers is obvious and simple for them to implement.
3. All or almost all employers are eligible (otherwise the result is a redistribution of who employs who).
4. Targeting is essential but it is more important to include all workers in need of help than to exclude workers that don't need the help.
5. The target group is defined by a non-stigmatizing criteria that is visible to the employer (a characteristic of the job like wage rate is better than characteristics of the worker).
6. It is marginal—paid for increases in employment above a threshold like NJTC.

A simple scheme that meets all of these requirements and that can be calculated with only four numbers is

- a tax credit of $1.00 per hour for every hour the firms 1982 total hours worked by all employees including salaried management exceeds this same number for 1980.
- a take back of a portion of the tax credit if the firms average wage (calculated by dividing total compensation by total hours worked) in 1982 is more than 18% above its 1980 average.
- increases in 1983 total hours worked over the higher of 1982 or 1980 hours worked would also receive a $1.00 an hour subsidy subject to a takeback if the wage rate has increased more than 25% above the 1980 level.

This tax credit scheme transmits a very simple message:

* increase hours worked
* slow down wage increases
* focus the employment expansion on your lower wage lower skill employees
* marginal costs of extra output have decreased by as much as 25% so cut prices and increase output

The takeback is an important targeting device for if the firm has exceeded the wage standard and the takeback rate is 20% a job that pays $5.00 per hour less than the firm average produces a tax credit of $2.00 rather than $1.00 an hour.

Whether or not such a marginal employment subsidy is implemented, the following reforms of TJTC and WIN are desirable:

1. Local WIN, CETA and ES agencies should be rewarded proportionately with the number of vouchers (possibly $10 a voucher) and certification (eg $200 if not retroactive; $100 for retroactive certifications in small firms and $50 retroactive certifications in large firms).
2. A time limit should be placed on how long after the hiring that certification can occur.
3. All economically disadvantaged adults should be eligible (providing jobs to youngsters but not their parents will break down the parents authority).
4. High school work study students should retain eligibility but the tax credit should only be 25% of wages.
5. People eligible for trade adjustment assistance should be eligible <u>if</u> their new job is in a different industry.
6. All recipients of disability payments from social security should be eligible.

Possibly most important of all we must overcome the antagonism and distrust that exists between business and the manpower agencies that are supposed to be serving them. If the President or Cabinet Officers were to personally approach the leaders of the business community—the Chamber of

Commerce, the NFIB, and trade associations—and ask them to inform their members about these programs, I am sure they would respond. The best promoter of a program like this is another businessman.

Finally, much more needs to be known about these programs. Congress has mandated reports on these programs but the only research that has been funded are off shoots of other projects, field interviews at ES and CETA offices being done by Ohio State and an employer survey that I have been in charge of. Other work has been proposed and should go forward.

AN EXAMINATION OF U.S. EXPERIENCE WITH EMPLOYMENT SUBSIDIES

The industrialized West is finding it increasingly difficult to reconcile the twin objectives of low rates of inflation and low rates of unemployment. Monetary and fiscal policy seems to be unable to reduce unemployment below unacceptably high levels without accelerating an already unacceptable high rate of inflation.

Employment subsidies have been proposed as a potentially effective mechanism for dealing with this problem. They lower the cost of labor and the marginal cost of extra output and thus they should simultaneously increase employment and lower prices. The purpose of this paper is to assess employment subsidies as a remedy for stagflation and to examine in the context of this objective, how they are best designed.

The U.S. experience with New Jobs Tax Credit (NJTC), the WIN Tax Credit, the Targeted Jobs Tax Credit (TJTC) and CETA on-the-job-training subsidies has much to say about how employment subsidies should be designed. The main body of the paper describes these programs, summarizes the studies that have been done of their effectiveness and explores how the design characteristics of each program influenced its success or failure. The most successful of the U.S. employment subsidies, the New Jobs Tax Credit, is discussed in the first section. The more targeted programs are discussed in section two. The final section of the paper applies the lessons developed earlier to the design of a prototype employment subsidy.

There are at least 5 questions we would like our review of each of these programs to answer:

1) Is there significant employer participation?

2) Does the subsidy induce the employers that receive the subsidy to increase employment of workers eligible for subsidy?

3) Does total employment in the industry or nation increase? To what extent does the subsidy of certain workers and firms cause unsubsidized workers and firms to suffer declines in employment?

4) Does the subsidy produce a reduction in product prices?

5) Do subsidized workers get higher wages and does this tend to promote inflationary wage increases?

The first question is the easiest to study. If a program does not succeed in attracting significant employer interest (this can be either many employers using the subsidy intermittently or a few employers using it extensively), it is a failure and there is no point in addressing any of the other questions. The second question can be addressed by interviewing employers that have received the subsidy and comparing them to other similar employers. If these firms are expanding employment of subsidized workers, we have not established that total employment is rising only that it is being redistributed. The other three questions are the hardest ones to answer. Answers are necessary, however, before a definite judgment can be made that ESs are an effective way of dealing with stagflation. With one exception the empirical work on the U.S. experience does not address the last three questions. The burgeoning theoretical literature on employment subsidies has addressed these questions so this literature is referred to as well where appropriate.

I. The U.S. Experience with the New Jobs Tax Credit

Signed into law in May 1977, the New Jobs Tax Credit (NJTC) offered firms a tax credit against corporate or personal income tax liability for expansions in employment in 1977 or 1978. NJTC was a marginal subsidy of 50% of the increase in an employers wage base under the Federal Unemployment Tax Act above 102 percent of the previous year. The scheme was only mildly targeted but simple enough in administration for employers to calculate their own eligibility on their tax forms.

Despite the fact that public agencies made very little effort to advertise or promote the NJTC and that many small firms had not yet heard of it in February, 1978, use of NJTC was quite extensive. In 1977, its first year of operation, 2.358 billion dollars of New Jobs Tax Credits were claimed on a total of 614,000 tax returns. In 1978, its second and final year of operation, $4.513 billion of credits were claimed on a total of 1,142,000 tax returns. Since the firms deductions for wages must be reduced by the amount of the credit, revenue costs (assuming no direct effects on before tax profits) were approximately 1.4 billion dollars in 1977 and 2.7 billion dollars in 1978. While roughly one-third of the returns claiming a credit were corporate returns, two-thirds of the dollars claimed were on these returns. Since the credits due to a partnership or Subchapter S corporation may show up on more than one individual return, the total number of businesses claiming the credit in 1978 is likely to be closer to one million than 1.4 million. This would imply that approximately 28% of the nations 3.5 million employers claimed the credit in 1978. At least 1.1 million employees were subsidized in 1977 and at least 2.15 million employees were subsidized in 1978. By comparison total private nonagricultural employment grew 2.8 million in 1977 and 3.6 million in 1978.

1.2 The Impact of NJTC on Subsidized Firms

To date there have been three studies of the New Jobs Tax Credit. Two have focused on the differential impact of NJTC on the firms that knew about it or said they responded. The other studied the credits impact on total employment and on inflation.

The first study is based on a mail questionnaire survey of a sample of the membership of the National Federation for Independent Businesses (McKevitt, 1978). The first survey to ask questions about NJTC was conducted in January 1978. Of the employers responding, 43% knew about NJTC and 1.4% reported that the credit had influenced them to hire extra workers (the number averaged 2.0 per firm). The April survey found that 51% knew of NJTC's existence and that 2.4% had increasing hiring by an average of 2.3 employees as a result. In the July 1978 survey 58% were aware of the credit and 4.1% of the firms reported they had increased hiring as a result. An increase in employment of 2.3 employees by over 4% of all employers is not a small response. If the NFIB survey is representative, and other firms are not hurt by the expansion of subsidized firms, these resouses imply that in the second quarter of 1978 there were more than 300,000 extra jobs directly created as a result of the NJTC at a tax expenditure of roughly $6500 for each job created.

The second study [Perloff and Wachter (1980)] is based upon the survey conducted by the Bureau of the Census. Perloff and Wachter compared rates of employment growth between 1976 and 1977 for firms that knew about the credit and those that did not. Holding employment size, class, region, form of organization, type of industry, and the growth rate of sales constant, they found that the employment of firms that had heard of the credit before February 1978 had grown 3% faster. Firms that reported they made a conscious effort to expand employment because of the credit grew 10% faster than firms that knew about the credit but did not report making any special effort. Since firms may learn about the credit because they are growing fast, Perloff and Wachter conduct a Wu test for simultaneity and find themselves unable to reject the hypothesis that knowledge of the credit was uncorrelated with the error term of the employment change regression. If one were to assume that NJTC caused the 3% higher growth of the small and medium-sized firms that knew about the credit (about a quarter of total employment is in these firms) and that the NJTC left the rest of the economy unaffected, the total number of extra jobs in 1977 would be roughly 700,000. Tax expenditure per job created would be $2000 per job.

1.3 The Impact of NJTC on Total Employment

Studies like those just reviewed are measuring the differential impact of NJTC across firms not the net impact of NJTC on the total economy. Since firms compete with each other in both labor and product markets, the increases of employment in subsidized firms may cause decreases of employment in their unsubsidized competitors. Alternatively, an NJTC induced expansion by one firm may cause that firm's suppliers to expand as well. The direction of NJTC's impact on nonsubsidized firms cannot be signed a priori for it depends upon the relative size of offsetting effects. We suspect, however, that the first effect is larger than the second. If so, simple extrapolations from measured impact of the credit on firms to impacts on the economy like those in previous paragraphs will exaggerate the true impact. Since most of the displacement effects that may bias estimates of net job creations when the firms are the unit of observation are netted out when the industry is the unit of observation, studies of NJTC's impact on an entire industry's employment would seem to be able to resolve this issue.

The third study (Bishop, 1978) has attempted to address the displacement and inflation effects of the NJTC by examining its effect on two of the industries--construction and distribution--in which one would expect the largest response. Non-seasonally adjusted monthly data on employment and man-hours in these industries were regressed on seasonal dummies, trends on the dummies, and three-year distributed lags of input prices and retail sales (or construction put in place). With few exceptions, the lag structures were freely estimated with each input price or price ratio being represented by its contemporaneous value, and that of each of the previous four quarters and four half-years. All models were estimated using two-stage least squares.

The NJTC variable was an average over the past six months of the proportion of firms (weighted by employees) that knew about the credit. It had a value of .057 in June 1977 and rose at an average rate of .0424 per month, reaching .343 in January 1978 and .572 in June 1978. Most of the coefficients on the NJTC variable were positive and significant. Across all of the regressions the average NJTC employment stimulus over the 12-month period from mid-1977 to mid-1978 ranges from 150,000-670,000 depending on specification. Hours worked per week declined so total hours worked rose proportionately less.

1.4 The NTJC's Impact on Price Inflation

Employment subsidies lower both the average and marginal costs of production and sales. In competitive industries output will expand and prices will fall. Given the wage level, supply curves of most competitive industries are quite flat so if the subsidy does not raise wage rates, the price reduction should be nearly as large as the downward shift of the supply curve. A marginal employment subsidy like the NJTC lowers the marginal costs of existing firms and the marginal and average costs of new firms by a lot more than it lowers the average costs of existing firms. Consequently, a marginal subsidy may induce price reductions in competitive industries that in the short and medium run are substantially larger than the total dollar amounts of subsidy paid out.

The unsettled nature of the theory oligopolistic pricing makes infeasible definitive theoretical predictions of how oligopolistic industries will respond to marginal employment subsidies. Some theories predict a price decline that is equal to the reduction in average costs of existing firms. If, however, the oligopoly is setting its price just low enough to forestall or limit entry of new competitors into the industry, their response will depend on the subsidy's impact on the average costs of new entrants. Having a zero threshold, a new entrant receives subsidy on all of his workers. Consequently, a marginal employment subsidy with a fixed threshold that is perceived to be permanent should cause the entry forestalling price to decline by the full amount of its subsidy of marginal costs. A smaller decline will occur if the threshold will be revised in the future, if the subsidy is not viewed as permanent, or if, as with the NJTC, limitations are placed on the subsidy that new firms can receive. Nevertheless, here again theory predicts that the short and medium run price decline may be substantially larger than subsidy induced reduction in the average costs of existing firms.

An examination of the behavior of prices during the NJTC's period of operation tends to support the hypothesis that a marginal employment subsidy can temporarily slow inflation. A number of the features of the NTJC--the $100,000 per firm limitation, subsidizing only the first $4200 of wages, and its temporary nature--should have focused the subsidy and stimulus to production on sectors of the economy with high rates of employee turnover and large numbers of small and medium sized firms. The distribution sector--trucking, wholesale, and retailing--fit this description so it was hypothesized that NJTC would tend to compress the margin between retail prices and manufacturer's prices of finished consumer goods. Preliminary support for this hypothesis is provided by the fact that between May 1977 and June 1978 nonfood commodity retail prices rose only 4.73% while manufacturers prices of nonfood, consumer finished goods were rising 6.56%.

The hypothesis was tested econometricly by regressing the monthly rate of change of retail prices on current and lagged changes in a number of distribution industry cost variables--wage rates, wholesale prices, the rental price of capital, and excise taxes--the unemployment rate, seasonal dummies, and trends on the seasonal dummies. Coefficients on NJTC were negative and statistically significant for the nonfood commodities aggregate and for restaurant and tavern prices. The size and statistical significance of the NJTC coefficients were robust to a variety of changes of specification. The 5-7% reduction in marginal costs induced by the credit seems by June 1978 to have lowered prices of nonfood commodities by nearly 2 percentage points and all commodities by roughly 1%. The compression of the margin is all the more remarkable when one remembers that retail price indexes included imported goods whose relative price was rising while wholesale prices do not.

The savings to the consumer from the compression of retail margins seems on its own to have been roughly comparable to the face value of tax credit claims. Tax credit claims in 1977 were \$2.4 billion; the coefficients imply consumer savings were between .5 and 1 billion dollars. In 1978 claims were \$4.5 billion and consumer savings were estimated to be between \$3.8 and \$7 billion. If the prices of services and some manufacturing goods were forced down as well, the NJTC induced price reduction during its second year could well have been two, three or four times the size of the tax subsidy. While this result is predicted by theory, it is nevertheless quite remarkable that a marginal employment subsidy handicapped by a two year life and limited to $100,000 per firm should have had so large an effect.

1.5 The NJTC's Impact on Wage Inflation

The primary concern economists have had about marginal employment subsidies is that when labor markets are tight the subsidy may tend to accelerate the rate of wage increase and thus raise the underlying rate of inflation. When it was initiated NJTC was seen as a temporary countercyclical employment stimulus. It was phased out on schedule in December 1978 primarily because the economy was perceived to be already at the point where further reductions in unemployment rates would result in accelerating wage increases.

Whether employment subsidies do in fact have an impact on wage rates has not yet been formally tested. In Table 1 the annual rates of change of wage rates for a variety of industries is tabulated for the period May, 1975 through April, 1980. Wage rates rose more rapidly during the phase-in period of the NJTC—May, 1977-December, 1978—than in the previous years. During this period, however, unemployment rates were lower than previously and the minimum wage was rising more rapidly so the increase in rate of wage inflation may have been a response to these phenomena and not a direct respone to the NJTC. More to the point, however, is what looks like a deceleration of wage increases in wholesale, retail, construction and the total private economy during the phase-out period December, 1978 to December, 1979 when unemployment remained low. Careful econometrics is required to sort all these factors out but this cursory examination of the evidence certainly provides no evidence that a reduction in unemployment induced by a marginal employment subsidy is <u>less</u> wage inflationary (as distinct from

Table 1

Annual Rate of Change of Wage Rates

			Phase In of NJTC Impact		Phase Out	
	5/25 to 5/76	5/76 to 5/77	5/77 to 5/78	12/77 to 12/78	12/78 to 12/79	12/79 to 4/80
Minimum Wage	9.5	0.0	15.2	15.2	9.4	6.9**
Wholesale & Retail	6.2	7.6	8.7	9.8	8.7	6.9
Construction	7.0	4.0	6.9	7.6	6.8	5.3
Service	8.2	6.5	7.1	7.5	8.1	7.0
Manufacturing*	6.9	9.1	8.2	9.2	9.0	9.7
Total Private	8.0	7.4	8.1	9.2	8.1	6.1
Unemployment Rate of 20-65 Males	6.5	5.8	4.8	4.1	4.1	4.8

*Excludes the effects of overtime and interindustry shifts.

**Annual rate of change for 12/79 - 12/80.

price inflationary) than reductions in unemployment engineered by other policy interventions. Consequently, it would seem prudent to either avoid operating a marginal employment subsidy during tight labor markets or to redesign the scheme so that wage increases are discouraged at the same time that employment is stimulated. (Such a redesign is described in Section III.)

II. U.S. Experience with Targeted Programs

The United States has experimented with a variety of targeted employment subsidies. These programs—WIN tax credit, JOB's contracts, CETA On-the-Job Training Subsidies and the Targeted Jobs Tax Credit—have all been targeted on highly disadvantaged workers and have as a consequence been quite complicated to administer. In each of these programs certification of a worker's eligibility has required separate application by and certification of both the worker and his employer. While these programs may have helped specific individuals to find jobs and get off welfare, they have not yet achieved significant scale and consequently have not had an appreciable impact upon the number of people on welfare or the unemployment rate of people in the target group.

2.1 NAB-JOBS

The first of the subsidy programs was the National Alliance for Business JOBS' program's contract placements effort in which the government issued contracts that reimbursed employers for part of the costs of hiring and training disadvantaged workers. To qualify for the program a worker had to be a high school dropout, less than twenty-two or more than forty-five years old, handicapped or in a family with below poverty level income. Contract placements grew from 8400 in fiscal 1967 to 93,000 in fiscal 1971 and thereafter declined. Thus at its peak JOBS contracts were subsidizing only 1/10 of one percent of the nation's workers. Tight budgets were not responsible for the small scale of the program, for the administrators of the program were consistently unable to expend the funds programmed for JOBS contracts. In 1969 for instance, only $49 million of the $210 million programmed for JOBS contracts was expended.

Also significant is the fact that only one-third of the employers that hired JOBS enrollees went to the trouble of establishing a contractual arrangement and thus receiving a subsidy for what they were doing. This reveals that the problem is not just one of employers being reluctant to hire stigmatized individuals. Many employers seem to find the delays and red tape of arranging a contract and the potentially greater vulnerability to affirmative action complaints so potentially costly, that they do not apply for the 50% subsidy of the first 6 months of a worker's wages for which they are eligible.

2.2 CETA-OJT

With the reorganization of manpower services mandated by the Comprehensive Employment and Training Act of 1973, the JOBS program evolved into what is now called CETA On-the-Job Training contracts. The OJT program has not developed an effective local constituency because many small businessmen have an ideological aversion to handouts and because the perceived benefits of participating are so small. Seldom does a firm receive more than one subsidized worker and the maximum payment is generally less than 25% of a year's wages. Thus despite Congressional mandates to expand the scale of the program, only 1% of the nation's employers participated during 1979. Contracts are typically written for only one worker even when the participating firm is large. As a result, OJT subsidies account for only a tiny proportion of total employment.

2.3 The WIN Tax Credit

For nearly 10 years employers that hire recipients of Aid to Families with Dependent Children have been eligible for a tax credit. Despite increases in the rate of subsidy from 10 to 20% and now to 50% and other liberalization of the terms of the subsidy, claims for WIN tax credits have remained at a level of only 30 to 40,000 FTE workers for a number of years. This implies that less than 5% of each year's new WIN registrants, less than 2 percent of adults receiving AFDC benefits and less than 10 percent of working welfare recipients have been aided by the WIN tax credit. As with JOBS, only a small proportion of the firms that hired WIN eligible workers applied for the tax credit for which they were eligible. Either the firms did not know they were eligible or they found the paper work too burdensome and the benefit too small to warrant applying. Of those firms that have received a WIN credit, less than 10 percent attributed their hiring of the WIN enrollee to the credit.

2.4 The Targeted Jobs Tax Credit

Beginning in 1979 employers outside the personal service sector have been able to obtain a tax credit of 50 percent of the first $6,000 of wages per employee for the first year of employment and 25 percent of such wages for the second year of employment for the hiring of certain categories of workers. These include: high school students in cooperative education programs, economically disadvantaged youth (18-24), veterans, and ex-convicts, Supplementary Security Income and general assistance recipients and the handicapped.

It is too early in the life of the program to predict what its eventual scale will be. Already, however, it has surpassed the scale of the JOBS, CETA-OJT and WIN Credit programs. The program started slow; the cumulative total number of certifications was only 13,677 by the end of July 1979. The rate of new certifications (jobs obtained by vouchered workers) was 9200 in August; 21,000 in October: 31,000 in December, 1979: 33,000 in February, 1980 and 21,000 in April during ourprecipitous descent into recession. In the latter half of 1980 roughly 200,000 workers were in subsidized jobs (adjusted for attrition). The comparative success of TJTC is due to 3 features:

1) It is an entitlement. Reluctance on the part of local agencies to administer it cannot prevent a persistent employer from obtaining certification of employees that are eligible. In fact ETA's Study of Early Implementation of TJTC found "the rather limited vouchering and certification activity that had taken place by then was largely in response to employer and applicant inquiries rather than active promotion by their staff."

2) At least one target group--the Co-op-Ed students--was defined by a characteristic that does not carry stigma. For this group, student and employer certification was made into a one step process and responsibility was centralized in the hands of a person--the high school official responsible for Co-op-Ed--who was being judged by his supervisors on the basis of the number of jobs he found for his target group. As a result, roughly half of all jobs certified for TJTC's have been for Co-op-Ed students.

3) Participation in TJTC requires less paper work than CETA-OJT or the JOBS and early WIN programs did and requires fewer contacts between government agencies and the employer.

Nevertheless, the TJTC is currently helping less than 10% of the pool of young people eligible for the program.[1] In contrast, NJTC attracted in its second year the participation of 50 to 70% of all eligible firms.

There are three basic causes of TJTC's low participation rate:

1) Most job seekers and most employers are not aware or only vaguely aware of the program. A recent survey of employers found that only 20% of all employers reported being "familiar" with TJTC. (EOPP Employer Survey)

2) There is a stigma attached to being a member of most of the TJTC's target groups. This reduces the likelihood employers will ask CETA or the Job Service to refer TJTC eligible workers to their firm. Furthermore, many applicants feel that telling prospective employers of their eligibility for TJTC may hurt their chances of getting the job.

3) In most cases, employers are unable to identify who is eligible on their own. Government certification of employee eligibility is necessary and this has three consequences: (a) it often introduces red tape and delays into the hiring process, (b) it often forces a firm out of its traditional recruitment channels, and (c) it makes the program's success depend upon the enthusiasm and competence of government bureaucrats.

The first problem can be overcome by publicity and aggressive promotion of the program. Much greater efforts are possible in this area so hopefully this problem is temporary.

The other two problems, however, arise from a mismatch between the structure of the employment subsidy scheme and the recruitment processes that predominate in the relevant labor markets. Each month the typical employer is hiring one employee for every 10 they have on board (Cohen and Schwartz, 1979). The probability that a new hire will still be with the firm a few months later is less than 50%. As a result, employers try to keep the costs of searching for new employees to a minimum. Studies of how people have obtained their last job find that 35% of all jobs were found by applying directly at the firm without suggestions or referrals and that another 26% were obtained by applying directly at the firm at the suggestion of a friend or a relative (Rosenfeld, 1975). Most firms prefer to hire people who are recommended by current employees or who have shown their desire for the job by personally coming to the establishment and applying. Two-thirds of the employers in the EOPP survey had not listed a job with the employment service in the previous year. As a result, even though 34% of all workers had checked with the employment service during their last period of job search, only 5.1% had gotten their job through an employment service referral. Employers prefer informal recruitment channels because (a) they are faster, (b) they do not become inundated with job applicants who must be interviewed, (c) pre-screening is possible so the number of applicants who are turned down is minimized, and (d) they can avoid dealing with government.

This preference acts to limit the market penetration of any program for finding jobs for the disadvantaged that depends upon a labor market intermediary—Job Service, or a CETA subcontractor like Urban League. Such programs can overcome their inherent structural weakness only when unusually dedicated and competent people are running the labor market intermediary. With only ordinary leadership such a program is bound to be only partially successful—helping some of the people who approach the agency for help but failing to reach most of the eligible population. This structural weakness is exacerbated by the adversarial relationship between government and business. An ETA study done during the summer of 1979 found that many Job Service and CETA staff "doubt the value of the tax credit in increasing job placement among the targeted groups or in netting hires among them that would not have taken place anyway." The comments of staff seem to reflect a lack of desire to help firms receive a tax benefit to which they are entitled unless the firm reciprocates by changing its behavior (something the tax law does not require).

The targeted employment subsidies that preceded TJTC all necessitated agency referrals of eligible job applicants. With TJTC there are two alternate ways of bringing subsidy, employer, and job seeker together. Job seekers may inform employers of their eligibility. This does not now occur to a significant degree because most eligible workers are unaware of TJTC's existence and because most Employment Service offices do not routinely inform the eligibles that do come to it for assistance that they are eligible. The other barrier to this mechanism becoming important is the reluctance of many job applicants to advertise their TJTC eligibility for fear they will be stigmatized.

The second alternate mechanism assigns the initiative to the one who most directly benefits from the tax credit, the employer. This scenario envisions employers' screening their job applications for eligible individuals and then sending them down to Job Service for vouchering and certification before or after they are hired. Presumably anticipating that A may be eligible for subsidy and B is not, will increase the probability that A is offered the job. The use of family income and participation in welfare programs as targeting criteria, however, makes it difficult for employers to know who is eligible and thus prevents many employers from taking the tax credit into account when hiring. Sending job applicants over to the Employment Service prior to hiring does not seem to have become popular for it delays the hiring process, risks losing the worker altogether, and is thought to be unethical by many employers.

III. Lessons and Recommendations

While more time and more research is required before final judgments can be made about the overall effectiveness of the NJTC and TJTC, there is sufficient experience to draw some very important lessons. They are:

1) A tax credit for general expansions in employment for which employers can calculate and certify their own eligibility will very quickly achieve a very high participation rate.

2) Employers do expand employment and cut prices in response to such a tax credit.

3) There is a danger, however, that the employment and output expansion induced by such a credit will cause an acceleration of the rate of wage increase even while price increases are slowing down.

4) A subsidy or tax credit for employing stigmatized target groups will not attract the participation of many employers.

5) The necessity of government certification of a worker's eligibility (rather than employer certification with audit) is a substantial barrier to employer and employee participation in an employment subsidy program.

While the TJTC is a far superior way of stimulating employment than CETA-OJT contracts or public sector employment and improved administration should increase its impact, it is not an answer to the stagflation problem.

Wage subsidies can be major instruments for dealing with stagflation only if:

1) all or almost all employers are eligible (Perloff, 1980)

2) employers are able to certify their own eligibility

3) the target group is large enough to encompass all or almost all job seekers needing assistance (Johnson, 1980)

4) the target group is defined by non-stigmatizing criteria that are visible to employers.

Such a subsidy will maximize its cost effectiveness, if it is marginal--i.e., paid for increases in employment above a threshold. If a wage subsidy is to be marginal, however, care must be exercised in selecting the target group, in defining the subsidized activity and the threshold at which the subsidy begins (Bishop and Haveman, 1979; Bishop and Wilson, 1980).

Our experience with the NJTC suggests that a marginal wage subsidy with these qualities can succeed in stimulating employment and lowering prices.

In a pure form, however, such a subsidy may promote wage inflation. This tendency can be forestalled, however, by combining the wage subsidy with a tax on wage increases (a TIP). If the rate of increase of the firm's average wages exceeds some threshold, the amount of wage subsidy can be reduced in proportion to its violation of the wage increase standard. Such a subsidy can be very simple to administer. To calculate its subsidy the firm would need four numbers: total wage bill this year and in the base year and total hours worked this year and in the base year.

How such a scheme would work is most easily understood by examining a specific proposal. [The specific parameters of this proposal are illustrative] Firms and nonprofit entities would receive a tax credit against social security taxes in 1981, and later years equal to 10% of the amount by which their wage bill exceeds 90% of their 1980 wage bill. If the firm's average wage (computed by dividing the total wage bill by total hours worked by all employees) rises in 1981 by more than 7%, (14% in 1982), there would be a takeback of the subsidy equal to 40% of the amount by which the firm's wage increase exceeded 7% (14%). A firm that had stable employment and increased wages by 10% would receive a subsidy equal to 0.8% of the wage bill. [A gross subsidy of 2% of the wage bill (110-90)(.1) minus a takeback of 1.2% (10-7)(.4)] A firm that simultaneously increased employment and wage rates by 10%, gets a subsidy equal to 1.8% of the wage bill. A firm that increases employment by 10% and wage rates by 7% gets a subsidy equal to 2.7% of its wage bill. In effect the scheme provides a 10% subsidy of increases in total hours worked and a 30% tax on wage increases over the 7% threshold.

This combination of a marginal employment subsidy and a tax-based incomes policy has a number of attractive features.

1) Firms are encouraged to increase employment by hiring inexperienced workers and training them rather than by bidding experienced workers away from other firms by raising wages.

2) Within each firm it tends to target the employment stimulus on the least skilled workers. (This occurs because hiring extra low wage workers lowers the average wage of the firm and this helps the firm meet the 7% wage increase standard.) The increase in demand at the unskilled end of the labor market should produce large reductions in the unemployment of youth and the disadvantaged.

3) Targeting on less skilled workers is accomplished without giving low wage firms a proportionately larger subsidy.

4) Both marginal and average costs of production are reduced while simultaneously wage increases above the standard are taxed. Penalty TIP's, in contrast, have the disadvantage of raising marginal and average costs and therefore prices of firms that violate the wage standard.

The MES-TIP is a balanced anti-inflation program. The subsidy component lowers price inflation and the takeback lowers wage inflation.

Notes

[1]There are 7 to 9 million new hires every month and 55% of these are under age 25 (Cohen & Schwartz). Certainly at least 10% of the age group is eligible so the average of monthly certification rate, October 1, 1979 to September 30, 1980 of 22,000 implies a participation rate of 6% or less.

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[Whereupon, at 4:31 p.m., the hearing was adjourned subject to the call of the Chair.]

[By direction of the chairman, the following communications were made a part of the hearing record:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROGRAM ANALYSIS
DIVISION

JUN 5 1981

B-203090

The Honorable John Heinz
Chairman, Subcommittee on Economic Growth,
Employment and Revenue Sharing
Committee on Finance
United States Senate

Dear Mr. Chairman:

Subject: Comments on Employment Tax Credits (PAD-81-73)

As agreed with Mr. George Pieler, Senate Finance Committee, we are submitting the following information and analyses for the record of your April 3, 1981, hearings on employment tax credits. Our observations and comments on the Targeted Jobs Tax Credit (TJTC) program and several other related credit programs are drawn from an ongoing project in this area. For this project we surveyed 1,000 firms, interviewed interested parties, reviewed numerous studies on the effects of changes in the minimum wage on employment, and developed appropriate economic and empirical analyses. The results of the project are intended to be a report to the Congress. We hope that our observations will be of use to you at this time. When we complete our report later this year, we will provide copies to you.

Our comments are in two parts: a brief, non-technical statement of our major findings, and a more detailed technical statement in the form of an appendix to this letter.

In our study we are analyzing three issues. First, we identify the factors that determine whether wage subsidy programs have a chance of being successful. Will businessmen respond significantly to a reduction in labor cost? What type of workers will be helped most? The evidence suggests that business would respond to an extent that would significantly lessen, but by no means eliminate, unemployment among inexperienced and low skill but otherwise job-ready workers. There is no evidence available that workers with severe employability problems, for example the lack of basic reading skills, can benefit from the wage subsidy approach.

Our analysis shows that there are problems that can be anticipated in the implementation of a wage subsidy program. The major design problem involves minimizing the loss of tax revenues to the Treasury because the subsidy or tax credit can be claimed by employers for hires that would have occurred anyway. The design problems for labor market programs is especially complex because of the enormous amount of labor turnover (workers going from one job to another) that characterizes our economy. Thus, the number of new hires in any year greatly exceeds the increase in employment levels, with the result that some program designs can result in very large tax losses. Another design issue is the concern that wage subsidies only be used to aid certain sub-groups of workers--usually low skilled, from poor families.

The design of the TJTC program clearly reflects these desires and objectives. The TJTC was targeted very narrowly by socio-economic categories. The hope was to both save tax revenues and increase the impact of the credit on the employment of the target group members. However, our analysis of program data and special surveys suggest that the TJTC's narrow socio-economic targeting approach produced a program that was apparently grossly underutilized and which, in all likelihood, had little impact on the employment levels of the target group members. It appears, perhaps paradoxically, that the target group members would have benefited much more from a program that was not limited to members of their group.

Finally, we analyze three alternative designs that would, hopefully, avoid the pitfalls of narrow targeting encountered by the TJTC and yet would not lead to an excessive outflow of tax revenues. One of the suggested designs targets the credit on "low wage jobs" rather than on any category of individual. Another targets only in the sense that it lowers the cost of hiring low wage workers by a greater percentage than high wage workers and attempts to control tax revenue losses by limiting the credit to firms that show increases in their employment levels. The third combines features of these two and would generate the lowest foregone tax revenues but also the smallest impact on employment levels.

Employment and tax loss effects are estimated for all three designs and the results are contained in Table 2 of the appendix of this report. Unresolved technical issues prevent us from selecting, with certainty, the optimal program design.

Nevertheless, wage subsidies appear to be a potentially useful tool for combatting structural unemployment. But wage subsidies are also potentially expensive. Elimination of the minimum wage would probably capture many of the benefits that could be expected from wage subsidies. However, it is important to note that for a number of economic and social policy reasons, eliminating the minimum wage is not a perfect substitute for implementation of a wage subsidy program. Moreover, we have not attempted to quantify the costs and benefits associated with such a change in wage policy. Instead, the analysis was intended to bring to the forefront several technical and empirical concerns for consideration by those persons having oversight responsibilities.

If you have any questions on these comments or if we can be of further assistance, please let us know.

Sincerely yours,

Morton A. Myers

Morton A. Myers
Director

Enclosure - 1

TECHNICAL COMMENTS

These detailed comments are organized around a series of questions concerning the rationale for a wage subsidy program, where the Targeted Jobs Tax Credit program has problems, and what alternative program designs exist. In general, the following comments present a number of reasons for having a wage subsidy program, but we raise several practical concerns about the potential success of the program, and alternative ways of accomplishing the same results.

These observations are based in large part on economic analysis. Some of the points tend to be technical in nature. However, we are convinced these technical concerns and empirical issues should be addressed by those persons having oversight responsibilities.

WHY HAVE A WAGE SUBSIDY PROGRAM?

The basic reason a wage subsidy might work is that wage rates may not be able to fall low enough to make it profitable for firms to create enough job vacancies to absorb all the available low skill, but otherwise job ready, workers. This does not mean that in the absence of these rigidities there would be no unemployment. Lack of information is pervasive in labor markets and shifts in supply and demand conditions guarantee that the level of structural unemployment would be significant even if the relative wages of low skill workers were perfectly flexible downward. What it does mean is that the rigidities cause the duration of the average spell of unemployment to be greater than the minimum required for efficient resource allocation. Also, some secondary workers who do not lack basic job skills, may nevertheless, choose to opt out of the labor force altogether when the required duration of job search lengthens.

A wage subsidy can help overcome these rigidities by lowering the cost of labor to the firm. The firm's desired level of output will increase, job vacancies will increase, actual employment will expand, actual output will increase, unemployment will decrease and labor force participation will increase somewhat. This effect will be greater if the responsiveness of the firm's demand for unskilled labor to changes in its cost--what economists call the "elasticity of demand"--is greater.

Minimum wage legislation, because it establishes a legal floor to wages in covered occupations, can help to create situations of excess labor supply. The extent to which labor markets will be characterized by much larger numbers of individuals willing to work at the minimum than there are available jobs at that rate, depends on its level relative to all other wage rates. If the excess supply of labor at the minimum wage is small, a wage subsidy may succeed only in bidding up to the prevailing wage for low wage workers without large increases in employment. If the excess supply of labor at the minimum wage is large, the subsidy can have significant employment effects. The table on the following page illustrates this phenomena.

Market demand for low skilled workers is represented in the table by D_oD_o. If S_oS_o represents the supply of unskilled workers actively seeking employment, then ce is the excess supply at the minimum wage (MC). A wage subsidy lowers the cost of labor to MC-WS and at that net wage, employers are willing to increase employment by ab. Since ab is much larger than ce, employers will bid against one another for the available supply with the result that prevailing wages in this market will rise above MC and incremental employment may be minimal. If, in contrast, the supply of labor is S_1S_1, then the excess-supply is cd which exceeds ab. Consequently, employers by utilizing the subsidy will be able to hire all the workers they want at the minimum wage and employment will increase from $O\text{-}E_{mc}$ to $O\text{-}E'_{mc}$.

Surveys that have interviewed teenagers who were unemployed or not in the labor force suggest that significant numbers of these teenagers would accept jobs even at wages only 75 percent of the then current minimum wage. Recent changes in the coverage and level of the minimum wage also suggest that they probably have created some amount of excess supply since 1977. Since then the coverage has jumped significantly at least for teenagers and the ratio of the minimium to the average hourly earnings of production workers in the private sector has drifted up to .48 from .44. Thus, even if we assume that in 1977 there was no excess-supply being created by the minimum, by 1981 it is likely that there is.

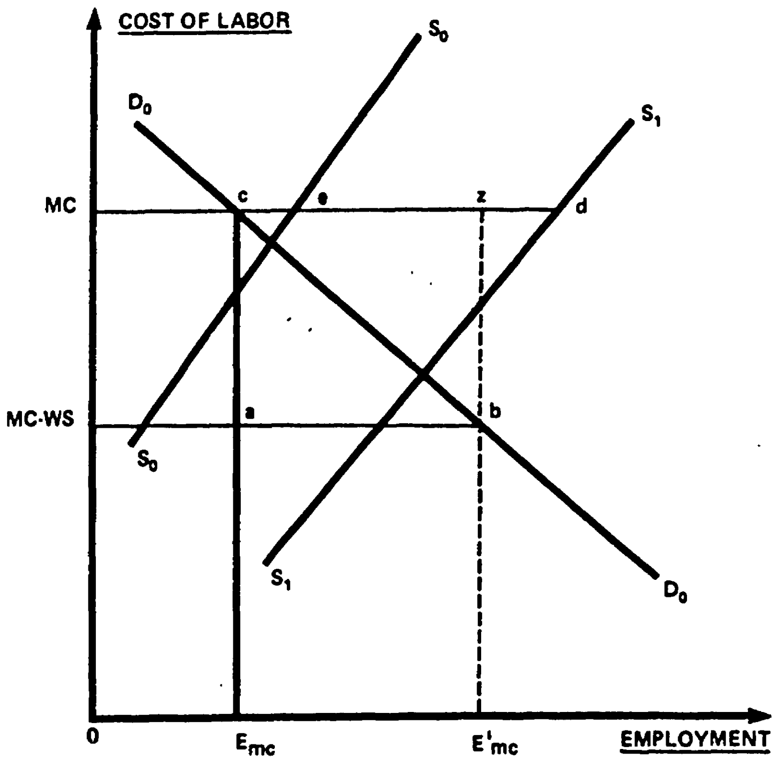
WHAT IS WRONG WITH THE TJTC PROGRAM?

The implementation of a wage subsidy program involves tradeoffs between maximizing the impact on employment and minimizing the "excess" outflow of tax revenues that results from the credit being used to hire many workers who would have been hired in its absence. All the programs that have been aimed at reducing structural unemployment have allowed any hire that meets the sociodemographic requirements to qualify for the subsidy. In principle, of course, this need not be the case. Eligibility could be defined in terms of increments to employment levels so that a firm that did not increase its employment level of the target group would not qualify no matter how many hires with the requisite sociodemographic characteristics it made. However, as we discuss below this marginal employment approach may raise serious administrative problems for counter-structural programs.

APPENDIX I

TABLE 1

Role of Excess-Supply Conditions in Determining Effects of a Wage Subsidy



MC = minimum cost of labor without WS = minimum wage payment
MC - WS = minimum cost of labor with a wage subsidy
ab = desired increment in employment level with a wage subsidy
ce = available excess-supply if supply curve is S_0S_0
cd = available excess-supply if supply curve is S_1S_1
DoDo = demand for labor
zd = excess-supply at the new equilibrium

Although enormous numbers of workers are hired each year at all skill levels, primarily because of job and labor force turnover, the net increase in employment levels is much less. Recent estimates of labor turnover based on Social Security files suggest that in 1979 there may have been as many as 58 million new hires in the Private Business Sector (PBS). These, of course, do not all represent "full year" hires since many individuals change jobs three and even four times a year. Current Population Survey data suggest that about one half of new hires are accounted for by individuals who make only one job accession during the year and the remaining half by a much smaller group of high turnover individuals who account for three job accessions each on the average. On these assumptions, the 58 million hires amounted to 29 million actual full-year hires and about 10 million "equivalent full-year" hires or 39 million full-year hires in all. If each full-year hire had cost the Treasury $1,500 in lost revenues the aggregate loss would have been $58.5 billion.

The design of the TJTC program clearly reflects this problem. The approach of those who designed the TJTC was to target the credit very narrowly by socio-economic categories. The hope may have been to both save tax revenues and increase the net employment effect. Thus, if the target group is only one sub-group of low skill labor then their net employment effect should be greater because there are more substitution possibilities--e.g., economically disadvantaged 18-24 year olds can be substituted for non-economically disadvantaged 18-24 year olds for all low skill workers over 24. If some more inclusive group were covered--e.g., all low wage jobs--these extra substitution possibilities would not be available.

Our analysis of data on the TJTC and other credit programs as well as the results of our own survey of 1,000 firms, suggest that the TJTC's very narrow socio-economic targeting approach produced a program that was apparently grossly underutilized and which in all likelihood had zero net impact on the employment levels of the target group members. It appears, perhaps, paradoxically, that the target group members would have benefited much more from a program that was not limited to members of their group.

For the period October 1, 1979, to September 31, 1980, (which began a full 7 months after the program began processing credit claims) program data on the TJTC show that for the category "Economically Disadvantaged Youth," 95,510 certifications had been issued. This means that businessmen will apply for approximately this many tax credits for youth hired in this category during this period. During this same period we now estimate that about 4.1 million new hires of economically disadvantaged youth 18-24 took place in the Private Business Sector. On our assumptions (see above) this was composed of 2.0 million actual full year hires and .6 equivalent full year hires. This amounts to a "take-up" rate (certifications/actual eligible hires) of only

2.3 percent on all hires, 3.6 percent on all full year hires and 4.7 percent on actual full year hires. And although these low take-up rates do not necessarily mean that there was no net employment effect they do imply that any effect may have been very small. Also, it may have been at the expense of other low wage non-targeted workers. 1/

We attempted to determine the reasons underlying the low utilization. For example, we found that the New Jobs Tax Credit (NJTC) program of 1977-78 had a take up rate of about 95 percent. A salient feature of this program was that it was not targeted by any socio-economic categories. Also, the category "work study program student" in the TJTC appears to have a much higher take up rate than the "economically disadvantaged" category.

We obtained more direct evidence on the underutilization issue from a mail survey of 1,000 private firms on their knowledge and use of the TJTC.

About 30 percent of the firms who responded to the survey said they had used, were planning to use, or would use (now that they knew about the program) the credit. The firms who had not used and did not plan to use the credit were asked why. They were about equally divided between answers that blamed their own business circumstances (e.g., declining sales) and answers that blamed some feature of the credit's design (e.g., considered the procedure too troublesome to pursue). These non-users were then asked if they would use a credit program that was targeted very differently. One option described was a program targeted at low wage jobs so that they could hire anyone they wanted to fill the job (and qualify for the credit) as long as the job being filled did not pay more than $5 an hour. The other option resembled the New Jobs Tax Credit in that the firms were told that any new hire during the year would qualify for the credit. Overall, 40 percent of the non-users of the current targeted program said they would use the wage targeted program, and 59 percent would use the program applicable to any hire. The non-users firms who had given a program design reason for not using the targeted program were more likely to say they would use a redesigned program.

Interestingly, firms who made up the 30 percent who used or were going to use the Targeted credit were much more likely than

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1/Many observers of the TJTC have noted that over two-thirds of the TJTC certifications for the "economically disadvantaged youth" category were made "retroactively"--i.e., more than 15 days of employment elapsed before the firm filed for a certification. Although highly circumstantial, this is further evidence that the TJTC did not cause any net increase in the employment of the target group.

the non-users to change their behavior in response to the redesigned programs; 76.3 percent said they would increase their utilization of the credit if it were wage rate targeted; and 88.3 percent said they would increase utilization if any hire were eligible.

In sum, the survey results strongly suggest that by even moderately reducing the specificity of the targeting mechanism (e.g., wage rate targeting) one can greatly increase the take up rate of the subsidy program. However, precisely why the narrow targeting reduces utilization is still not clear.

Target individuals who apply for jobs may not wish to reveal to a potential employer their membership in the target group if the grouping has a demeaning connotation like "economically disadvantaged" or "welfare recipient". Firms may also be hesitant about asking prospective employees about their membership in these groups. Firms may also have very negative expectations about the types of individuals that would be referred by the local certifying agency (Employment Service, local AFDC office, etc.,) and will make no effort to participate even though they know about the credit.

Significant utilization of a wage subsidy may require some lead time and preparatory investment and firms may not be willing to undertake it with a very narrowly targeted credit. The quantity and characteristics of the prospective supply may be too uncertain for a group like "economically disadvantaged youth," ages 18-24.

ALTERNATIVE PROGRAM DESIGNS

The problem is how to design an employment credit program that will give firms maximum latitude while not causing a massive outflow in the form of foregone tax revenues. Note that this view assumes that the low utilization of the highly targeted programs is symptomatic of non-effectiveness.

One approach would be to have a NJTC-type program which would cover any category of worker (therefore avoiding the take up problem due to socio-economic targeting) and would attempt to hold down tax revenue losses by only covering increments to employment levels in some base year. In order to help low productivity workers as much as possible the subsidy would have to be applicable for a number of years to each eligible worker hired which increases annual tax losses by a factor approximately equal to the number of years of coverage. This approach would be a significant improvement over the TJTC but has some problems of its own. The major one has to do with the possible effect of the marginal eligibility rule on the net-employment effect. The problem here is similar to having a low take up rate. Some firms will not be able to make use of the credit (e.g., because they are reducing employment levels) and they may have difficulty recruiting their usual quality worker for whatever replacement demand is generated by labor turnover. It is difficult to know the significance of this problem without detailed data on the distribution of individual firms (i.e., tax filing units) with respect to employment changes through time, and how much turnover demand actually resides in firms that are reducing the levels of their employment. In general, this approach is very appealing in that it would appear to guarantee a very high take up rate and at the same time keep overall tax revenue losses within plausible bonds.

Another approach would be to target the credit on low wage jobs rather than on any particular group of people and to use an any-new-hire rule like the TJTC in place of the marginal hire rule. This has the advantage of avoiding adverse problems inherent in the marginal hiring approach but raises possible new problems with regard to public sentiment toward the employer. In conversations with businessmen (while designing our survey instrument) we detected a definite hesitancy on their part to characterize any of their jobs as "low wage" jobs.

The table on the following page summarizes our estimates of the total annual budget cost (foregone tax revenues if a tax credit form is used) and net employment effects for the two types of programs just described, along with a third design that represents a cross between the other two.

In arriving at these estimates, we assume that each program covers an eligible individual (or eligible "slot" in the case of the untargeted marginal employment program) for 2 years. Further, we assume a subsidy of $1,500 and for the purpose of deriving the net employment effect, that this represented a 20 percent decline in the cost of low skill labor to all private firms. We also assumed an average marginal tax rate of 40 percent so that the net tax loss per eligible hire was $900. A cursory review of the results might lead one to select the second alternative. However, several caveats are in order.

First, it is important to note that we have not attempted to investigate the administrative feasibility of any of these designs, or how the net employment effect might vary by administrative design. These are crucial issues with regard to the two marginal employment alternatives.

Second, firms may have strong incentives to purposely go through a sequence of employment decreases and increases in order to have the credit apply to more and more of their work force. This would both increase the budgetary cost of the credit program, and, perhaps more importantly, reduce the efficiency and productivity of the economy. Similarly, exogenous random fluctuations in output and employment levels may disqualify many firms from participating in a marginal employment subsidy even though their underlying trend in employment was level or increasing. This would

TABLE 2

ANNUAL BUDGET COST (OR FOREGONE TAX REVENUE), NET EMPLOYMENT EFFECT, AND COST PER JOB CREATED, FOR THREE WAGE SUBSIDY PROGRAMS 1/

Type of Program	(1) Usual No. of Hires Per Year 2/ (millions of people)	(2) Annual Budget Cost for Usual No. of Hires (billions of dollars)	(3) Net Employment Effect (millions of people)	(4) Total Cost (billions of dollars)	(5) Cost per Job Created (dollars)
Low Wage Jobs—Any New hires	5.2	$ 7.2	1.1	$ 8.2	$ 7,272
Low Wage Jobs—Incremental Hires Only	.2	.4	1.1	1.4	1,272
All Jobs—Incremental Hires Only	1.2	2.4	1.1	3.4	3,091

1/Each program covers an eligible hire for 2 years of employment. All annual cost figures are estimates of what they would be at the end of the second year of program operation.

2/The number of hires that would have taken place without the credit.

Sources:

Column (1): 5.2 million is our estimate of total full year hires in Private Business Sector by workers at or below the minimum wage.

1.2 million is from BLS projections of labor force growth during the 1980's (Paul M. Ryscavage, "BLS Labor Force Projections: A Review of Methods and Results," Monthly Labor Review, April 1979, Department of Labor, BLS, pp. 15-22.)

.2 million is 1.2 million x .124, where .124 is the fraction that minimum wage workers were of total workers in 1980.

Column (2): $7.2 billion is based on an assumption about how turnover cumulates through the low-wage population. We assumed that by the end of the second year 8.0 million low wage workers would have qualified for the subsidy, i.e, $7.2 billion=8.0 million x $900.

.4 and 2.4 are simply 2 times the annual increments times $900.

Column (3): based on an estimate of the demand elasticity for low skilled workers. (This figure is derived from our review of studies on the effects of changes in the minimum wage on employment. Using parameter estimates from these studies we estimate that the desired level of unskilled employment would increase by about 1.1 million (all ages 18+) if a wage subsidy that lowered the cost of unskilled labor by 20 percent were instituted.)

Column (4): =Col. (2) + (1.1 million x $900).

Column (5): =Col. (4) ÷ 1.1 million.

tend to reduce the net employment effect for the marginal employment designs below that of any new hire programs.

Third, the very low costs for the marginal employment program that targets on low wage jobs must be considered highly tentative. Without further research it is not possible to make reliable comparisons of the cost/effectiveness between marginal employment and any new hire designs.

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR,
DEPARTMENT OF ECONOMIC RESEARCH,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
BEFORE COMMITTEE ON FINANCE, SENATE SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT AND REVENUE SHARING
HEARING ON TAX INCENTIVES FOR EMPLOYMENT

April 6, 1981

The AFL-CIO recommends that the jobs tax credit be permitted to expire on December 31, 1981 as provided under current law.

The "Targeted Jobs Tax Credit" program was developed in an attempt by Congress and the Administration to restructure the 1977-78 experiment which was a proven failure. Evidence available to date indicates that the current version cost somewhat less in terms of foregone federal revenue, but has been no more effective in targeting benefits in a manner which generates new jobs or improves future employment prospects for the "target" groups.

The result is that:

a) Needed federal revenue has been wasted through providing benefits to firms for doing what they would do anyway.

b) Larger and more prosperous firms that are least in need of federal aid receive windfalls.

c) Federal revenue and attention is diverted from the programmatic solutions necessary to help the disadvantaged.

d) Wages are undercut and employers have an incentive to adopt a revolving-door pattern of laying off subsidized workers as soon as the subsidy ends and displacing current workers for those that are subsidized.

The measure provides a tax credit of 50 percent of the first $6,000 in wages paid during the first year of employment (maximum credit of $3,000 per employee) and 25 percent of the first $6,000 in wages during the second year of employment (maximum credit of $1,500 per employee). It is available to <u>all</u> private employers who hire individuals from one of the following seven groups:

* Handicapped persons referred from vocational rehabilitation programs or the Veterans Administration;

* Young people 18 through 24 who are members of economically disadvantaged families;

* Vietnam-era veterans under 35 who are economically disadvantaged;

* Persons who have received general assistance for 30 or more days;

* Youths 16 through 18 participating in cooperative education programs; or

* Ex-offenders (felons) who are economically disadvantaged and are hired within five years after conviction of prison release.

Although a detailed analysis of the program is not available, the studies that have been made clearly indicates that the measure leaves much to be desired and reinforces our objections to the program.

The Congressional Research Service for example, notes that "... evidence suggests that windfalls and substitution in the TJTC program are substantial and the General Accounting Office has tentatively estimated that only 13 percent of hirings under the TJTC program represent new jobs.

Similar points were raised in the Northeast-Midwest Institute study of the program, and an Ohio State University report notes factors such as:

a) "Most program implementors in both Employment service and CETA do not believe that the program ... is ... helping clients obtain jobs to any significant extent."

b) "... On the average about 80% of the certifications issued," were retroactive which clearly points up the fact that few if any new jobs were being created and

c) "The wages for TJTC participants who get hired have tended to be less than $4.00 per hour."

We remain convinced that wage subsidies to private employers are a bad idea -- whether directly through grants or indirectly through weakening of minimum wage and prevailing wage laws or the back door of tax forgiveness.

We do not wish to be negative, and we do not take any proposal which could help solve the nation's employment problem lightly. We have long been concerned about the special needs of young people for employment as well as training and educational opportunities; and, we have supported and continue to support outreach programs and the full range of training, counseling, and supportive services for disadvantaged youths and adult workers.

In addition we do feel that tax incentives -- if effectively targeted -- can be a useful economic and job development tool. To that effect we have called for a reindustrialization business tax cut which could effectively target funds to the industries, areas and people where the needs are greatest at minimal cost and risk. This would represent a major beginning toward the revitalization and rehabilitation of this nation's basic industries and economically distressed areas.

A full description of the AFL-CIO proposal is attached.

Attachment

AFL-CIO TARGETED BUSINESS TAX CUT PROPOSAL

I. Background

On February 16, 1981, the AFL-CIO Executive Council issued a statement that called for:

1) Business, labor and government participation in a Reindustrialization Board. Under this Board, a Reconstruction Finance Corporation (RFC) would invest public and private funds in necessary reindustrialization projects.

2) The RFC should have authority to allocate $5 billion in tax expenditures targeted to where they are most urgently needed.

3) The RFC should be allocated an additional $5 billion to: encourage new industries that have difficulty obtaining necessary financing; and assist older industries with special capital needs for modernization, expansion and restoration of their competitive position. The RFC should also direct its resources to specific geographic areas of the country that are most in need.

II. Implementation

The RFC must be given substantial discretionary authority to establish criteria for industry and area eligibility and to allocate funds based on certificates of necessity.

The tools available should include:

A. Non-tax subsidies such as:

1. Loans
2. Loan guarantees
3. Interest subsidies

B. Tax subsidies such as:

1. Investment tax credits (refundable)
2. Accelerated depreciation
3. First year present value depreciation
4. Carry back-carry forward devices.

III. Targeting Considerations

In making its allocation decisions the RFC:

- Should work within a broad framework with special emphasis given to firms that fall within the basic manufacturing sector. This can be done through use of the Standard Industrial Classification (SIC) definitions.

Attachment

- Emphasize investments that would take place in areas that are economically distressed based on criteria such as unemployment, poverty and/or likely to be adversely affected by relatively rapid shifts or changes resulting from plant closings, technology, government actions or demands for their products.

Other factors:

- U.S. industries where capacity problems are creating "bottlenecks."
- High risk, new U.S. industries with a high growth potential.
- Industries which are vital on national security grounds.
- U.S. firms which provide essential inputs to other industries.
- Distressed U.S. firms where bankruptcy or failure would cause severe supply problems for other basic industries and/or create dependency on foreign suppliers for essential inputs.
- U.S. firms that are competing with industries (firms) which are subsidized by foreign nations.
- U.S. firms which have substantial and demonstrable problems in meeting government imposed costs.

IV. Eligibility Considerations

The RFC should require the following in determining eligibility and allocating funds.

A firm seeking a certificate of need should:

- Present a reasonable demonstration that the aid would be used in financing net increases in domestic investment in production of plant machinery or equipment.
- Present a reasonable demonstration that the benefits result in net domestic job gains or will prevent domestic job loss.
- Present a reasonable demonstration that the resulting economic activity is compatible with the area's industrialization and development plans, needs and infrastructure.

RFC guidelines:

- Loans or guarantees or interest subsidies should not be extended unless the financial assistance applied for is not otherwise available from private lenders or from other Federal agencies on terms which in the opinion of the RFC will permit the accomplishment of the project.
- RFC should try to target benefits to firms in areas where the existing public infrastructure can be utilized.

Attachment

- Emphasis should be on investment that would take place in areas that are economically distressed based on criteria such as unemployment, poverty and/or likely to be adversely affected by relatively rapid shifts or changes in plant closings, technology, government actions, or demands for their products.

- The funds of the RFC should be supplemented by allocations from individual pension plan funds. Pension plans should be encouraged to set aside a portion of their plan's assets for assignment to the RFC. Pension plans today are the single largest source of funds for new investment -- their total assets amount to more than $600 billion. To assure that the interests of the pensioners are protected, the government should guarantee the invested funds.

- Anti-pirating language such as that in PWEDA of 1965 should be included viz:

  > Financial assistance should not be extended to assist establishments relocating from one area to another or to assist subcontractors whose purpose is to divest, or whose economic success is dependent upon divesting, other contractors or subcontractors of contracts theretofore customarily performed by them. Provided, however, that such limitation shall not be construed to prohibit the establishment of such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

- Applicants must comply with standard nondiscrimination provisions of federal civil rights laws and federal safeguards relating to labor standards and protections such as those provided for in the FLSA of 1938 and the Davis-Bacon Act.

Council
for a
Competitive
Economy

Joe Cobb
Director of Economic Analysis

April 3, 1981

Testimony presented to

U. S. SENATE
COMMITTEE ON FINANCE
Subcommittee on Economic Growth, Employment, & Revenue Sharing

by Joe Cobb
Director of Economic Analysis

Mr. Chairman and Members of the Subcommittee. I wish I could present this testimony in person, to be able to answer the questions that I know it will raise, about the President's program for tax reduction. I want to present the case in this statement for much deeper tax cuts for business than the President has proposed. I do not speak in any sense against the President's tax-cut proposals for individuals; indeed, I believe that only individuals pay taxes--so a tax cut for business is a tax cut for individuals.

I want to bring to your attention at these hearings one of the central issues of business taxation. The proposals that the President has made for accelerated depreciation (the 10-5-3 plan) are merely holes to be punched in the corporation income tax. The U.S. economy would be much better off, however, if the tax drain on the working capital of domestic corporations were eliminated.

Your first reaction to this proposal may be that it is "politically unrealistic"--but emerging issues in public policy always begin with someone daring to speak the truth and advocate some politically unrealistic proposal--which starts to move political realities, inch by inch, closer to that solution. All of economics could be regarded, by some, as politically unrealistic.[1]

The productivity of U.S. labor has fallen rapidly in recent years, both in terms of international competition and our own historical record. Economists agree that the key to this problem is the rate of capital formation; that something must be done to increase the rate of savings by the general public. Real capital can only come from real savings, not from credit expansion through government monetary policy. Real savings,

410 First Street, S.E. Washington, D.C. 20003
(202) 544-3786

moreover, can only be increased by changing the relative prices of savings vs. consumption expenditures. When we look at the present tax structure in the United States, it is clear that there is a heavy tax penalty on savings. If this penalty can be removed, the relative prices of consumption vs. savings will be restored to levels that the free market can best determine.

It seems that President Reagan understands the importance of tax neutrality. In his address to the joint session of Congress February 18, 1981, on his Program for Economic Recovery, he said:

> For too long now, we've removed from our people the decision on how to dispose of what they created. We have strayed from first principles. We must alter our course.
> The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely we must be able to see it doesn't work.[2]

The Undersecretary of Treasury for Tax Policy, Norman B. Ture, has further explained the implications of this new economic philosophy as follows:

> Corporate earnings would not face a separate tax. Instead, they would be taxed to the shareholders. The corporation would deduct all investment in plant and equipment in the year it incurred the cost for these facilities; accordingly, there would be no depreciation allowances with their complicated rules and accounting problems. Retained earnings would be counted as saving too. Dividends or other capital returns not reinvested or saved by individuals would be taxable to them...
> The elimination of the corporation income tax, of the taxation of capital gains, and of depreciation would greatly simplify the tax structure as well as reducing the bias against saving....[3]

The tax-reduction proposals that the President has sent to Congress, however, do not include the repeal of the corporation income tax. The accelerated depreciation proposals for business are a cautious, halfway measure, due it seems to the administration's fears about ideas that may not be "politically possible." Indeed, when the idea of repeal is mentioned to individual Congressmen or their staff assistants in charge of economics and tax policy, the reply is: "That's politically unrealistic." So long as this remains the catechism in tax policy debates, the President's objective of tax neutrality will not be achieved.

A major part of the problem is the anthropomorphic fallacy in the minds of so many of our fellow citizens. When the news broadcasters report that a large corporation's profits in the previous quarter were $100 million, how many viewers absorb this information in personal terms, comparing it to their own meager biweekly after-tax wages? This fallacious frame-of-reference is reinforced by the legal doctrine that corporations are "entities."

WHAT IS A CORPORATION?

In U.S. law, the "entity" doctrine was first stated by Chief Justice John Marshall in 1819: "[The] corporation is an artificial being, invisible, intangible, and existing only in contemplation of law."[4] The origins of this doctrine can be found in British history, when corporations were created by the king to exercise various trade monopolies. In modern capitalism, however, individuals can form corporations as easily as they can form partnerships, and there are no special privileges that confer any economic advantage that is not also available to anyone else.

The legal doctrine that a corporation is a separate entity, apart from the human beings who own, operate, or work for it, is a convenience for those who might want to sue it for damages in court--because they don't have to list all of its shareholders by name on the legal papers. Robert Hessen has argued:

> Every organization, regardless of its legal form or features, consists only of individuals. A group or association is only a concept, a mental construct, used to classify different types of relationships between individuals. Whether the relationship is a marriage, a partnership, a team, a crowd, a choir, a corps de ballet, or a corporation, one fact remains constant: the concept denotes the relationship between individuals and has no referent apart from it. In a marriage, for example, there are two individuals whose relationship is designated by the concepts of husband and wife. There is no need to posit or invent an artificial entity to represent "the marriage" or to account for the fact that, in the eyes of the law, the husband and wife are regarded as a unit for some purposes (community property, for example).[5]

This idea that we get from accountants, therefore, that a corporation has an annual income, which may be a proper basis for the income tax, is just an extension of the legal doctrine that the corporation is an "entity." Yet, in economic terms, why should the working capital of a corporation be treated any differently from the cash flows of a partnership? Would it make any sense, or reflect a social concern for equity, to tax the combined earnings of a husband and wife as joint-income to "the marriage" and then tax again the individual spendings of the husband or the wife as personal income? This is precisely what the U.S. tax code does to corporations.

President Reagan seems to understand this issue, which is a giant step toward making the repeal of the corporation income tax "politically realistic." He declared in his February 5, 1981, televised address to the nation that "business doesn't pay taxes... Only people pay taxes--all the taxes. Government first uses business in a kind of sneaky way to help collect the taxes." Indeed, the only justification for collecting the tax revenue from stockholders at their corporate treasurer's office is because corporations have to keep accurate books for financial and cost accounting--the tax auditor has an easier job. Those employees who remit the revenue have no personal stake whatsoever in cheating because it is not their own money. Politicians believe that this is a hidden tax, one that no one will object to because they won't ever see the money disappear.

Yet the politicians are wrong: the corporation income tax is a very obvious and serious tax for investors. They may not sign the tax forms, but they understand the reduced equity yields.

RELATIVE PRICES IN THE CAPITAL MARKETS

This easy-to-collect, sneaky tax is the most damaging tax in the U.S. tax code. It has been estimated that the cost to the economy of having capital in less than its most productive locale because of the tax differentials is approximately $300 billion[6] (1980 dollars). The tax revenues are supposed to be $65 billion dollars in fiscal year 1981. This implies that if the tax were immediately repealed, the federal government would not lose a cent. It receives about 22 percent of the GNP these days.

The corporation income tax distorts the allocation of capital by imposing a particular burden on certain investments, making them less attractive relative to others that are not taxed. For example, if a corporation can earn $20 per year on $100 of capital, but only $10.80 is left after taxes to the investor, he might well choose to put the $100 in a money-market fund and earn as little as $10.81 from some less-important use of the capital.

Because the U.S. tax code is a byzantine maze of different tax rates on different kinds of investments, we observe a plethora of tax-schemes and a vast array of job opportunities for tax lawyers and financial whiz-kids. Their earnings are even included in the gross national product but we must observe they do not, in truth, make our nation wealthier in any way. Although it is all legal and honest work, the impact is the same as those who cheat on welfare payments; the tax code just creates opportunities to redistribute wealth without producing anything except the ingenuity to figure out how to get their clients a larger share of the pie.

All of modern, scientific economics is grounded on the concept of subjective marginal utility and opportunity costs.[7] Individuals allocate their scarce resources, their time, and their labor on the basis of what they expect to get in return for whatever they have to give up. For the free market to be effective, moreover, it is not important for everyone to be rational in his behavior, since market prices are determined at the margin--by a relatively small number of consumers or investors.[8]

The prices that are revealed in the market by the process of experimentation and discovery are the information signals that businessmen use to calculate the optimal amounts of capital and labor, the kinds of capital investment they will make--and the duration. This information system is necessarily and essentially decentralized; it has been proven that government planning cannot simulate nor outguess it.[9] The price signals that people rely upon, however, can be distorted by tax policy because the after-tax amounts are what affect everyone's choices.

Members of Congress have questioned the Reagan administration's claim that most of the taxpayers' benefits from the Kemp-Roth plan would flow into savings and investment. While we agree with President Reagan that there are strong reasons to believe the major impact would be to increase savings and the available capital for business, the same Congressmen who doubt the President are the ones most likely to oppose repeal of the corporation income tax.

The $65 billion that the U.S. Treasury will collect from corporations in fiscal year 1981 is already in the very place that these Congressmen would like to see the money go. It exists as the working capital of the corporations. The liquid capital of a business is like gasoline in a car. It has to be maintained at a certain level to accomplish various goals. The corporation income tax is like a steady leak in the gas tank, taking fuel away from the engine of our economy so that we can't achieve the business-growth rates we want. In a period of inflation, the method of calculating the net income of a business is distorted as well, since the cost-of-goods-sold that is deducted from gross revenues to compute the profit is understated: the historical cost-of-goods-sold is less than the business has to spend to replace the inventory to stay in business. The tax eats up phantom profits.

The financial policies of corporations are also distorted by the income tax, since it is relatively cheaper to borrow funds than to raise capital in the equity markets. U.S. corporations are far deeper in debt than they would otherwise be if there were not a tax-incentive to borrow capital. A heavily leveraged corporation is a more fragile business, more likely to face bankruptcy in hard times. It is possible that the Chrysler Corporation would not be in the trouble it is in, with the political pressures to bail out its bankers and bondholders, if the corporation income tax had not been skewing its financial policy since 1909. Would there be pressure from the auto and steel industries for protection from international competition were it not so dangerous to run a temporary loss?

The size of the federal deficit is of great concern to the people on Wall Street because they fear that whatever capital is available in the market will be scooped up by the Treasury bills and government bonds, driving up interest rates. High domestic interest rates are credited with strengthening the U.S. dollar, since Arab sheiks and European money-market managers can get a higher rate of return by sending liquid capital to the New York markets.

Yet, one immediate effect of repealing the corporation income tax would be approximately to double the value of shares in U.S. corporations. The price of a stock is determined by its yield, or its expected future yield. Since the yield is sliced dramatically by the corporation income tax, the removal of this tax will make equity investments much more attractive. Foreign investors would be strongly motivated to invest in the United States equity markets. The attraction of foreign capital could eradicate the perceived capital shortage in one sudden sweep--even if the federal deficit increased.

Members of Congress who are under populist pressure from constituents to vote for lower interest rates should observe that an influx of foreign capital to the United States in response to higher equity yields would relieve all of the pressure on the supply of lendable funds. Since the purchase of stocks on Wall Street would require also the purchase of U.S. dollars with which to make the transactions, the dollar would become very much stronger internationally and this would have a powerful impact on domestic prices. OPEC oil could even become <u>cheaper</u>, in relative-price terms!

WORKERS ARE HURT MOST BY TAXING CORPORATION INCOME

The principal objection by members of Congress to the Reagan tax-cut proposals is based on an appeal to "social justice" or "vertical equity"--the idea that taxes should fall more heavily on the income of the rich than of the poor. The Reagan proposals, however, by cutting tax rates equally across-the-board allow those who earn more--and would thus be liable to pay more without the cuts--to keep more of the fruits of their labor. The "social justice" objection confuses some basic concepts in taxation: rates vs. amounts due.

The corporation income tax, however, is a far heavier tax on the <u>savings</u> of the poor than on the savings of the wealthy. If an individual's marginal tax rate is more than 46 percent, it is in his self-interest for the corporation in which he owns stock to cut dividend payments and reinvest the funds--perhaps by becoming a conglomerate and buying another company that may have some "loss carry-over" credits that could be used to reduce the corporation income tax even further. One's personal tax rates might be as high as 70 percent on dividends, but if the corporation's reinvestment program is adequately managed, it is preferable for the company to grow and diversify so that only a long-term capital gain would be due when the stock is sold--at a maximum rate of 28 percent.

On the other hand, most working people rely upon a company or union pension fund as their main vehicle for savings toward retirement. Pension funds are heavy investors in corporate stock. Instead of accumulating wealth for the worker's retirement at a rate that would be determined by the productivity of the corporation, the income tax reduces this growth by removing 46 percent of the pension fund's accumulation before dividends are paid. The growth in market value of its investments is correspondingly reduced, so even if the pension fund seeks long-term growth rather than dividends, the penalty works against the poor. Since the pension fund would not otherwise pay a tax on its earnings, the corporation income tax is perhaps the worst tax in terms of "social justice." Peter Drucker, in his book The Unseen Revolution, writes:

> The corporation income tax has thus become a highly regressive tax, and one that is paid increasingly by the employees, especially those least able to afford a high rate of taxation--older retired workers. It is in effect a tax to 'soak the poor.' Yet any proposal to reduce the corporation income tax, or to allow the individual taxpayer to offset it in his tax return, is immediately shouted down as a 'giveaway to the rich' by the labor unions, [i.e., by] the representatives of the people who are most penalized. Actually, nothing would so effectively promote greater equality of income as to eliminate the corporation income tax, or at least that part of it which is levied on the holdings of the corporate pension funds. This would give the lowest income group in the adult population, the retired older people, substantially more purchasing power without inflationary impact.[10]

To the extent that some employees of a corporation participate in an employee stock-ownership plan, or buy shares (because they want to invest in the productive organization with which they may be most familiar), the regressive impact of the tax on their ability to accumulate wealth is worsened. Yet in rational terms, Congress might well prefer to see workers support their own companies, as do the Japanese workers, rather than buy silver coins or take some of the other tax-shelter opportunities open to small savers.

The question of who pays the corporation income tax in the long-run, after all the relative-price impacts of the tax on stockholders' investment choices have passed throughout the system, is an open question to many economists. The earliest empirical studies of the shifting of the corporate tax burden were performed by Professor Arnold Harberger.[11] He argues, as we have, that stockholders pay in the short-run, but in the long-run there is a reduction in economic efficiency. The productivity of labor is therefore reduced. The reason that economists debate the true incidence of the tax burden is that it is almost impossible to measure: Who pays a higher cost for economic inefficiency and lost worker productivity--the workers by missing out on wage increases or consumers by paying higher prices? All economists agree, however, that some of the tax is paid by consumers and some of it by employees of the corporations.

We can appreciate the intuitive idea that if workers are hurt by the corporation income tax in the long run, then it is regressive. The way it hurts workers requires a brief digression to see why wages rise.

All economists, except those employed by labor unions, understand that real wages are paid at a rate determined by the marginal productivity of labor. As workers are supplied modern capital-intensive tools and production processes, they become more productive. Ludwig von Mises, in an excellent essay, "Capital Supply and American Prosperity,"[12] asks why workers in America are so much better paid than workers in India, and shows how capital investment in America has made the difference. Wages are bid up by employers who have more capital year-after-year and need to recruit more workers to put it to use. Competition in the labor market assures workers that their wages will rise as capital formation advances, and workers become relatively scarce and more productive. This process is often obscured, not only by labor union propaganda and false reporting about the Industrial Revolution by historians,[13] but also because unemployment occurs in particular segments of society, or in depressed geographical regions, leading workers to believe they are competing against each other for jobs rather than that employers are competing for good workers.

The corporation income tax, by reducing the rate of capital formation in the business sector, reduces the need for employers to bid against each other to keep their best workers. The long-term upward pressure on real wage rates slows down. To make matters worse, employers in recent years have offered increased compensation in the form of pension benefits instead of direct wages. For the individual worker, this is a shelter from the personal income tax for his savings, but as we have seen, the pension funds' long-run value for his retirement is caught by the perverse impact of the corporation income tax.

THE TAX HURTS SMALL MORE THAN LARGE FIRMS

At first glance, repeal of the corporation income tax might look like a benefit to big business because the absolute dollar amounts might be larger. Yet there is considerable evidence that small businessmen are hurt much more by the tax. Milton Friedman has pointed out that the ability of corporations to reinvest funds internally, and create a tax advantage for wealthier stockholders, encourages inefficient reinvestment and promotes the concentration of industry. Even though stockholders could take their dividends and invest in a diversified portfolio themselves, it is to their advantage to have the corporate management do this for them under present tax laws.[14] Roger Sherman has argued that industrial concentration and the trend toward conglomerate firms are further stimulated because such firms can shift their internally-generated funds from division to division, where the greatest productive opportunities may lie, thus enhancing the value of their stock; and by such diversification, they can also attract borrowed funds at a lower interest rate by reducing the risk of bankruptcy.[15]

Every small businessman, moreover, has experienced that unpleasant moment at the bank when the banker agrees to finance less than the full amount of his loan request because his after-tax earnings are too small. The ability of a business to borrow funds is directly related to its cash flow--and this is especially the case for the small businessman with fewer assets and perhaps a shorter track-record for the banker to evaluate.

A smaller business may well be a faster-growing one, with a much higher rate of return on its investments than a larger, established firm. Small business accounts for over 55 percent of all non-agricultural employment and 45 percent of GNP in the United States. It also produces over 50 percent of all new inventions, innovations, and patents. In the last ten years, 69 percent of all new jobs were created by firms with less than 100 employees, many located in the centers of large cities.[16] Yet, if access-to-capital is viewed as a "social justice" issue, the corporation income tax takes it away from the very entrepreneurs who might make the best use of it. Certainly the larger corporations, with established market shares and recognized brand names, are less likely to be hurt by a tax that takes money equally from the small and large business, as this tax does above $100,000 in income.

POLITICAL DISHONESTY

No discussion of the inequity of the corporation income tax would be complete without a brief discussion of why it is a popular tax among politicians and labor leaders. It is in the interest of some politicians for the rest of us to believe that it is "politically unrealistic" to discuss its repeal.

Sadly, they believe the employees and the poor are too stupid or naive to realize that they are its real victims. It is easy for a politician to rail against the rich corporations, especially when inflation--and the public's misunderstanding of the causes of inflation--make business such a handy scapegoat. "Tax the giant corporations!" they shout. Yet, no friend of the working class or the poor who is intellectually honest can support such a policy.

Much to his credit, Lester C. Thurow of MIT has strongly advocated the repeal of the corporation income tax--as a policy for helping the poor. Professor Thurow is widely known as an economist identified with government policies to benefit the socially disadvantaged. The Council has reprinted the relevant sections of his book, The Zero-Sum Society, in its Perspectives on Public Policy series. In his view,

> When you review the arguments, there isn't any case for the retention of the corporate income tax. It is both unfair and inefficient. It ought to be eliminated.[17]

With such diverse agreement on the issue, it hardly seems possible that repeal of the corporation income tax could be "politically unrealistic." The Council for a Competitive Economy believes that its repeal ought to be among Congress's top priorities as it debates President Reagan's tax-cut proposals. Certainly if the Congressional Democrats want to amend the Kemp-Roth plan in the direction of tax cuts on business, they should not be timid.

Why waste effort to puncture the corporation income tax like a slice of swiss cheese when it would be so much better to abolish it?

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Gerstenhaber - Harrell & Associates, Inc.
2426 Cee Gee • Suite 207
San Antonio, Texas 78217
(512) 822-4700

April 13, 1981

The Honorable Robert Dole
2227 Dirksen
Washington, D.C. 20510

Dear Senator Dole:

On April 3, 1981, I attended the Senate Sub-Committee hearing on Economic Growth, Employment & Revenue Sharing that focused on the targeted jobs tax credit program (TJTC). I represented numerous employers, including Chemical Bank of New York, Albertson's, Inc., Luby's Cafeterias, Inc., Pizza Inn, Inc., La Quinta Motor Inns, Inc., Stewart & Stevenson Services, Inc., Trinity Industries, Inc., Piccadilly Cafeterias, The Sheraton Corporation, Republic National Bank of Dallas, Hospital Corporation of America and Harte-Hanks Communications, Inc., with a total employee population exceeding 250,000. I am directly responsible for the certification of over 7,000 employees. With this experience, I would like to share some observations and offer a few suggestions that, in my opinion, would increase TJTC's effectiveness as a useful tool in reducing unemployment.

The TJTC program is generally successful. However, I have continually encountered inconsistencies in the interpretation and application of the mechanics of this program. Due to these problems, participation by the p.ivate sector has been minimal, but interest has been steadily increasing over the past 12 months.

Approximately 20% of the individuals certified by my clients have been the Cooperative Education Program group (except for the food service industry, which is over 40%). While this generated substantial savings for these companies, the intent of the TJTC program was not served.

Finally, the majority of those certified were entry level, minimum wage employees, who, after a substantial period of time, remained at or near their initial employment status.

In view of the above, I would recommend you consider the following:

1. Provide consistent administrative procedures throughout the United States. This should be done by issuing guidelines (IRS regulations) to employers, and standardized administrative procedures to designated state agencies. Experience shows that those states who designate the state employment agency as being responsible for the administration of this program, have a higher degree of participation and a more positive relationship between the state agency and private industry (i.e. states of Georgia, Florida and Louisiana).

2. Continue retroactive vouchering for active employees. To encourage participation in TJTC, it is necessary to get the employer's attention. This is accomplished by "putting the carrot (retroactive certificate) in front of the horse". Retroactive certificates provide capital for expansion, research and development, etc., by effectively reducing payroll costs. It also provides a selling tool for state employment agencies in that it can initiate communication between the private and public sector. However, certification of terminated employees should be eliminated.

3. Eliminate Cooperative Education Program from TJTC. Experience shows that employers who hire students generally will employ them regardless of incentives to reduce taxes. However, there is a need to expand the disadvantaged youth group from 16 years old through the age of 24.

4. Designate economically disadvantaged single working parents (head of household) as a target group. This would provide incentives for employers to hire the single parent individual who is economically disadvantaged and, because of their family responsibilities, may not meet normal working schedule requirements.

5. Increase the dollar limitations to $12,000 per year for the two year participation period of the employee. This would enable the private sector to expand the job categories to higher paying technical and skilled occupations and provide the opportunity for development of upward mobility training programs for certified employees.

I appreciate your interest in this program, and would be pleased to exchange further correspondence with you or your staff. I will be in Washington, D.C. for the period of April 24th through the 29th and would welcome the opportunity to discuss this program with you or members of your staff.

Sincerely,

GERSTENHABER-HARRELL & ASSOCIATES, INC.

Gary A. Gerstenhaber

Gary A. Gerstenhaber, C.P.A.
Partner

Copy to Richard Belas
Roderick DeArment
Bob Lighthizer
George Pieler

GAG/pa

STATEMENT OF

JAMES A. COX, JR.
Executive Director
NATIONAL ASSOCIATION OF REHABILITATION FACILITIES

Submitted to the Subcommittee on Economic Growth,
Employment and Revenue Sharing of the
Committee on Finance

U.S. Senate

April 3, 1981

Mr. Chairman:

This statement is submitted by the National Association of Rehabilitation Facilities (NARF). NARF is a national organization of community rehabilitation facilities with over 800 members providing services to more than 300,000 disabled individuals annually. Rehabilitation facilities are community-based centers that provide comprehensive rehabilitation services to handicapped people.

This statement is addressed to the subcommittee's consideration of the Targeted Jobs Tax Credit - how well it has worked to increase employment, how it might be improved, and other approaches to maintaining and stimulating employment through the use of tax incentives with respect to the handicapped target population.

The last decade has seem impressive gains in the recognition of the needs of handicapped people including protection of civil rights, provision of employment opportunities, delivery of services and provision of direct financial support. Public policy in 1981 is substantially more favorable to the disabled than a decade ago. Public awareness of disabled people is more enlightened and pervasive. Assumptions and myths which were conventional wisdom a decade ago have been dispelled.

NARF firmly believes that we need a national employment policy for the disabled. The objectives of such an employment policy are:

1. To the maximum extent possible disabled people should have an opportunity to hold jobs in competitive employment;
2. People who are limited in their ability to hold competitive jobs should be able to obtain sheltered employment

which is stable and adequately compensated.

The concept of using tax credits to foster increased employment of handicapped people as embodied by the Targeted Tax Credit program supports the first objective.

The Targeted Jobs Tax Credit, 26 USC 51, was enacted under the Revenue Act of 1978, and extended to December 31, 1981 by the Technical Corrections Act, enacted in April 1980. The program gives employers a tax credit for the percentage of wages paid to members of the target groups. There are seven target groups, one of which is a vocational rehabilitation referral. A vocational rehabilitation referral is defined as a person certified by the designated local agency, usually the state employment agency, as having a physical or mental disability which for such person is a substantial handicap to employment and who has been referred to the employer while receiving, or having completed, rehabilitative services pursuant to an individual rehabilitation plan under the state plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973 or a vocational rehabilitation program carried out by the Veteran's Administration.

In order to be considered eligible for the program, the worker must obtain certification from the state employment agency which can then be presented to an employer.

To date the program has not been as successful as expected. By the end of 1979, 108,000 certificates had been issued to which over half have been issued for cooperative education students.[11] This figure does not, however, reflect the new jobs resulting from the program because even if a certificate is issued it is not a guarantee of employment. Therefore, the remaining target populations including the handicapped are receiving only a minimal percentage of the already small number of certificates issued and any resulting employment. According to a report by the Northeast-Midwest Institute, administrative changes are being made in the program to make it easier for states agencies to issue certificates, to focus on target group members other than cooperative education students, and to help eligible participants find jobs.[21]

The program provides an incentive for employers to hire workers who have traditionally been difficult to employ. This population includes handicapped workers who because of their disability and lack of skills have not been able to be employed. Handicapped people are eager to obtain skills so that they can become or maintain their independence. They have constantly sought remunerative employment at every level in the employment market, however, a soft economy, employer bias, and the disincentives or lack of incentives both to potential employers and employees that exist in other programs aiding the handicapped have impeded their continued progress, despite the gains of the last decade.

NARF believes that the program has the potential for encouraging employment of the handicapped and should be reauthorized for an additional three years in order to give it a fair chance. Furthermore, NARF recommends that it be amended to:

1. Expand the definition of "vocational rehabilitation referral" to include referrals to an employer upon completion of (or while receiving) rehabilitative services pursuant to an individual program for rehabilitation services provided by a rehabilitation facility as defined by

Section 7(11) of the Rehabilitation Act of 1973, as amended.

2. Increase the amount of the credit to 75% of qualified first year wages and 50% of qualified second year wages for employed vocational rehabilitation referrals.
3. Allow employers with inadequate tax liabilities to offset the credit to be given a tax refund equal to the amount of the unused credit. Small businesses and low profit firms with little or no liability have no incentive to use the credit. Frequently such businesses can supply employment at the local level for these hard to employ populations.

Additionally, the committee has invited witnesses to suggest other approaches for stimulating employment through the use of tax incentives. Therefore, NARF would like to take this opportunity to propose another amendment to the Internal Revenue Code to encourage the handicapped to be employed and to relieve the tax burden placed on these people.

Many handicapped people who are employed are working in positions which require little mobility, or low skill levels and pay minimal salaries. Although employed at desk or assembly line jobs, they may be physically incapable of performing regular household duties. Outside help is often hired to assist them with these basic life functions, which places a burden on already meager pay checks from which taxes are deducted.

NARF recommends amendment of the Internal Revenue Code to encourage these people to seek and continue to work rather than resorting to public assistance and institutional care. Specifically, NARF recommends that:

1. The personal deduction and withholding exemption sections of the Code be amended to allow a disabled individual an additional personal deduction and complementary withholding exemption for a taxpayer, spouse and dependent if so qualified. Currently, Section 151(d) allows blind taxpayers an extra personal deduction and withholding exemption due to blindness.
2. A disabled taxpayer be defined as a qualifying individual under Section 44A and be allowed to deduct employment-related expenses.

HR 8237 introduced in the 96th Congress proposed to make these changes in the Code and NARF recommends the bill to the subcommittee for its examination.

We would be pleased to provide any further information with respect to these recommendations.

1] "Putting the Targeted Jobs Tax Credit Back to Work," Northeast-Midwest Institute, Washington, D.C., September, 1980.

2] Ibid.

STATEMENT OF THE
AMERICAN CORRECTIONAL ASSOCIATION
ON THE
TARGETED JOBS TAX CREDIT

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT, AND REVENUE SHARING

APRIL 3, 1981

The American Correctional Association, the national professional organization of corrections personnel is pleased to have this opportunity to present its views on the Targeted Jobs Tax Credit (TJTC). We appreciate the chance to contribute to the deliberations of this subcommittee on the use of tax incentives to increase employment and to review our organization's involvement with and concerns about the continuing role of the TJTC as it affects the employment needs of ex-offenders.

The ACA is the national membership organization for corrections professionals. Its approximately 10,000 members represent the great majority of state, local and territorial correctional agencies, institutions, jails, pre-trial programs and agencies as well as federal probation, parole and institutional agencies. Among the most significant purposes of the association are to exert a positive influence on the shaping of national correctional policy and promoting the professional development of persons working in all aspects of corrections.

In an effort to advance the development of national corrections policy, the Association has taken positions over the last several years on a number of important correctional issues. Included in the policy statements and resolutions adopted by ACA in the area of ex-offender employment are the following: "Removal of Barriers to Employment," (1972) and "Utilization and Employment of Ex-Offenders," (1974).

REMOVAL OF BARRIERS TO EMPLOYMENT

Resolution Adopted 1972

WHEREAS: stable, meaningful employment is essential to the rehabilitation process, and

WHEREAS: public and employer attitudes, laws and licensing regulations bar ex-offenders from such employment,

THEREFORE: be it resolved that the American Correctional Association actively supports programs designed to remove all legal barriers, Federal, state and local, to the employment of ex-offenders, and,

BE IT FURTHER RESOLVED: that the Association will undertake through its program of public education, vigorous efforts to change public and employer attitudes to encourage great acceptance and increased employment opportunity for the ex-offender.

UTILIZATION AND EMPLOYMENT OF EX-OFFENDERS

Policy Statement Adopted 1974

The American Correctional Association endorses the concept and encourages the practice of employing ex-offenders in public and private agencies engaged in the rehabilitation of law violators.

DISCUSSION:

The American Correctional Association, for over 100 years, has been the professional association for corrections in the United States, and thus has played a major role in directing and assisting progressive programs in institutions and in the community. The ultimate goal of corrections is to assure that an offender does not continue to violate the law and return to institutional custody. A major force in preventing this from occurring is meaningful employment for the offender upon release.

One of the prime responsibilities of probation and parole counselors is to assist the offender in finding and maintaining employment in business and industry. The American Correctional Association recognizes that without the assistance of business and industry in the area of employment for the ex-offender, rehabilitation is a hollow word. Thus, the Association fully recognizes that the members of the Association must take the lead in employing the offender in appropriate roles within the sphere of correctional rehabilitation.

The American Correctional Association endorses the following steps in this process:

1. The Association and its members encourage the practice of employing ex-offenders in all private and public rehabilitation facilities.

2. The Association and its members will take the lead in eliminating State laws which prohibit ex-offenders being employed in nonsensitive areas. The Association recognizes that the roots of this discrimination are historical, not logical.

3. The Association encourages the elimination of questions pertaining to criminal history from employment applications, especially in areas of non-sensitive employment.

4. The Association encourages employment of the ex-offender in public and private rehabilitation agencies, as well as business and industry, based upon the abilities of the individual, not the history of the individual.

The employment of ex-offenders is a continuing concern of correctional agencies and staff as well as a serious personal problem for individual offenders. The Targeted Jobs Tax Credit Program is a most important incentive that helps make the employment of eligible ex-felons, veterans and low-income youth, who frequently are among the persons under the control or supervision of correctional personnel, more attractive to potential private sector employers.

Corrections professionals, acting in concert with local private employers can through this tax credit program assist in substantially improving the employment prospects of TJTC-eligible persons upon their release from prison or jail. Persons in the targeted groups in the following correctional statuses may qualify a potential private employer for this tax credit:

- on probation
- on parole
- on pre-release
- recently discharged

Thus, the TJTC can help increase the employability of persons whose job prospects, frankly, might otherwise be rather bleak.

Corrections professionals who specialize in finding job placements for recent releasees repeatedly identify the stigma society attaches to ex-offenders as a primary obstacle to obtaining jobs for their clients. As this negative connotation applies even more intensely to ex-felons, persons with such backgrounds have even more difficulty securing gainful employment.

The TJTC, by specifically identifying ex-felony offenders who are economically disadvantaged, as one of the seven targeted groups who can qualify private employers for this tax credit, provides a job-seeking ex-felon with a significant, positive asset that can be used to real advantages in enhancing that individual's employment prospects. As correctional agencies' diverse clientele also include substantial numbers of low income Vietnam-era veterans under 35 as well as youths 18-24 from low income families and recipients of prescribed public assistance benefits--and many such individuals may qualify under any one of several of the target groups--the TJTC can and does play an important role in increasing the employability of otherwise hard to place ex-offenders.

A report to the Congress by the Comptroller General of the United States entitled: "Correctional Institutions Can Do More to Improve The Employability of Offenders,"* included a number of suggestions on ways existing federal assistance can do more to improve employment programs in state correctional institutions. Among the recommendations set forth in that report was that the Secretary of Labor provide resources to encourage state correctional institutions to establish and operate outreach programs to make offenders aware of manpower services available in their states and to persuade them to use such services. The ACA's TJTC Outreach Program is one such effort to advance these objectives.

At the request of the National Institute of Corrections, the ACA is conducting an outreach program on the TJTC under an interagency agreement with the U.S. Department of Labor. The project's objective is to expand awareness and utilization of the TJTC by state and local correctional agencies and their clients across the country.

The primary goal of this project is to provide state and local correctional administrators with information needed to establish their own outreach programs to further publicize this tax incentive system. Toward this end, the ACA has asked each corrections agency to designate a TJTC contact person to disseminate information on this program to both clients and potential private employers. We also requested that each agency get in touch with their local Job Service office, if they had not already done so, to coordinate further outreach efforts. Over 500 corrections agencies were contacted, including adult and juvenile agencies, state paroling authorities, state and local probation agencies, and large jail facilities. The response and cooperation from the agencies involved was very positive and most encouraging.

*GGD-79-13 (February 6, 1979). U.S. Government Printing Office Washington, D.C. 20402, No. 620-167/213 (1979)

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The project has conducted extensive follow-up activities to ensure designation of a TJTC contact person by interested agencies and/or to verify the data submitted. The project distributed TJTC brochures to each correctional agency contacted and will provide additional TJTC informational materials to each designated contact person.

The project is about to publish a TJTC Corrections Contact Directory to facilitate coordination of TJTC outreach activities between correctional agencies and state Job Service offices. It should serve as a handy reference to expedite cooperative efforts regarding TJTC within the corrections community, with Job Service personnel, as well as between these two agencies.

The United States Employment Service's Report on the TJTC program through July, 1980 indicated that just over 38,000 disadvantaged ex-offenders were issued vouchers under TJTC and that close to 13,000 of these individuals were subsequently certified as TJTC-eligible, providing their employers the documentation necessary to claim this tax credit.

As this target group represents less than 10% of the persons obtaining vouchers and ultimately certified under TJTC, it is apparent that more remains to be done to see to it that individuals under the control or supervision of correctional agencies or programs are made aware of and encouraged to utilize this tax credit program to increase their employability in the private sector.

The ACA is committed to continuing TJTC outreach activities for the remainder of this fiscal year and urges this subcommittee to retain the TJTC concept in its employment stimulation programs and to extend this tax credit program so that it may continue to enhance the employment prospects of ex-offenders in the targeted groups.

This cost-effective approach to increasing employment among groups with historically high unemployment rates and other special employment needs through tax incentives to private sector employers should be considered as a basic feature of future federal employment stimulation efforts.

NATIONAL TOOLING &
MACHINING ASSOCIATION

9300 LIVINGSTON ROAD, WASHINGTON, D.C. 20022 301/248-6200

REMARKS BY

NATIONAL TOOLING & MACHINING ASSOCIATION

SUBMITTED TO

SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON ECONOMIC GROWTH,

EMPLOYMENT AND REVENUE SHARING

APRIL 3, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS BRUCE HAHN. I AM MANAGER OF GOVERNMENT AFFAIRS FOR THE NATIONAL TOOLING & MACHINING ASSOCIATION. OUR ASSOCIATION REPRESENTS 12,500 SMALL BUSINESSES EMPLOYING APPROXIMATELY 300,000 OF THE MOST HIGHLY SKILLED CRAFTSMEN IN THE COUNTRY. IT IS THE JOURNEYMAN MACHINISTS AND TOOL AND DIEMAKERS ON WHOM OUR ENTIRE INDUSTRIAL BASE DEPENDS FOR THE TOOLING FOR EVERY ASSEMBLY LINE IN THIS COUNTRY. LIKE THE KEYSTONE STATE WHICH IS THE HOME OF NEARLY 1,000 OF THESE COMPANIES, OURS IS THE KEYSTONE OF MODERN INDUSTRY, FOR WITHOUT THE HIGHLY REFINED SKILLS OF THIS INDUSTRY, NO OTHER MANUFACTURING INDUSTRY CAN FUNCTION.

FOP THIS REASON, THE HIGHLY SKILLED LABOR SUPPLY IN THIS COUNTRY IS ALSO THE KEYSTONE OF THE PRESIDENT'S PROPOSED ECONOMIC PROGRAM. LIKE THE NAIL FROM THE SHOE OF THE HORSE OF THE GENERAL WHO LOST THE WAR, THE ENTIRE PROGRAM MAY FAIL FOR LACK OF THE SKILLED LABOR NEEDED FOR REINDUSTRIALIZATION. WHILE THE PROGRAM PROVIDES BADLY NEEDED INCENTIVES FOR U.S. INDUSTRY TO RETOOL THEIR ASSEMBLY LINES, WHAT WILL HAPPEN WHEN WE FIND WE LACK THE HIGHLY SKILLED LABOR TO ACCOMPLISH THAT RETOOLING? MANY OF OUR MEMBERS WHO DO CRITICAL DEFENSE AND AEROSPACE WORK HAVE SERIOUS BACKLOGS AT THIS MOMENT. WHAT WILL HAPPEN WHEN WE SIGNIFICANTLY EXPAND OUR RATE OF MILITARY PROCUREMENT?

IT IS OUR OPINION THAT THE TARGETED JOBS TAX CREDIT HAS PROVEN VIRTUALLY USELESS AS A MEANS OF ENCOURAGING THE TRAINING OF HIGHLY SKILLED LABOR BY SMALL BUSINESSES. SUCH INCENTIVES MAY BE USEFUL IN ENCOURAGING THE EMPLOYMENT OF SEMI-SKILLED OR UNSKILLED LABOR, BUT THEY HAVE DONE PRACTICALLY NOTHING TO IMPROVE OUR MOST CRITICAL AND IMPORTANT LABOR BASE -- THE HIGHLY SKILLED WORKER IN THE U.S. WE REACH THAT CONCLUSION BECAUSE OF THE EXISTENCE OF 60,000 HIGH PAYING JOB VACANCIES IN OUR INDUSTRY AT THIS MOMENT. A TYPICAL JOURNEYMAN MACHINIST EARNS $30,000 PER YEAR OR MORE. IF THE TARGETED JOBS TAX CREDIT OR THE WIN PROGRAMS WERE SUCCESSFUL FOR THIS TYPE OF JOB, THIS SHORTAGE WOULD NOT EXIST. FROM OUR CONTACT WITH OTHER ASSOCIATIONS IN THE WASHINGTON AREA, THERE SEEMS TO BE AN INTERESTING CORRELATION. THE MORE HIGHLY SKILLED THE WORKER BASE AND THE SMALLER THE SIZE OF THE TYPICAL COMPANY, THE GREATER THE SHORTAGE OF SKILLED LABOR.

WE BELIEVE THE SHORTAGES OF HIGHLY SKILLED WORKERS IN CRITICAL SMALL BUSINESS INDUSTRIES ARE A RESULT OF SEVERAL FACTORS:

1. VERY FEW SMALL COMPANIES POSSESS THE SPECIALIZATION NEEDED FOR TRAINING DEPARTMENTS
2. MOST COMPANIES IN SMALL INDUSTRIES ARE HIGHLY COMPETITIVE AND LACK THE RESOURCES TO DEVELOP TRAINING PROGRAMS
3. WHERE THESE SHORTAGES ALREADY EXIST, THERE ARE USUALLY SERIOUS BACKLOGS AND CONCOMITANT PRESSURES ON PRODUCTION
4. SMALL MANUFACTURERS ARE RELUCTANT TO TAKE JOURNEYMEN OFF THEIR REGULAR DUTIES TO TRAIN NEW EMPLOYEES BECAUSE THIS SLOWS PRODUCTION AND LOWERS PRODUCTIVITY

THE REASON VARIOUS INCENTIVES AND ASSISTANCE PROGRAMS HAVE MADE LITTLE DIFFERENCE IN SKILLS TRAINING IN THIS COUNTRY IS BASICALLY A MATTER OF MISDIRECTION.

1. FEDERALLY FUNDED PROGRAMS, THROUGH ORGANIZATIONS SUCH AS CETA, HAVE GRADUALLY BECOME PRIMARILY SOCIAL IN ORIENTATION. THEY ARE DESIGNED TO TRAIN THE ECONOMICALLY DISADVANTAGED FOR ENTRY-LEVEL JOBS THAT MAY NOT EXIST RATHER THAN DESIGNED TO IDENTIFY AND TRAIN THOSE QUALIFIED FOR SKILLED JOBS. THE FORMER MAY HAVE SOCIOLOGICAL VALUE, BUT THE LATTER MAKES ECONOMIC SENSE. THE PROBLEM HAS DETERIORATED TO THE POINT THAT THE FEW EFFECTIVE INDUSTRY BASED SKILLS TRAINING PROGRAMS FUNDED UNDER CETA HAVE GRADUALLY FOUND THE INCREASING IMPOSITION OF SOCIOLOGICAL GOALS A GREAT RESTRICTION TO CONTINUING HIGH LEVELS OF PERFORMANCE.

2. VOCATIONAL PROGRAMS HAVE SUFFERED FROM SOME OF THE SAME TENDENCIES. ADDING TO THIS IS A CONTINUING SCHISM BETWEEN THE VOCATIONAL COMMUNITY AND THE EMPLOYER GROUPS. FOR SOME REASON, THERE IS A LACK OF COMMUNICATION AND MANY EMPLOYERS FEEL THAT THOSE COMING FROM VOCATIONAL EDUCATIONAL BACKGROUNDS HAVE A WOEFUL LACK OF PRACTICAL KNOWLEDGE AND EXPERIENCE ABOUT THE FIELD WHICH THEY ARE ENTERING.

3. TAX CREDIT PROGRAMS, SUCH AS THE TARGETED JOBS TAX CREDIT, SUFFER FROM THE SAME MISDIRECTION. AIMED AT THE ECONOMICALLY DISADVANTAGED, ESPECIALLY IN AREAS OF HIGH UNEMPLOYMENT, THEY ARE AIMED AT CREATING JOBS, ANY JOBS, FOR INDIVIDUALS WHO ARE OUT OF WORK. WHILE THIS IS A NOBLE GOAL, IT DOES NOT NECESSARILY PRODUCE THE KIND OF PERSON NEEDED FOR A HIGHLY SKILLED CAREER IN SOME OF

OUR CRITICAL INDUSTRIES. THE INDIVIDUALS WE NEED ARE THOSE WITH A REASONABLE MATHEMATICAL AND MECHANICAL APTITUDE WHICH HAS BEEN CULTIVATED, AT LEAST THROUGH THE HIGH SCHOOL LEVEL IN MOST CASES. UNFORTUNATELY, A HIGH PROPORTION OF THE ECONOMICALLY DISADVANTAGED ARE ALSO OFTEN EDUCATIONALLY DISADVANTAGED. THIS OFTEN PRESENTS AN INSURMOUNTABLE CHALLENGE TO TRAINING. A SKILLED WORKER IN THE TOOLING AND MACHINING INDUSTRY, THE HIGH-TECHNOLOGY ELECTRONICS INDUSTRY, AND OTHERS NEED CERTAIN LOGICAL APTITUDES, PHYSICAL DEXTERITY, AND PATIENCE, WHICH MAY NOT BE PRESENT IN A BROAD PROPORTION OF THOSE ELIGIBLE FOR THE TARGETED JOBS TAX CREDITS. THE UPSHOT HAS BEEN THAT THE TJTC HAS ENCOURAGED VERY LITTLE SKILLS TRAINING.

OUR INDUSTRY HAS BEEN VIEWING THE PROBLEM FOR SOME TIME, SEEKING SOME EFFICIENT, LOGICAL, PRACTICAL, AND SIMPLE APPROACH TO THE SHORTAGE OF SKILLED LABOR IN THE U.S. THE CONCLUSION WE REACH IS THAT A SPECIALIZED SKILLS TRAINING TAX CREDIT, AVAILABLE TO THOSE CRITICAL INDUSTRIES WITH A DEMONSTRABLE SHORTAGE OF HIGHLY SKILLED LABOR, SHOULD BE ENACTED. THE AMOUNT OF THE TAX CREDIT SHOULD BE CLOSE TO THE TRUE COST OF TRAINING, WHICH IS QUITE HIGH, IN ORDER TO OFFSET THE COSTS AND LOSS OF PRODUCTIVITY WHICH OCCURS DURING THE TRAINING PROCESS. THE TAX CREDIT SHOULD BE APPLIED ONLY TO NEW HIREES, OF COURSE. SUCH A TAX CREDIT WOULD BE SELF LIQUIDATING. SINCE THERE IS A GENUINE SHORTAGE OF LABOR IN THIS INDUSTRY AND OTHERS LIKE IT, EMPLOYEES WOULD BE LIKELY TO STAY IN THE TRADE. WITH A SKILLED TOOL AND DIEMAKER NOW EARNING IN EXCESS OF $30,000 PER YEAR, THE REVENUE LOSS OF THE TAX CREDIT WOULD SOON BE OFFSET BY THE TAXES ON NEW WAGES AND INCREASED PRODUCTION.

FURTHERMORE, SINCE THESE WORKERS LITERALLY PRODUCE THE MEANS OF PRODUCTION, THEIR OUTPUT, AS A GROUP, HAS GREAT IMPACT ON OUR ENTIRE NATIONAL MANUFACTURING PRODUCTIVITY. THAT OUTPUT WILL RESULT IN THE EMPLOYMENT OF HUNDREDS OF THOUSANDS SEMI-SKILLED AND UNSKILLED WORKERS, AND THE SUCCESS OF THE REAGAN ECONOMIC PROGRAM, IF THIS APPROACH IS SUCCESSFUL.

WE FEEL THAT THIS IS THE MOST FEASIBLE AND PRACTICAL APPROACH TO THE PROBLEM. IT WILL TAKE TOO LONG TO TURN AROUND OUR VOCATIONAL SYSTEM, ALTHOUGH THAT PROCESS HAS BEGUN AND SHOULD CONTINUE TO BE SUPPORTED. WITH THE PROPOSED BUDGET CUTS, THERE WILL BE LITTLE MONEY LEFT IN CETA BUDGETS TO SHIFT A SIGNIFICANT AMOUNT AROUND TO SKILLS TRAINING, ALTHOUGH THAT SHOULD ALSO BE DONE INSOFAR AS POSSIBLE. ADDITIONALLY, THERE ARE INHERENT INEFFICIENCIES IN WORKING THROUGH THE LABOR DEPARTMENT, AS IN ANY OTHER BUREAUCRACY, AS WELL AS AN EXISTING BIAS IN FAVOR OF HELPING THOSE PROGRAMS THAT BEST SERVE THE INTERESTS OF THE UNIONS.

IF THE TARGETED JOBS TAX CREDIT, WITH ITS ORIENTATION TOWARDS THE HARD-TO-HIRE, IS REPLACED WITH A TAX CREDIT ORIENTED TO THE HARD-TO-FILL JOB, IT CAN MAKE AN IMPORTANT CONTRIBUTION TO ECONOMIC RECOVERY IN THIS COUNTRY.

ARTICLES AND OTHER BACKGROUND MATERIAL DOCUMENTING THE SHORTAGE OF SKILLED LABOR, AS WELL AS THE IMPACT ON MILITARY PROCUREMENT, ARE ATTACHED TO OUR TESTIMONY FOR YOUR INFORMATION.

THANK YOU.

#

THE DEFENSE PRODUCTION GAP
WHY THE U.S. CAN'T

For the first time since the hair-trigger Cuban missile crisis of nearly 18 years ago, the U. S. faces the very real possibility of a military showdown with the Soviet Union. While so far President Carter has only threatened further economic reprisals if the Soviets remain in Afghanistan, he has warned the Kremlin that the U. S. will take military action if Russian troops invade Pakistan or Iran. To back his policy, Carter is moving to beef up U. S. firepower as fast as he thinks the economy and his domestic programs can stand the strain. If the new military budgets are approved, the nation will spend $100 billion more (in real dollars) for defense between now and 1985 than was previously planned.

But the defense speedup will be hard to accomplish. Much of the increased spending is to be for hardware—procurement of new weapons and stepups in the production rates of operational ones. There are grave doubts in Washington and in the defense industry that, barring declaration of a national emergency, the nation has the industrial capacity to produce enough hardware soon enough to count. While many of the prime defense contractors stand ready to mobilize their own facilities, the underlying industrial base has been allowed to deteriorate since the Vietnam war. Thus, most of the industry's subcontractors, who furnish materials, components, and subsystems for weapons, already have all of the work they can handle.

"We are already revved up to 100% due to tremendous commercial demand," says Joseph R. Carter, chairman and chief executive of Wyman-Gordon Co., a major supplier of forgings. "If the military comes in on top with new requirements, there will be real problems."

Because the potential shortages cut to the core of the industrial economy, they will constrain the procurement of all types of military hardware. And there are few, if any, categories of weapons that would not need to be procured if the cold war continues to heat up. A near-term change in the Navy's shipbuilding program is unlikely. But to project U. S. power abroad, the Pentagon says, it will need more tactical aircraft, missiles, tanks, and guns, and the electronic systems to back them up. A strategic buildup now seems likely, too. And even ammunition may be a problem.

The key problems

The most severe constraints, though, will be on aerospace systems, because they must compete for resources with a superheated commercial aircraft business. The key problem areas:

LARGE FORGINGS AND CASTINGS. Only three U. S. suppliers, for example, can make the big forgings that are the backbone of today's airplanes.

BEARINGS. Some military aircraft later this year will be built without engines because strikes exacerbated a shortage of qualified suppliers of these parts.

MACHINING CAPACITY. Spindle time is already short for the big, complex parts used in airframes, and new tools carry long delivery times.

SEMICONDUCTORS. A growing shortage of integrated circuits is slowing the production of military electronic systems.

METALS. Titanium, cobalt, and chromium are all in critically tight supply; some specialty steels are also becoming very hard to get.

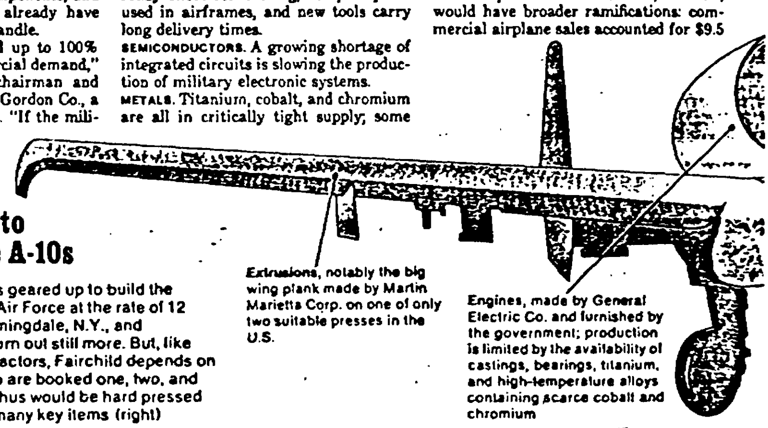
MANPOWER. Competition is already fierce for engineers, technicians, and skilled labor—especially on the West Coast.

The seriousness of the situation is indicated by the lead times on key aerospace items. Among the longest are those for heavy forgings, which can exceed two years. The wait for many castings is a year or more. Lead times for bearings and fasteners range from 30 weeks to more than three times that. Some types of machining jobs are being booked more than two years ahead.

"We have very little capability for surge production," says Lieutenant General Alton D. Slay, who heads the Air Force Systems Command. "It would take Draconian measures to get more military aircraft out of our industry beyond what it is now producing."

Such measures may yet come. "The Russian bear is out of the cage," says Dale W. Church, Deputy Under Secretary of defense for research and engineering and the Pentagon's procurement boss, "and we have got to be able to respond."

Most defense production experts believe that the Pentagon will have to use its power to set priorities to push military orders ahead of civilian orders. If it does, a big loser would be commercial aircraft production. And that, in turn, would have broader ramifications: commercial airplane sales accounted for $9.5



The roadblocks to producing more A-10s

Fairchild Industries Inc. is geared up to build the A-10 attack plane for the Air Force at the rate of 12 a month. Its plants in Farmingdale, N.Y., and Hagerstown, Md., could turn out still more. But, like other military prime contractors, Fairchild depends on many subcontractors who are booked one, two, and more years ahead—and thus would be hard pressed to increase deliveries of many key items (right)

Extrusions, notably the big wing plank made by Martin Marietta Corp. on one of only two suitable presses in the U.S.

Engines, made by General Electric Co. and furnished by the government; production is limited by the availability of castings, bearings, titanium, and high-temperature alloys containing scarce cobalt and chromium

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REARM FAST

billion on the plus side of the U. S. trade balance last year. And the airlines badly need the new, more efficient planes to cut their soaring energy costs.

In part, the industrial bottleneck is the result of on-again, off-again defense budgets. Thousands of suppliers dropped out of the defense business during the funding slump of the early 1970s, and others have been reluctant to gear up because they fear another bust. In addition, the defense delivery system is clogged with work on weapons committed to overseas customers under the government-sponsored program of foreign military sales. Such sales have topped $50 billion over the last five years.

But what really turned a tight supply situation into a full-scale crunch was the stepup in commercial aircraft production. Two years ago, Boeing Co., in particular, began to tie up subcontractors, labor, and materials for its new 757 and 767 airliners. Almost overnight, the industry's production rates tripled, and in 1980 commercial aerospace sales are expected to reach $20.2 billion, topping sales of the defense segment for the first time.

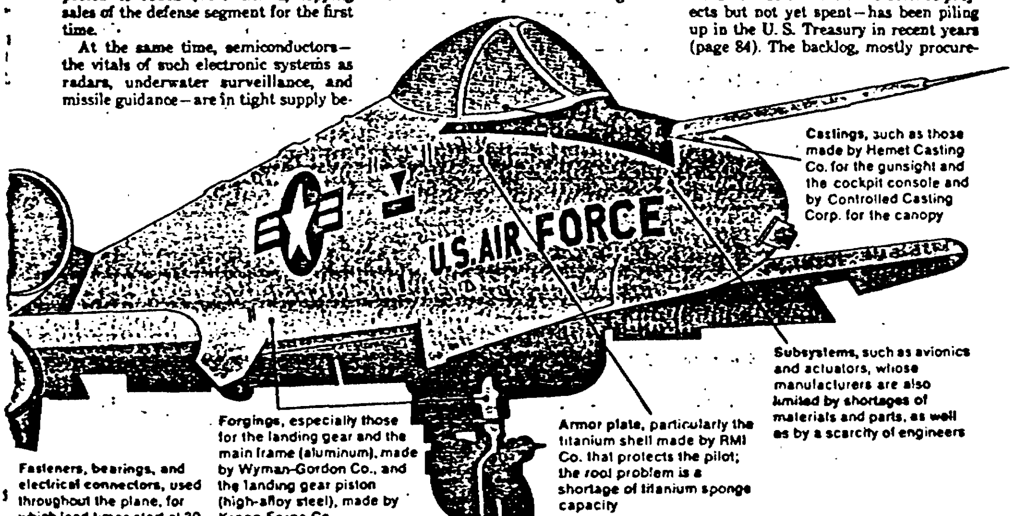
At the same time, semiconductors—the vitals of such electronic systems as radars, underwater surveillance, and missile guidance—are in tight supply because of booming demand in autos, TV games, and other consumer markets. Lead times for deliveries of some integrated circuits now run to 12 months, compared to 5 a year ago, says Jack L. Bowers, CEO of Sanders Associates Inc.

The production jam finds the U. S. with its inventory of many tactical weapons at a low state. Washington would like to equip Pakistan with $400 million worth of weapons—artillery, helicopters, antitank weapons, and fixed-wing aircraft—but it is clear that this could be done only by stripping them from U. S. forces, as was done to resupply Israel during the Yom Kippur war of 1973. "You'd think that that war would have taught us a lesson," declares one Pentagon colonel, "but we're in just as sorry shape for backup equipment now as we were then."

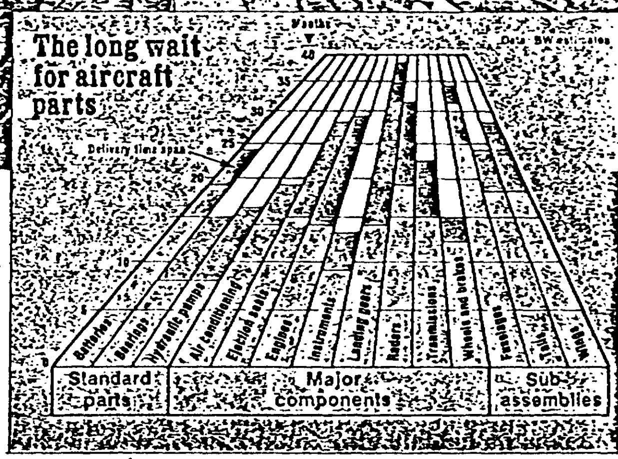
Ammunition is also short. Senator Sam Nunn (D–Ga.), a member of the Senate Armed Services Committee, charges that "every bullet and shell fired by the Army in a Middle East war" would be at the expense of drawing down "our dangerously inadequate stocks marked for Europe." And some of the more complex ammo, such as antitank rounds, requires high-alloy steel and sophisticated production machinery—both long lead-time items. "If there is a sudden increase in demand," says Edward J. McElliott, vice-president of Chamberlain Mfg. Corp., "there could be a serious crunch."

Whether the new Administration program will solve such problems is open to doubt. The President is sending to Congress a defense budget request calling for $157.5 billion of appropriations—a real increase, assuming a 7.5% inflation rate, of 5% over the level of the current fiscal year. That rate of increase is to be maintained through 1985, by which time annual appropriations will have reached $250 billion—and actual outlays, $230 billion—assuming an average annual inflation rate of 6.7%.

The question is whether the money targeted for hardware can actually be spent. A backlog of Defense appropriations—funds committed to defense projects but not yet spent—has been piling up in the U. S. Treasury in recent years (page 84). The backlog, mostly procure-



Gear boxes for Boeing 747s: Competition with civil aircraft makers for parts is a sensitive problem for the Pentagon.



ment dollars, now totals more than $80 billion.

Yet many U.S. defense analysts are convinced that Carter's budget projections are far too low. A recent report prepared for the American Enterprise Institute predicts, in an extreme example, that the U.S. defense budget will have to rise to $1 trillion annually by 1985—four times what the Administration now plans—to "simply hold its own" in the renewed arms race with the Russians.

Underlying this premise is the presumed need not only for stepped-up production of tactical weapons but also for a whole array of new strategic offensive and defensive systems, especially now that the Strategic Arms Limitation Treaty (SALT II) seems to be stillborn. Such systems might include such exotic weapons as a costly high-energy laser stationed in space to knock down intercontinental ballistic missiles. A better bet, perhaps, is the B-1 bomber, designed by Rockwell International Corp., which Carter axed in 1977.

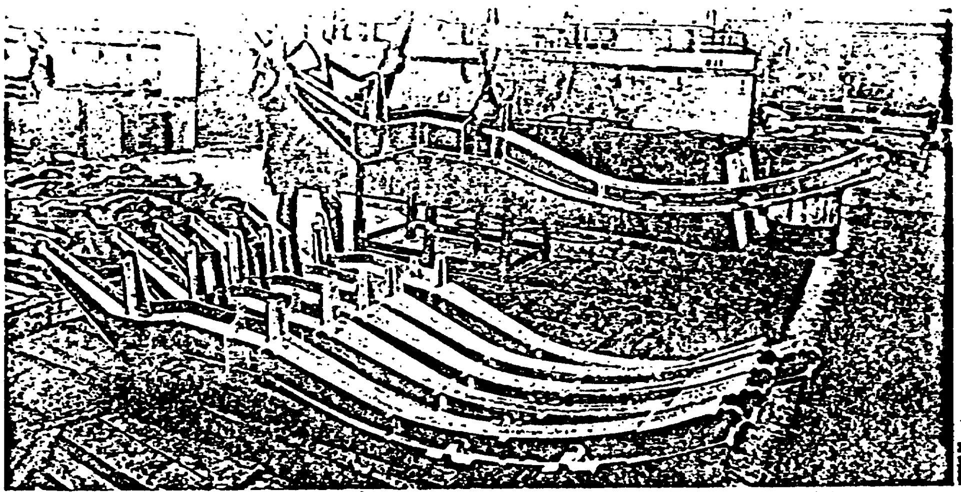
The B-1, however, typifies the mixed picture of industrial preparedness. Rockwell has kept its production tooling for the plane, and it claims that it could obtain the needed labor. But Bastian "Buz" Hello, president of Rockwell's Aircraft Group, admits that the company might not be able to get enough supplies in what he calls a "savage" materials market. And one subcontractor executive notes: "In retrospect, we're very lucky the B-1 wasn't authorized by the President. If it had been . . . that would have been the straw that broke the camel's back." Another such straw could be the 50 to 100 giant new CX military transports that the Administration wants to order over the next few years at a total cost of about $6 billion. These would carry the combat units and equipment of the proposed rapid-deployment force. Roy A. Anderson, chairman of Lockheed Corp., hopes that a modernized version of his company's C-5 transport will be chosen as the CX. But he concedes that he might have to build satellite plants around the country to tap fresh manpower sources.

Production roadblocks

As for existing production programs, one possible candidate for a stepup is the Navy's F-14 fleet-defense interceptor, built by Grumman Corp. The Soviets have built up a formidable arsenal of cruise missiles that they can launch against the U.S. fleet from submarines, bombers, and surface ships, and the F-14s, with their long-range Phoenix missiles, are spread thinly. "We could be faced with a high attrition rate of F-14s and not much backup," grimly notes a Pentagon official. Meanwhile, the plane's production rate, trimmed by previous defense budget constraints, is minuscule—about 2½ a month. George M. Skurla, president of Grumman Aerospace Corp., sees no possibility of a sustained surge on his lines, noting: "There's more work than we have people or materials to handle."

The F-14 illustrates another key catch-up problem for the U.S.—the sophistication of its weapons. The Navy originally planned to buy more than 700 F-14s at about $12 million apiece, but cut the order to 429 when the price rose to $25 million a copy. "There has been a tendency to buy increasingly complex systems in smaller quantities—a willingness to pay four to five times as much money to get an increment of capability," asserts Philip C. Norwine, Bell Helicopter Textron's vice-president for U.S. government marketing. That stretches development times and delays production.

Now there is a growing belief in the Pentagon and in industry that the U.S.



Fuselage forgings by Wyman-Gordon: "We can't handle any additional demand," says Joseph R. Carter, company chairman.

must pull back from high technology. The nation must move, says Norwine, more toward "the Russian philosophy of adequate quality in sufficient quantity." That could speed up new systems, but "sufficient quantity," it appears, will be hard to come by and will take time.

Another weapon system that will be sparse in numbers in the event of a near-term conflict is the A-10 aircraft, built by Fairchild Republic Co. The Air Force's Slay describes the A-10, with its thunderous 30-mm rapid-fire, antitank gun and arsenal of bombs and missiles, as "very important for close air support of ground troops, especially in the beginning stages of combat." The Air Force has acquired 300 of the planes and wants to accelerate their 12-a-month production rate to a planned buy of 733. But Thomas R. Tuohy, vice-president and director of administration and material for Fairchild, says, "We're at our peak right now." He explains that he could double the capacity of his Long Island plant in six months, "but it wouldn't do us any good—we can't get materials."

One of Tuohy's key problems is forgings. The big forgings that make up the A-10's main frame, for example, have to be ordered 114 weeks in advance from Wyman-Gordon, one of only three forging companies with presses big enough to do the job. "We can't handle any additional demand, no matter where it comes from," says Wyman-Gordon's Carter.

And forgings, of course, are a problem not only for the primes but for many of the other subcontractors who supply the primes. Parker Hannifin Corp., which makes the main flight controls for the Air Force's F-16 fighter and the Navy's F-18 fighter, has to order its forgings 60 to 80 weeks ahead. And that pushes the company's total lead time to deliver systems to General Dynamics, McDonnell Douglas, and Northrop to two years or more.

A squeeze on critical materials is also troublesome to primes and subcontractors alike. The titanium armor for the A-10, for example, must be ordered 92 weeks ahead. Even more urgent, though, is the threatened shortage of cobalt and chromium. These are key ingredients of the engines that power both military and commercial aircraft. They will also be used in the engine, made by Avco Corp., that will power the new XM-1 tank to be built by Chrysler Corp., scheduled to start in production this year, and James R. Kerr, Avco's chairman and CEO, is worried about getting hold of castings that use such alloys.

Stockpile troubles

The U. S. gets most of its cobalt from Zaire, which cut off its exports in 1978 during internal strife largely fomented by the Soviets. Now the U. S. is developing a cobalt mine in Idaho, but it will produce only 3 million to 5 million lb a year—only 20% of current annual consumption. It is possible to substitute for cobalt, but chromium still is indispensable. Most chromium comes from Russia, Rhodesia, and South Africa. While South Africa is the most reliable source, even that source could be cut off in time of war.

The U. S. stockpile of strategic materials, it appears, may not be much help. It is badly in arrears in cobalt, some types of chromium, and titanium; it is also short of its goals in such other essential materials as the platinum-group metals, which include iridium and palladium. Moreover, the quality of some of the metal in the stockpile is highly questionable. "If you look at what's in the stockpile," says William L. Swager, head of materials research at Battelle Memorial Institute's Columbus Laboratories, "we're really in trouble."

Almost as basic as the materials lag is the manpower lag. In a recent survey by the National Machine Tool Builders' Assn., an important component of the defense business, 70% of its members reported worrisome shortages of technical workers. Says the association's president, James A. Gray: "We're facing one of the greatest skill shortages in the history of this country."

While chronic everywhere, manpower pains are particularly acute in California. A big part of the problem, say many aerospace executives, is Boeing's aggressive courting of engineers and technicians. But Boeing is not the only contractor to benefit from an epidemic of job-hopping. Forced to abide strictly by Washington wage guidelines if they wish to continue doing government business, defense contractors cannot issue fat raises. "That means," says Avco's Kerr, "that the engineer can better himself and take a quantum jump in salary by going to work for someone else—and our engineers are doing just that."

Avco has its headquarters in New England, and Kerr claims that some of the engineers he has lost to West Coast aerospace companies got salary boosts of 35% to 40%. But some defectors are moving right out of the industry into such high-paying businesses as oil drilling and electronic toys. James H. Mac-

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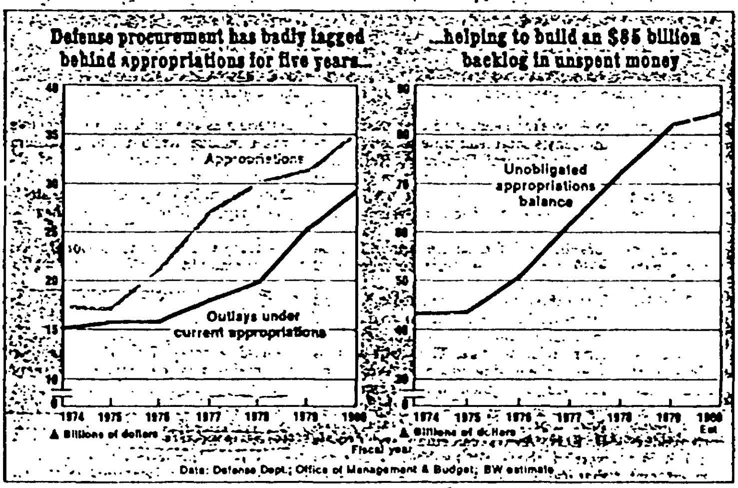
Donald, corporate vice-president for personnel at McDonnell Douglas Corp., says that his company has had to revamp its recruiting programs "to personalize what we're doing." And it is intensifying its efforts to lure employees from other companies through such tactics as radio and newspaper advertising.

Some industry sources think that the engineering manpower problem—a reversal of the glut of the early 1970s—will ease once again as more engineering students, now enrolled in colleges, become available for hire. But the answer to the problem of the missing—or recalcitrant—subcontractors may not be so straightforward. Many companies once bid eagerly on defense contracts. They built up their resources to handle them but then suffered in the aerospace slump of the early 1970s, and they have just disappeared. And others steadfastly refuse to expand. They are concerned, explains Patrick S Parker, chairman of Parker Hannifin, "about having to go out and make capital expenditures to take care of peaking government demand and then having government say 'thanks' and walk away."



Blowing hot and cold

One company that got burned is Blaw Knox Foundry & Mill Machinery Inc., the sole producer of turret and hull castings for the M-60 tank in its East Chicago plant. In the mid-1970s the Army pushed the company to open a second foundry in Wheeling, W. Va., so that it could replace the tanks shipped to Israel in the Yom Kippur war. Now, M-60 production has been cut back to make room in the budget for the XM-1, and the XM-1 does not need the heavy castings. That irritates Blaw Knox President Charles F. Hauck, who notes that his company "pushed hard" and spent heavily to increase and maintain its M-60 production. Blaw Knox has now converted the Wheeling foundry to commercial production at a cost of more than $8 million.

Subcontractors also complain about low profits, naive procurement officers, and heavy paperwork. Defense work "is not the most profitable business to be in," says James H. Springle, vice-president and general manager of control systems operations at the Cadillac Gage Div. of Ex-Cell-O Corp., which supplies turret components for the M-60 tank.

Thomas V. Jones, chairman of Northrop Corp., thinks he knows what changes would have to be made to entice companies back into the defense business. Of key importance would be multiyear procurement budgeting so that contractors could plan intelligently their own capital and manpower investments. Also needed, he says, is tax reform aimed at allowing more liberal writeoffs of capital investment. With such changes, he believes, new machine tools, forging presses, and other capital equipment would become available for defense needs.

Such changes, though, would take time to be made and to become effective. Some of the large machine tools used by the aerospace industry, for example, take two years to build. "It just isn't within the capability of the industry to build them within 12 months," says Clifford R Meyer, group vice-president at Cincinnati Milacron Inc, the nation's largest machine tool builder.

Priorities and sensitivity

With overnight expansion of the industry out of the question, then, there is a growing consensus that a substantial surge in defense production can occur only if there is a political decision, within the White House, that a state of emergency exists. In that event, much of the subcontractors' efforts on behalf of the commercial aircraft builders, in particular, would be diverted temporarily to meet defense demands. In a quick-response situation, says Raymond C. Tower, president of FMC Corp., which builds armored personnel carriers and other military vehicles, "the government would have to place procurement priorities on some materials."

Grumman's Skurla believes that the Administration may be ready to face up to such moves. It now realizes, he says, "how far the defense capability of the U.S. has deteriorated as a result of subcontractor defections, and it knows that the only way it probably can repair the situation short-term is to get the White House to set priorities on where the national interests lie."

But Pentagon procurement officials tread gingerly around this topic. They point out that most major weapons systems are automatically given production priority ratings, called DO ratings, under the Defense Production Act of 1950. A certain amount of reallocation goes on "all the time," says one.

A recent example occurred after five-month strikes at Fafnir Bearing Co. and Ladish Co., which make bearings and forgings, respectively, for the Pratt & Whitney engines used on the F-15 and F-16 fighters. Faced with severe engine shortages, the Air Force's Slay sent teams to the Pratt & Whitney Div. of United Technologies Corp., which also makes engines for commercial aircraft, and to the two suppliers to remind them that they were duty-bound to put defense orders ahead of commercial orders. The two subcontractors are now supplying Pratt & Whitney with bearings and castings that had been intended for

Boeing and other commercial aircraft builders. But, notes Slay, "I had to go to the mat with Boeing on it."

Even so, McDonnell Douglas will be building some F-15s without engines through mid-1981. As yet, the government has not slapped the engine contractor and its subcontractors with the toughest rating, a priority known as DX. This requires the President's signature and is seldom applied. For security, the Defense Dept. will not say which systems have merited its application, but, says one Pentagon source, "you can bet that the cruise missile has it."

In any event, says Church, the Pentagon's procurement boss, "our priority system hasn't accomplished what it can accomplish if we really crack down." Church notes that "in many cases, the contractors don't respond to it, don't pass it on to their subcontractors, or don't police it if they do." The main reason, he believes, is the attractions of the burgeoning commercial aircraft market and the fact that "the country hasn't been faced with a war-type scenario." If the nation were on a wartime footing, Church says, "I believe all the contractors would follow the flag."

However, even if fully observed, the system of defense priorities is no panacea. "If we were to put top priority on the production of every major weapon we might need," says a high-level Pentagon official, "we would risk creating the same problem inside the defense family that now exists between defense and commercial contractors. And another defense planner notes that "if we push civilian production around too much, we may wind up shooting ourselves in the foot." He points out, for example, that it is important to maintain good, reliable communications and transportation in the private sector during a national emergency.

How to strike a proper balance is among the questions being addressed in a current study by the National Security Council and the Defense Dept. That study is also addressing the specific problem of the nation's forging capacity. One proposal is that the government build another large forging press on the order of—or even larger than—the 50,000-ton machine now operated by Aluminum Co of America in Cleveland. An alternative would be to start ordering military forgings from European suppliers. However, that supply line would be long and, in wartime, vulnerable. And those forges are already beginning to fill up with orders from the growing aircraft industry on the Continent and from Boeing.

Some clues as to what the White House and Pentagon officials may recommend as a result of their study—scheduled for completion "very soon," says one—may lie in a 1976 report by the Defense Science Board. Richard D. DeLauer, executive vice-president of TRW Inc., who headed up the DSB study, notes that it concluded that the defense industry would need two years to boost its output dramatically. He feels that that lead time still holds, despite the intervening rush of commercial business. The industry's first move in such a mobilization, the DSB study suggested, should be to extend its work week and ultimately to go to double shifts.

Such measures may help. But they still do not address the perhaps deadly shortage of weapons components and subsystems the U.S. would face if war were to come soon. "The lead-time problem has caught us short," declares the Air Force's Slay. "There is no magic way to get more airplanes in a hurry. And if we wait until the balloon goes up to decide to surge our defense production, we will be in deep, deep trouble." ■

Tactical weapons slated for increased orders

Weapon	Contract value in fiscal 1980 (millions of dollars)	Prime contractor
Aircraft		
F-16 fighter	$1,700	General Dynamics
F-15 fighter	990	McDonnell Douglas
F-18 fighter	890	McDonnell Douglas/Northrop
A-10, close-air-support	790	Fairchild Industries
F-14 fighter	570	Grumman
Missiles		
Patriot, surface-to-air	$569	Raytheon
Sparrow, air-to-air	223	Raytheon
Harpoon, ship-to-ship	155	McDonnell Douglas
Phoenix, air-to-air	148	Hughes Aircraft
Sidewinder, air-to-air	119	Raytheon
TOW, antitank	103	Hughes Aircraft
Pershing, battlefield-support	71	Martin Marietta
Vehicles		
XM-1 tank	$577	Chrysler
XM-2 armored personnel carrier	135	FMC
M-60 tank	53	Chrysler

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TUESDAY, FEBRUARY 5, 1980

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FIGURES CONFIRM that skilled workers needed to build more arms are scarce.

Labor Department data, while sketchy and incomplete, tend to underscore the point: The U.S. lacks the skilled workers it will need for a crash arms building program. Existing apprenticeship programs aren't even producing enough new skilled workers to keep up with retirements and deaths and the normal demands of an expanding economy.

Figures on two skilled specialties give an idea of the size of the problem. The department's latest data indicate the U.S. will need to add 9,000 tool and die makers each year between now and 1990, even without a big new arms program. The nation will need 23,000 new machinists a year during the same period. The latest figures show apprenticeship programs in 1978 graduated 2,311 tool and die makers and 2,859 machinists.

"If we got into a major war effort this country would be in bad, bad shape," says an official of the National Tool, Die & Precision Machining Association.

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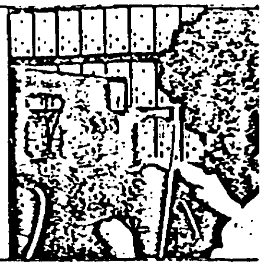
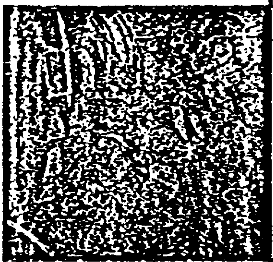
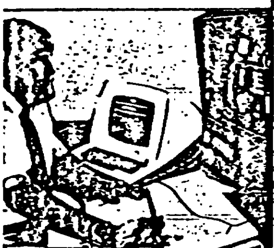
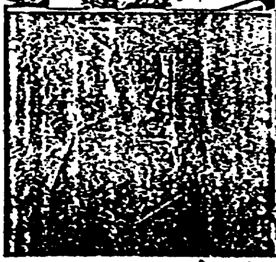


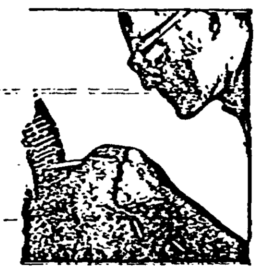


Qualified manufacturing people are a basic "raw material" for industry. They invent, build and operate the production systems that are at the heart of America's capability to generate wealth and to achieve an improving standard of living





America is Running Out of Manufacturing People



Qualified manufacturing people—production and manufacturing engineers, metallurgists, quality control engineers, tool and die makers, machinists, machine repairmen, welders and others—are in short supply.

Worse news is that the problem threatens to become more severe through this decade and into the next. Response to a PRODUCTION survey question—Do you foresee an adequate number of qualified manufacturing candidates being available in 1990-95?—was overwhelmingly No!

One respondent said: "Present requirements in industry are out-stripping technical training in schools. The schools are already at least five years behind. People with general qualifications will be hired and specialized training will be done in-company."

Answering the same question, a Chrysler Corp. spokesman replied: "No. Too many individuals are currently products of on-the-job training, experienced first in a job shop and then transferred to a larger setting. This means they lack engineering theory and sometimes can't cope with a technology which is becoming more sophisticated. And the possibility of more product engineer input isn't there either. Product engineers prefer the lab to the plant and an upward line of progression that normally is both broader and more lofty than production."

William Murray, assistant personnel manager, Cross-Fraser Div. of Cross Co., Fraser, MI, says: "Unless the educational system responds with industry's guidance and assistance, we won't have the necessary training available. We obviously must train to get the qualifications we need.

"To get trainable people means we must make these jobs appealing. This can be done by basic public relations work where the jobs are good but possibly not well publicized. Or it involves restructuring certain manufacturing jobs to make them more appealing. Possibly in some areas, we need a combination of those two areas of emphasis."

Facts and Figures. There currently are about 2½ to 3 million American-made machine tools in more than

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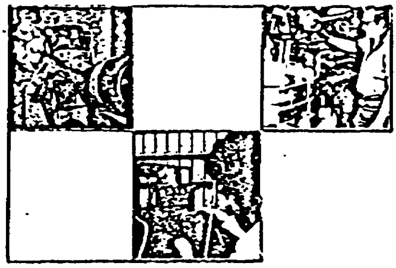


120,000 plants around the United States that must be manned and serviced by skilled machinists, machine operators, service engineers, maintenance personnel, setup workers and supervisors. Just to meet current requirements, the U.S. Dept. of Labor says we will need about 22,000 new machinists in the U.S. each year until 1985. The number of machine tool operators needed during this decade is 196,000. The total number of new machinists required to meet projected demands from now through 1990 is 210,000.

Demand for other skills is equally great In each of the next 10 years, the Dept. of Labor projects the following openings: Industrial engineers: 8000; mechanical engineers: 7500; setup personnel: 3000; tool and die makers: 10,400; industrial machinery repairmen: 58,000; computer programmers: 9200; systems analysts: 7900; draftsmen: 11,000; engineering technicians: 23,400; factory inspectors. 35,000. The need for individuals trained in computer-aided design (CAD) and computer-aided manufacturing (CAM) is also great.

What Are the Issues? To fill the manufacturing manpower pipeline—and to keep it full—many issues must be addressed and solved. Five of the more pressing issues are:

1. Defining existing and long-range job qualification requirements.
2. Inability of industry to attract young people to manufacturing careers.
3. Preparation of high school students for manufacturing careers.
4. Preparation of engineers for manufacturing careers.
5. Need for industry to make long-range commitments to training.

Job Definitions/Qualifications. Surprisingly few companies define specific job qualifications. Many believe they do. On close examination, however, what they list instead are the responsibilities of a position, not the qualifications needed to carry out the assignment.

A job description for "Production Manager" from two similar companies illustrates this point. Company "A" defines the position like this: "A production manager is responsible for directing and coordinating manufacturing activities in a given department, group of departments or operations. These may be concerned with product components, subassemblies or finished products. Has jurisdiction over, and is responsible for, such things as meeting production schedules, meeting product quality requirements, applying established manufacturing processes and methods, utilizing and maintaining equipment, allocating and utilizing manpower."

Contrast this to Company "B" 's detailed job analysis.

1. **Primary Purpose of Position:**
   Manages all production activities, on all shifts, in such a manner as to produce quality products at a competitive cost.
2. **Major Duties of Position:**
   A. Directs subordinates responsible for:
      1. Producing product and testing and adjusting completed product.
      2. Developing internal procedures for effective utilization of manpower and equipment.
      3. Approving changes in daily production schedules.
      4. Determining causes and solving operating or quality problems.

   B. Confers with other members of plant management regarding costs, performance to standards, personnel programs and engineering changes, as they pertain to the production activity.

   C. Conducts periodic staff meetings with subordinate supervisors to discusss production performance, problems and remedies.

   D. Evaluates performance of production activities and institutes necessary changes in operations and facilities to improve quality and reduce costs.
3. **Knowledge and Skill Requirements:**
   Working knowledge and application of basic statistical quality control methods.
   Knowledge of major and subassembly build up.
   Knowledge, both theory and practice, of checking fixtures.
   Ability to coordinate customer quality complaints and difficulties.
   Ability to communicate (written and oral) with all levels of management.
   Ability to recognize and analyze customer quality problems, and remedy.
4. **Qualifying Education:**
   Minimum of a B S degree in basic science or two years of related studies in college, and six to eight years of progressively responsible engineering experience.

Detailed job descriptions are important for salaried and hourly personnel.

Long-Range Qualifications. Projecting job requirements to 1985-95 is equally important. By then, equipment, technology and materials will be different—vastly different.

Consider findings of recent Delphi-type studies. By 1987, 15 percent of assembly systems will use robots and about 15 percent of production machines will involve "systems." In eight years, about 80 percent of in-process and finished inventory will be computer controlled. By 1990, programmable devices will replace 50 percent of direct labor in many applications, and about 50 percent of the workforce on the shop floor will be engineers or technicians. Industry needs to reflect these changes in job descriptions, training programs and recruiting practices.

More companies are looking ahead. Following are composite job descriptions that reflect what PRODUCTION readers project will be required of people in 1990-95.

Manufacturing Manager

More education will be required. Candidates should have a masters degree in business administration with a technical under-graduate degree. Managers will need to understand and use new technology and business skills. Change from the present requirements will be commensurate with computer developments and uses.

Manufacturing Engineer

The requirements for computer knowledge will be the most significant difference in 1990-95. High intelligence, mechanical aptitude, knowledge of physics, and ability to design jigs and fixtures will be required. Also a better understanding of tooling and of interactive computer graphics will be needed.

Machinist

Skill requirements will be reduced primarily because skills are being designed into machines. NC demands less basic machining skills. Special training requirements in math and blueprint reading could be less. All-around machinists will be in less demand than individuals trained in a narrow area such as turning machines or boring mills. An understanding of computers will be necessary because of the use of computer numerical control and direct numerical control.

Machine Diagnostics/Repairman

For mechanical machine repair, the educational, mechanical aptitude and experience qualifications will remain essentially the same. The old "craftman" is already on the endangered species list. It will be important for maintenance personnel to be able to communicate with a computer. They will need to feel comfortable with electronics and systems. For electronic machine repair, qualifications will be generally less because of the present voids in this skill and because of changing electronic controls. In many instances, a repairman will just make "black box" changes.

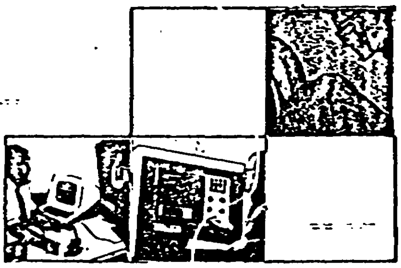
Tool and Die Maker

Requirements are expected to remain relatively unchanged. There may be a need to communicate with a computer graphics terminal and have a greater familiarity with CAD techniques.

The more specific the analysis of changing technology, the more specific a company can be in outlining its future manpower qualification requirements. For example, Bell Helicopter Textron Div., Fort Worth, TX, has looked at how its growing involvement with composite materials impacts skill requirements. A Bell spokesman says higher intelligence, more technical ability and increased education will be demanded. Employees will be more technicians than production workers. They will require more math, physics and chemistry background. They will tend to be trained on-the-job to operate NC machines, but they will have to have knowledge and decision-making ability that is not required of present workers. And workers will control equipment and materials throughout the process with much less room for error.

Attracting Young People to Industry. This is industry's chief concern. Young people are not drawn to careers in manufacturing, to working in a factory. Bert Casper, vice president, Remmele Engineering, Inc., St. Paul, MN, emphasized this problem in noting: "To recruit one candidate for our in-house pre-apprenticeship training program we interview 50 candidates, test 30, hire two, and lose one of these during the first two weeks of the program."

Russ Hedden, president and chief executive officer, Cross & Trecker Corp., Bloomfield Hills, MI, zeroed in



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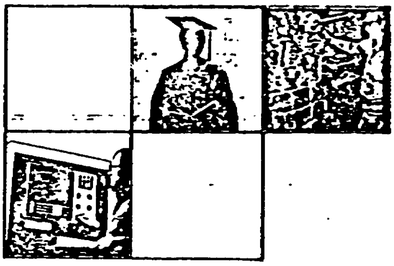


on this issue by posing a question: "How is it that we don't have skilled young people flocking like squirrels at a picnic to enter our shops and devote their professional lives to furthering our machine tool output and productivity?"

Hedden's response to this question is three-pronged. "First, we are indeed beseiged by young people who want employment but they are not skilled in the fields that would make them valuable to use as shop employees. Second, we are not doing our part to attract and persuade young people to develop the skills we need in our shops while they are still in school. Third, we are not giving our schools the necessary materials to let them return our investment in new, well-prepared workers.

"Since skilled workers will not come to us in sufficient quantities to fill our needs, we must go to the nation's high schools and convince the students that factory labor is an honorable and economically rewarding profession. We must map out advertising and public relations programs in local communities to tell our corporate stories in terms that will overcome the reputation we now have as filthy sweat shops," he adds.

Ingersoll Milling Machine Co. Chairman and President Edson I. Gaylord spoke on the issue of attracting young people at a company dinner in Rockford, IL. "There has been a dramatic change in the people at Ingersoll. As a result, we have much less experience in heavy shop work as a group than ever before. It has not been a sudden change; it is one of those gradual problems that you work on and hope will go away.

"Young people," says Gaylord, "are not attracted to pick Ingersoll (or other manufacturing companies) as a place to apply for work as their first choice, or even their second or third choice. In addition, they are not taught what they need to know, either at school or at home, to make a go of it in our kind of work. As a result, factory jobs are thought to be undesirable and the businesses that provide them probably are

MANPOWER GUIDELINES

What can be done to attract and keep qualified manufacturing personnel? Here are some suggestions from **PRODUCTION** readers.

1. Ensure employees have a good operating environment and relationship with the company.
2. Increase relationship with technical schools through advisory committees, recruiting and field trips.
3. Encourage managers and professional personnel to teach at local technical schools and give summer or part-time employment to school personnel.
4. Develop new recruiting techniques, using radio, television, etc.
5. Create industry employment agencies to carry the message into the schools.
6. Provide vestibule training for such skills as assembly, machining and rapidly emerging operations and provide on-the-job training for nearly all other skills.
7. Expose young people to manufacturing trades and sponsor career days.
8. Develop co-op programs with one and two-year technical schools.
9. Expand manufacturing curriculums and attract more female candidates.
10. Provide career planning for manufacturing personnel. With many young people it is important that they enter a trade with growth opportunities. We need to help make them aware of the opportunities for growth.
11. Institute in-company training for advanced manufacturing skills such as tool and die maker and tool designer. This would require a technical training center within the company.
12. Provide a stable environment for new employees. Many of the best manufacturing candidates avoid a company that offers no protection from the whims of an erratic economy. There should be agreements for protection, at least during the training period.
13. Upgrade the importance of the engineering graduate who is presently viewed as at an unhappy midpoint between tradesman and engineer.
14. Help provide schools with up-to-date machine tools and equipment for training.
15. Subsidize the cost of school instructors trained in manufacturing so they can afford to teach rather than return to industry.

crooked and certainly ready to spoil the good life to make a buck.

"The first thing we have to do," says Gaylord, "is to find those young people within the community who would be interested in working at Ingersoll and who have the type of upbringing which gives them a reasonable chance at coping with the hard work we do.

"Having found them, we have to attract them to the company and talk with them individually about their possibilities for the future. We have to tell them about our business and explain that it is an honorable, interesting and rewarding profession so they can become interested in staying on. Once we get their interest, we have a chance to train them."

David Horn, director of training, Kearney & Trecker Corp., Milwaukee, adds this observation: "High schools tend not to train people for blue collar jobs. In fact, some high schools use industry to threaten students who do not perform well in school, i.e., bad grades mean you'll end up in a factory. This should not be too surprising," says Horn, "because high school instructors and advisors are, for the most part, college graduates and view college as the normal path toward career development. Colleges also do a lot of recruiting in high school campuses; they are in direct competition with industry for candidates to fill openings. And so far, they have been winning this competition." Horn estimates that colleges get about half of the nation's high school graduates. All of industry must compete for the remaining students, a group which often includes the least prepared and the least motivated individuals.

Engineer Qualifications. The shortage of qualified engineers is also serious, and the problem is not diminishing. A study by Fox-Morris Personnel Consultants, Inc., says the U.S. engineering community shrinks by about 10 percent annually, or some 75,000 engineers, while engineering schools annually replenish only 80 percent of this attrition.

Another study projects that enrollment in our 3000 colleges and universities will fall from 5 to 15 percent between now and 1997, and the number of 18-to 24-year-olds will decline by 23 percent during the same period.

The squeeze is already being felt. Michael Michalek of General Motors Corp.'s Placement and College Relations staff says there were 56,000 openings for graduates last year but only 46,000 candidates. He adds that one of the toughest positions to recruit for is manufacturing engineer. One problem he identified is that special curriculums like manufacturing engineering are still pretty new, so few students have the opportunity to specialize in this direction.

Gustav Olling, professor and chairman of the Dept. of Manufacturing, Bradley University, Peoria, IL, is of the belief that tomorrow's engineering graduate must possess increased knowledge and skills far beyond those required in the past.

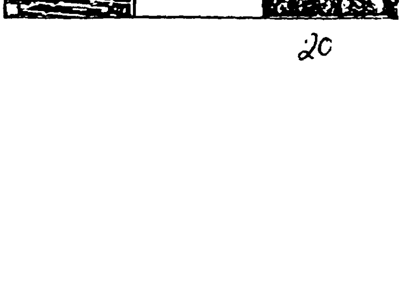
Although the need to educate students for change has increased with the advent of new technologies in manufacturing, universities do not, in general, provide this type of education. "Instead," says Dr. Olling, "universities are content to provide theoretical backgrounds on a broad technical base. What is emphasized is the mathematical treatment of problems; very little course time, if any, is left to apply that theory to the hardware itself and to experiment with new solutions.

"The baccalaureate degree program in Manufacturing Technology must attempt to find the optimum mixture of the theoretical and the technical in both subject matter and human relations. A major feature of manufacturing course offerings should be the emphasis placed on computer applications to methods of manufacture, production management, quality control, and production economics. Manufacturing graduates must be competent in both APT and Fortran programming, in manufacturing processes, and in languages like UNIAPT, COMPACT II, SPLIT, BASIC, COBAL, PL/I, etc. Likewise, communications, psychology and sociology are emphasized."

Industry Training. High schools and universities have a large and important role in providing tomorrow's manufacturing manpower. Industry must assume greater responsibility, too, and many companies are doing this.

Apprentice programs such as the GM-UAW Standard Apprentice Plan attract as many as 50,000 candidates a year, far more than the approximate 2000 openings available during a good year.

• The F. Joseph Lamb Co., Warren, MI, employs about 200 engineers. It currently has a ratio of skilled to unskilled workers of 8 to 1. Like many companies of its size, it recognizes that there is a shortage of good people and that the era of hiring skilled workers in-



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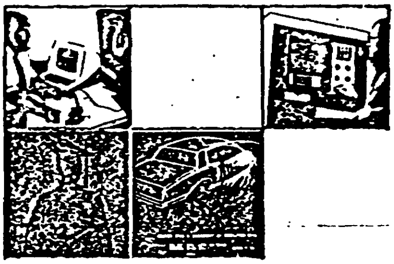

stead of training is fast coming to an end. Currently, Lamb has 22 people in training, up from six just three years ago, according to Stephen Renton, director of industrial relations.

Lamb looks for candidates with three to four years experience. "The advantage of this approach," says Renton, "is that there is less turnover."

The company has also been successful with co-op programs through area colleges and vocational schools. This is particularly effective in recruiting drafting board engineers.

A personnel problem Renton has yet to solve when hiring engineers out of college is that they want to work in research, not on the production floor. They are not prepared for the idea of putting in the 50 and 55-hour workweeks which often are called for. And individuals that do work on the floor usually tend to view the position as a one to three-year prelude to a move into manufacturing management.

Long-range, the only answer Lamb sees to the manpower problem is to train in-house. "We should be bringing about 20 trainees into the company. And in-house training must be conducted when business is slow as well as when it is booming," Renton emphasizes.

• Kearney & Trecker Corp., Milwaukee, views apprentice programs as the best method of preparing personnel for highly skilled jobs. It presently has 45 apprentices in 15 types of programs that range in duration from two to four years. The four-year programs are machine repair, machine tool builder, machine rebuilder, building maintenance mechanic, electrical maintenance, metal treating, model maker, all-around machinist, and gear cutter machinist. The drafting program is a three-year program. Boring machinists and milling machinists are 2½-year programs, and turning machinists, precision grinding machinists and control wirers are two-year programs.

K&T also promotes the Vocational Industrial Clubs of America (VICA). This organization, which has national offices in Virginia and 8000 local clubs in 44 states, is dedicated to developing not only the technical skills of its members, but also attitudes and career goals. Horn believes manufacturing and employment managers would get a totally new outlook by coming to the U.S. Skills Olympics in Atlanta on June 26th to see the VICA "new professionals" in action.

• Remmele Training Center. A company that's taken individual responsibility for filling its manpower pipeline is Remmele Engineering, Inc., St. Paul, MN. It not only set up its own apprentice program, it also operates its own pre-apprenticeship school to feed the apprentice program.

According to Bert Casper, vice president, students spend approximately one year at the Remmele Training Center (RTC) working under the supervision of two fulltime instructors. After completion of 2000 hours of work on lathes, mills, drills and grinders, and 125 hours of classroom work in metallurgy, geometric dimensioning, shop math and blueprint reading, they advance to the company's regular apprenticeship program with one year of credit. (Apprentice program candidates not attending the company's school need to have completed a two-year machinists vocational institute program.)

Remmele's Certified Manufacturing Technician (Apprentice) Program is broken into three areas: machinists, precision machinists and toolmaker; boring mill specialists; and NC specialists. The first program involves 5080 hours of training. The other two programs require 6000 hours. The programs take from two to five years.

An interesting facet of the way the RTC works is that students produce real work for real customers. The customer may submit a drawing and request an RTC bid, or Remmele will allow established customers to set their own prices based on their own experience with the part. If the customer can make the part for $15 in its own shop, RTC will meet the price. Remmele currently has 45 apprentices. In 1979, the RTC graduated 14 students. This year it will graduate 20.

This year also will be the first time in six years that the school is self-supporting as a result of the work trainees produce.

• DoALL Co., Des Plaines, IL, has a long history of training. The DoALL Technical Institute was established in 1941 to help metalworking operations ranging from small shops to high production manufacturers cope with shortages of skilled help.

Now the company has introduced a new Video/Text Industrial Training System. This features pro-

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grammed "competency-based" instruction keyed via a random access control to specific sections of training tapes to permit the user to control the pace of learning.

Arthur Meyers, director of the DoALL Technical Institute, says the system utilizes the highly successful combination of bite-sized lessons, complete with diagnostic pre- and post-learning tests, hands-on layout, set-up and machine operation. "A very down-to-earth, practical, effective and economical competency-based approach that can readily be tailored to specific company needs" is how he describes the system.

Four basic video/text courses are available: Basic Machine Technology; Introduction to the Engine Lathe; Intermediate Engine Lathe; and Milling and Tool Sharpening. The full price for each course, including textbooks and tapes, is $3500. Base price for the equipment package—with 9 in. color TV set, ½ in. Beta I Format playback unit, and random access controller—is $2135.

• Valeron Corp.'s personnel supervisor, Donald Stanley, is responsible for filling manpower needs for all of the company's plants in the Detroit area. And as much as he would like to hire young people right out of high school, he says it usually is impractical. His first choice, therefore, is individuals with two or three years shop experience who have a background in cutting tools, machine tool operation, and have the ability to do their own set ups. "The era of hiring one man to do everything is past," says Stanley.

The middle ground for Valeron is to draw new people from area vocational schools. Both Stanely and Doba Jackson, manager of research engineering, agree that vocational schools are the key to filling the manpower pipeline. Co-op programs also work well. In addition, Valeron has its own 18-month training program for engineers and technicians.

• Detroit Tap & Tool, Warren, MI, also relies on vocational schools for employees. It does not do much in-house formal training. The reason, according to Edward Palm, president, is that the company is too small to afford in-house training because it is busy getting products out of the door.

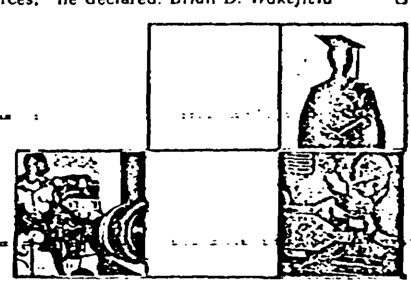
However, Palm is involved in establishing a vocational school in conjunction with local county government to train individuals to be entry-level employees. A building has been leased, an instructor hired and machine tools are being acquired. The eight-week curriculum will stress machine operation, shop math, blueprint reading, and other basic shop skills. Also interesting is that the program starts with a two-week assessment and motivational course which stresses what will be required of the individual and how the individual will benefit.

In discussing the new school, Palm stresses the importance of industry working with local governments instead of the federal government. "We do not need a grand plan," he says. "We do need a lot of small grand plans serving local needs."

• Federal Mogul also has come to recognize the need for in-house training. Robert Chope, manager of Human Resources, Planning and Development, says "Industry needs to do a great deal more itself, and stop depending on schools and government to provide training. You can't expect schools to train large numbers of people for specific jobs. There's also the question of how schools can afford the stamping presses, CNC machine tools and computers needed for training."

Federal Mogul follows its own advice. It has a CAM training program for engineers spanning about two years which prepares participants to install CAM systems at company facilities. It also has a two-year manufacturing management program to instruct management candidates in materials requirements planning, plant layout, cost accounting and other subjects critical to productivity—subjects often not thoroughly covered in formal school programs. For hourly personnel, there are programs that are administered by instructors stationed on the shop floor.

Conclusion. There is no end to the task of providing American industry with qualified manufacturing people. Bob Chope of Federal Mogul, however, provided a fitting final, telling point: "Industry does a good job of strategic planning for everything it needs to remain in business, everything but human resources," he declared. *Brian D. Wakefield*



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GUEST EXECUTIVE COMMENTS

By ROBERT MARQUARD
President
Schneider & Marquard Inc
Newton, N J

Contract Plants Suffer Skilled Labor Shortage

Despite a growing pool of unemployed persons, the contract tooling and machining industry is suffering from a severe shortage of skilled labor. Most contract plants are working a 50-hour workweek. Some individual companies are working reduced hours because of temporary market irregularities.

Industry leaders are very concerned about the long-term consequences of this shortage. The proliferation of numerical control (nc) and computer numerical control (cnc) machining has generated a growing tendency towards training specialists in narrow fields instead of the traditional apprenticeship which is aimed at producing "all-around" journeymen.

While advances in nc, cnc and electrical discharge machining (EDM), particularly in die making, have had a profound impact on raising productivity, industry's efforts to train fully-skilled individuals have declined while short-term training activities to turn out specialists to operate automated equipment have increased.

The demand for machining know-how has not been diminished by "smarter machines." The net result of automation has, if anything, been to increase the demand for journeyman-level technicians to support the more automated machine tools with programming and setup skills. Newer equipment has replaced much of the tool maker's muscle and sense of touch, but the art of machining cannot yet be fully assumed by sophisticated machines.

Current figures from the Bureau of Labor Statistics estimate annual demand through 1990 at 22,000 machinists and nearly 9,000 tool and die makers. The Department of Labor's Bureau of Apprenticeship and Training reported that only about 5,000 new journeymen per year are completing formal apprenticeships in both trades combined. Demand will far exceed the available supply of skilled technicians.

A survey, conducted last year by the National Tooling and Machining Association, indicated that approximately 60,000 journeyman-level workers were immediately needed by the job shop industry alone, and that nearly 250,000 new journeyworkers would be needed over the next five years. By these standards, the skills shortage will become catastrophic.

Industry leaders are concerned that the shortage of skilled labor could create a serious bottleneck in the entire metalworking industry, especially if the Reagan administration undertakes efforts to increase defense production and to revitalize industry. Increased spending for defense hardware and capital equipment would further extend already long delivery schedules in many key areas and could result in increased dependence upon foreign suppliers and a further weakening of defense mobilization capacity reserves.

Among the committee's recommendations were a series of 10 distinct training approaches which could be implemented as needed by the association's 60 local chapters throughout the country. Included in the 10 programs are: short, intensive courses to provide basic job-entry skills; performance-based programs which allow trainees to progress at their own pace; and short programs for training specialists such as nc machine tool operators.

Also recommended were increased attention to textbook and training aids development.

American Metal Market
Metalworking News
Monday, March 2, 1981
page 38

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THE WALL STREET JOURNAL, Monday, March 9, 1981

Doubtful Benefit

Fast-Depreciation Bills Stir Much Criticism, Even at Needy Firms

Many See Only Slight Gain To Low-Profit Concerns That Pay Minimal Taxes

Why U.S. Steel Delays a Mill

By DOUGLAS R. SEASE
Staff Reporter of THE WALL STREET JOURNAL

As a partial cure for the nation's economic ills, accelerated depreciation has a lot of support these days.

The concept is simple. Just speed up the rate at which companies can deduct from taxable income the cost of wear and tear on plants and equipment, proponents of the accounting device say, and the companies will scramble to invest billions of dollars to replace old facilities with modern, presumably more efficient buildings and machines.

In practice, however, accelerated depreciation doesn't always work. Implicit in the accounting device is the hope that it will help cash-poor, capital-intensive companies. But critics complain that most of the proposals bouncing around Washington aren't generous enough to offset today's double-digit inflation. Moreover, they say, the only real beneficiaries would be companies already competitive and profitable. For many companies needing help the most—such as steelmakers, utilities and airlines—accelerated depreciation is akin to fool's gold: It holds glittering promise but little real value.

"The truth is that in today's inflationary climate, accelerated depreciation won't have a very significant impact on basic industry," says Lee G. Weeks, vice president for corporate finance at Armco Inc.

Foreign Competition

Mr. Weeks also isn't impressed by the oft-repeated argument that many foreign companies gain competitive advantages from rapid-depreciation rules. He says depreciation schedules alone don't make or break industries. "The British steel industry has much faster depreciation than we have," he observes. "But with their lack of profits, what good has it done them?".

Two of the most popular depreciation proposals are identified by numbers: 10-5-3 and 2-4-7-10. The 10-5-3 plan would set up schedules allowing depreciation of buildings in 10 years, equipment in five years and cars and light trucks in three years. Similarly, 2-4-7-10 would establish a 10-year depreciation schedule for buildings, categories of four and seven years for various types of equipment, and a two-year schedule for cars and light trucks.

Either method would be simpler—and for most industries shorter—than the current system, which uses different schedules for each of hundreds of different items. Even small businesses, which have tended to view accelerated depreciation as an unfair benefit for big companies, acknowledge a preference for the simplicity of the proposed schedules.

"It isn't a question anymore of whether accelerated depreciation will pass Congress this year," says the chief lobbyist for a big accounting firm. "It's just a question of what form it will take."

Some Difficult Cases

But whatever form is adopted, experts say, it won't be much help to many companies, even some capital-intensive ones. Both the steel and airline industries, for example, are facing the prospect of heavy investments over the next 10 years, the steelmakers to modernize aging plants and the airlines to switch to more efficient planes. But at current profit levels, neither industry can fully use existing depreciation allowances, much less the benefits of accelerated depreciation.

Many electric utilities face the same predicament, plus another problem: Their huge investments in generating and transmission facilities create such big depreciation allowances that even if their profits were healthy, their tax burden would become negligible under any form of accelerated depreciation. And that would be poor public relations. One utility executive says he shudders to think of the reception he would get at a rate hearing if the state commissioners discovered that the utility hadn't paid any taxes.

"The public just doesn't understand about this," he says. "It doesn't look good if you aren't paying taxes, no matter how proper it is."

Yet these industries don't oppose accelerated depreciation. On the contrary, they advocate it strongly because of predictions that it would stimulate the general economy. Steelmakers themselves might not be able to take advantage of all the benefits, but they expect to sell a lot more steel to other industries that can do so. Similarly, utilities and airlines believe that a strengthening economy will aid them, too.

A Question of Hope?

"Some companies it will help, some it won't," says William Hawkins, an economist for the Air Transport Association. "But it won't hurt anybody." Besides, he adds, "Anyone in any kind of business likes to think he'll be profitable someday."

To companies currently suffering from low profits and high inflation, accelerated depreciation can be shown to offer surprisingly little help—as a close look at the steel industry demonstrates.

Consider U.S. Steel Corp.'s long-delayed plan for a huge new steel mill along Lake Erie at Conneaut, Ohio. Lewis Tullio, mayor of nearby Erie, Pa., figures that the main thing stopping U.S. Steel from building the plant is the current depreciation schedules, which stretch the depreciation period on most steelmaking equipment to 12 years. When Congress passes some form of accelerated depreciation, Mayor Tullio expects U.S. Steel to begin construction of the mill, which he views as the cornerstone for Erie's economic revival.

Mayor Tullio has ample reason for thinking that accelerated depreciation would nudge U.S. Steel into building the Conneaut mill. For the past few years, the domestic steel industry has complained that U.S. tax laws were one of the main reasons that U.S Steel couldn't begin the Conneaut plant—even though Stelco Inc., Canada's largest steelmaker, was building a new mill at Nanticoke, Ontario, only 60 miles across the lake. Canada's tax laws allow depreciation of plant and equipment in just a few years.

But Mayor Tullio seems destined to be disappointed. U.S. Steel Chairman David M. Roderick says that regardless of what happens to accelerated-depreciation proposals, "the best you can hope for in the case of Conneaut is the last half of this decade." Other steelmen suggest that the mill probably will never be built. *The reason isn't depreciation; it's profits.*

Since 1958, the steel industry's return on equity has been below the average of all manufacturing companies in all but one year. *In the past 10 years, it has exceeded 8% in only three, the relative boom years of* 1974, 1975 and 1976. And U.S. Steel's profitability, on average, has trailed that of the steel industry as a whole.

Hypothetical Case

Without profits against which to deduct the huge expenses for wear and tear, a new steel mill costing billions of dollars simply can't be justified. Accountants at one steelmaker recently calculated the cash available to a hypothetical corporation for spending on plant and equipment under different levels of profitability. With 8% return on equity, the hypothetical company would have cash flow—comprising retained earnings, depreciation allowances and deferred taxes—of $261 million a year. Under the 10-5-3 proposal, cash flow would increase less than 5% to $273 million.

But that company earning a 15% return on equity would show far different results. Even under current tax laws, cash flow would total $380 million. Under accelerated depreciation, it would jump to $437 million.

In short, says one of the accountants who prepared the study, an 8% return is the minimum profit needed to maintain a company's current capability. "At 8%, we're dead in the water," he says. "It's the *difference* between 8% and 15% that determines if we can move ahead and become more efficient." Only if profits rise sharply, he says, will steel companies be able to spend the billions required for a new mill.

But even at higher profit levels, accelerated depreciation would provide only partial relief from inflation's effects because all depreciation allowances are based on historical costs, not replacement costs. Thus, the deductions allowed for wear and tear are based on the original cost of plant and equipment, not on what it would eventually cost to replace them. At 10% annual inflation, for instance, a plant's cost would double in about seven years, Armco's Mr. Weeks says. "Accelerated depreciation still doesn't address the real problem of inflation," he adds.

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Stelco's Advantages

So how did Stelco justify its new mill at Nanticoke? For one thing, the Canadian steel industry is much younger and faster-growing than the U.S. industry, and thus more efficient and more profitable. That's why Canada's far more liberal tax laws have helped Canadian steelmakers so much. Canadian steelmen note that although Britain's tax laws are similar to Canada's, the British industry is plagued by enormous losses.

But more important, says Peter Gordon, Stelco's chairman, is Canada's anticipated growth rate. Mr. Gordon's decision to build the Nanticoke mill was based on projections of 3.5% to 4% growth in steel demand—much of it related to development of Canada's energy resources—for the next decade. In comparison, 1.5% to 2% growth is all that the American steel industry can expect in a more mature economy.

Mr. Gordon also says Stelco had made as many improvements as it could at its existing mill at Hamilton, Ontario; so steelmaking capacity could be expanded only at a new site. But at U.S. Steel, in contrast, existing mills can use extensive improvements. And that's exactly what U.S. Steel plans to do. Whatever benefits accelerated depreciation yields, Mr. Roderick says, "Our cash is going to be devoted to improvements at our existing locations. That need has to be served first."

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Doubt Cast on U.S. Ability to Arm in Crisis

Pentagon and Outside Experts See Delays in Industrial Conversion

By ROBERT C. TOTH, *Times Staff Writer*

WASHINGTON—In 1974, after huge numbers of U.S. tanks were shipped to Israel to replace those destroyed in the Yom Kippur War, the U.S. Army found itself essentially without tanks for its own divisions. A crash program was launched to produce more tanks at an Army-owned, Chrysler-run factory kept in reserve for just such emergencies.

"It didn't work," recalled Jacques S. Gansler, then deputy assistant secretary of defense for materiel acquisition.

"We couldn't buy the hull and turret castings for the tanks," he said. "The main supplier told us to get in line behind his commercial customers. U.S. Steel didn't want any government work. It was more than two years before tanks began to come off that line."

The Army's experience with its supposedly ready tank factory apparently is typical of an eroding capacity to shift industrial capabilities quickly from civilian to military production.

Faith in Crisis Reaction

Traditionally, Americans have tended to believe that they could concentrate on civilian activities until a crisis developed, then switch almost overnight to become "the arsenal of democracy"—as legend at least says was done in World War II.

Yet Pentagon officials and outside specialists in military production express increasing concern over the nation's ability to convert industrial facilities fast enough to meet an emergency. Gen. Alton Slay, chief of the Air Force Systems Command, said it is "foolhardy and dangerous" to believe the United States is ready for such crisis conversions.

If the Air Force, for example, were ordered to go all-out today with production of its best planes, the F-15 and F-16 fighters, the rate of production could not be increased by as much as a single plane for 18 months, and it would be three years before significant numbers of the new craft could fly, Slay told Congress recently.

10-Year Lag for Navy

The Navy, for its part, calculates that 10 years would be required to build enough ships and planes to meet its recommended force levels, according to Adm. A. J. Whittle Jr., chief of Navy materiel. He blames a scarcity of shipyards capable of constructing large-hull ships and a shortage of skilled workers, among other things.

In its biggest current program, the Navy has seen its program for building Trident missile-firing submarines slip two years behind schedule. Navy officials have complained publicly that the steel the Navy was getting did not meet specifications, that improper welds were discovered in the boats, and that water-based rather than oil-based paint was used in Trident bilges. The contractor blamed Navy-ordered design changes for much of the schedule slippage. But whatever the cause, the delays illustrate the limits of the nation's ability to keep a high-priority defense production program on schedule.

The United States is the only nation in the world that does not treat its defense industry as a critical national resource, Gansler wrote in a recent book, "The Defense Industry." The industry has deteriorated as a result, particularly since the Vietnam War, until today military equipment production is not economical and could not be increased rapidly for strategic weapons.

"This means the United States is not getting its money's worth for the $50 billion a year it spends on military procurement," Gansler said in an interview.

The defense industrial picture also is clouded by increased reliance on foreign sources of raw materials and the quality of U.S. products and workers.

According to Gen. David C. Jones, chairman of the Joint Chiefs of Staff, the United States is increasingly dependent on foreign sources for strategic materials. For the 25 minerals and other materials most important for defense, 70% of the quantities used now come from abroad, compared with 54% 20 years ago. And, he said, the situation will worsen in the coming decade.

Titanium sponge, used in key aircraft parts, is of particular concern because of its low stockpile level. As a measure of the shortfall, the Navy has urged that the current 21,000-ton level be raised fivefold, to 131,000 tons.

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Quartz Crystal Supply Depleted

The strategic stockpile of high-quality quartz crystal, which is critical to satellite navigation systems, guided bombs and other key military weapons systems, has been depleted since 1976, the Navy's Adm. Whittle said. Almost all of the crystal for optical and electrical uses comes from Brazil.

A quality comparison of three Japanese and three U.S. firms making 16,000-bit memory chips for integrated circuits found a failure rate nine times higher for the best American chip than for the best Japanese chip, Slay reported.

He quoted a Douglas Aircraft Co. official as saying that up to 40% of aerospace work must be redone "because it was not (done) right the first time." The Air Force has had repeated problems with defective engine turbine parts, bearings, welds, structures and tubings, Slay told a House Armed Services subcommittee.

The Defense Industrial Base Panel of that subcommittee, in a December report, said that the lead time for manufacturing critical parts has been increasing rapidly in recent years. Some examples cited:

—Pratt & Whitney engines must be ordered 41 months in advance now, compared to 19 months in 1978.

—Integrated circuits must be ordered 62 weeks in advance compared to 25 weeks in 1978.

—Aircraft landing gear must be ordered 120 weeks in advance compared to 52 weeks in 1977.

—Aluminum forgings must be ordered 120 weeks in advance, compared to 20 weeks in 1976.

The critical lack of forgings—steel, titanium and aluminum—was blamed in part by Slay on "the closure of literally hundreds of foundries in the mid-1970s as a result of very ambitious OSHA/EPA rule-making. (OSHA is the Occupational Safety and Health Administration; EPA is the Environmental Protection Agency.)

"Those which were able to stay alive had to make substantial investments in anti-pollution equipment which generally did nothing to improve productivity," Slay complained.

But Gansler, who is now vice president of the Analytic Sciences Corp., took a somewhat different position on the effect of the regulations.

"The data show that foundries that closed were the smaller ones, not those who make the big and specialized forgings that the military needs," Gansler said. "There is still a lot of excess forging capacity out there, but the bottlenecks are in making the unique defense items."

The situation regarding small forging companies is similar to that of other small suppliers of defense products. In the view of the civilian and military specialists, the biggest single problem in the defense industry today is the reduced number of subcontractors.

A Defense Science Board study found that in one program, the number of small suppliers taking part dropped from 6,000 to 4,500 in one year.

Profitability in the lower-tier firms is about half of that for the prime contractors, Gansler found. One 1976 study estimated 8% profits for the small firms, compared to 16% to 20% for the big ones.

The lack of skilled workers is another major problem, Gansler said. When Chrysler tried to build those tanks, it found the turnover rate for new workers was so high that the employees were judged "essentially untrainable."

All this raises costs of defense production faster than costs generally. But throwing money at the industry will not solve the problems, most specialists say. And, given the shortage of parts suppliers, a sudden spurt in Pentagon spending could boost inflation rates in the industry even faster.

Rather than pump up spending, officials say the various bottlenecks and adverse trends must be attacked specifically. Industry should make structural changes, but incentives for capital investment—from taxes through profits—must be changed by the U.S. government, they contend.

Most important, in Gansler's view, the Pentagon and Congress should commit funds for a longer period to get economic levels of production and to encourage needed capital investment. Multiyear funding for lower-tier suppliers in particular should be instituted, he said, and multi-year authorizations and appropriations of funds by Congress should replace the current single-year limits.

AMERICAN TECHNICAL EDUCATION ASSOCIATION JOURNAL Jan./Feb. 1980

SHORTAGE OF SKILLED CRAFTSMEN—

Apprenticeship And National Survival

By: D. B. MacDermott
Apprenticeship Training Consultant
Rome, New York

Since 1957 technical education in America has focused on the production of a host of engineers, high level technicians and scientists. The rationale behind what has become almost a national mania was not only Sputnik but the obviously worsening competitive position of American industry. For twenty years, funds and manpower have poured into this level of education, to such an extent that large portions of the work market are glutted and the educational effort is wasted. Simultaneously, a shortage of skilled craftsmen has developed that threatens the very survival of the American manufacturing industry.

In 1980 the state of New York will produce tens of thousands of college graduates. In that same year, only about 150 Tool and Die Makers will complete their apprenticeships in the state. Those few Journeymen Tool Makers constitute the entire supply for the 12,000 firms in the state that need such skills. The situation will worsen measurably in the next decade. Of the 300,000 registered apprentices in the nation today, two-thirds are in the construction trades. Only about a third of the remainder are in the skilled trades required by manufacturing industries. If previous trends are a guide, then even that small number will shrink significantly in the 1980's. Those numbers contain the elements of a national disaster. Consider these facts:

We are a nation that has lived, lives now and must continue to live on its mechanical technology. No amount of wishful thinking will take us back to a technologically innocent Walden, for in truth Walden never existed.

In the final analysis, technology means production. Engineers and scientists do not produce. They plan; they design. Mechanics produce. The most elaborate and ingenious ideas are merely paper until life has been breathed into them by the High Priests of Technology—Tool Makers, Pattern Makers, Model Makers, Machinists and their fellow craftsmen.

Since World War II, profound social changes and changing aspiration levels have directed the best and most able young people away from the skilled trades. Mechanics whose income exceeds that of a college professor boast proudly that "My son isn't going to have to work in a factory." Teachers and counselors lead the best students into 'Human Services' and a hoard of occupations that are either peripheral to production or totally divorced from basic industry.

Unwise government policies, both domestic and foreign, coupled with short-sighted opportunism in business and industry has left American basic manufacturing with obsolete physical plants while equipping foreign competition with the most modern facilities. So industry today survives on skilled work force.

The final crack in the foundations of our existance comes with the realization that the vast bulk of the highly skilled craftsmen in industry today are those that entered our factories just after World War II. The youngest are in their early fifties. They have begun to retire, and within the next decade aging alone will take from us between a half and two thirds of our best mechanics.

The final accounting for these facts is a simple one: within ten years significant sections of the American manufacturing industry will grind to a halt because they have been stripped of the hands-on-skills that permit them, and the rest of us, to survive and compete.

Hands-on mechanical skills can only be the product of formal apprenticeship training. Colleges, universities and vocational programs can provide the basic education that an apprentice candidate needs, and the related education that accompanies apprenticeship. It cannot duplicate the unique teaching system or the unique content of in-plant apprenticeship. And that in-plant education is in desperate trouble today.

Among all the varied forms of education today only one is entirely funded directly by industry without any significant governmental assistance. Industry pays the full shot in apprenticeship. It pays the apprentice. It pays the teaching Journeyman or Master Craftsman. It alone provides the materials, machines and plant site. Government studies show a cost per apprentice of eight to sixteen thousand dollars. Industry experience is that the true cost is between twenty-five and fifty thousand dollars. Present tax incentives and pre-apprentice training programs are inadequate to defray this cost in an era of declining profits. Unless substantial direct assistance is provided, the number of apprentices will continue to decline.

Another problem for industry apprenticeship is found in both the quality and quantity of young people provided by conventional education systems. A common belief among many educators is that if the youth is a disciplinary problem—retarded—unmotivated—"Send them to the mill. They need dumb, strong labor." Educators must understand that no industry today hires brawn. Cranes, forklifts, and machines provide more than adequate muscle. Industry needs brains capable of working in a world of micro-voltages and micro-inches. An apprenticeship today as a tool and die maker requires exactly the same intellectual skills that a baccalaureate degree requires. Industry must have the best. If education persists in directing superior students to humanistic studies, science and engineering and dumping its problem people on American factories, it will have made a massive contribution to national economic suicide.

In considering how they can assist industry's c[illegible]

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prenticeship programs, educators must fully understand the unique nature of apprentice education. An apprentice candidate is placed on a one-to-one, direct relationship with a Journeyman or Master Craftsman in a work setting. Apprentices thus receive eight thousand hours of face-to-face instruction and guidance. (A baccalaureate graduate will have received about one quarter of those hours.) The relationship permits not only the teaching of specific skills and information, but also the modification of behavior in a way that is unique in education. The values and attitudes of the apprentice are changed so that they in turn become master craftsmen. We complain bitterly today of the decline of quality in American manufacture. Technical education alone will not reverse that decline, and, by their stress on techniques, may exacerbate it. Only apprenticeship provides the form and content that stresses quality and excellence. Educators must understand that this behavioral modification is a primary characteristic of apprenticeship, and they must structure the apprentice's basic educational preparation by a thorough grounding in economic and social fundamentals. Education must send to apprenticeship young people thoroughly trained in the basic mechanical and scientific principals of technology as well as the social, economic and political implications of that technology. We in industry are not only faced with youthful candidates who think brass is a basic element, we are faced increasingly with people who have no conception of the social ramifications of the machines they produce. Such ignorance makes not only poor workers, it makes poor citizens.

Lastly, education and government must stop viewing apprenticeship as a social action tool whose purpose is merely to incorporate special interest groups into the economy. This has produced a situation in the selection of apprentice candidates that resembles nothing so much as the old political 'balancing-of-the-ticket,' where the prime consideration is not the excellence of the candidate but their color, sex, origin and ethnic derivation. Industry must be permitted to return to rigerous selection systems. If those systems then produce disproportionate social statistics, let basic education seek the cure, and lift from industry a burden that is crippling their attempts to preserve the skill level that is our national survival.

About twenty years ago a man who later became Secretary of Health, Education and Welfare voiced a warning:

"If we continue to exhault our mediocre philosophers because theirs is an exhaulted profession, and to hold in contempt our very excellent plumbers because theirs is a humble trade, we shall soon reach the point where neither our ideas or our pipes hold water."

We are somewhere between seven and ten years from that day.

THE WALL STREET JOURNAL, TUESDAY, JANUARY 6, 1981

Apprentice Quality

Harold Sheppard's letter to the editor (Dec. 15) suggests that the government should prod and assist unions and industry to train middle-aged workers who are not too old to learn new skills. I am a die-maker and see first-hand that the government is the biggest factor in the shortage of skilled help. The programs and directives that a certain portion of apprentices must be women and minorities are the problem.

In order to get the ratio, employers have had to accept people who were not qualified. So, rather than train two employes, one who can do the work and one who cannot, companies are reducing or eliminating apprentice programs.

R.G. DONALDSON
Mansfield, Ohio

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A & A TOOL AND DIE COMPANY, INC.
367 Boston Post Road, P.O. Box 986, Orange, Connecticut 06477 · (203) 795-3205

June 6, 1980

Mr. William E. Ruxton
Technical Coordinator
National Tool,Die & Precision
Machining Association
9300 Livingston Road
Washington, D. C. 20022

Dear Bill:

Following up on our telephone conversation the other day I would like to supply the following information:

A & A Tool has been a sub-contractor of military work for the past 16 years. We have watched a steady decrease in the skilled work force due to the inability of vocational schools to keep pace with our needs and the high cost of training to companies of our size.

A & A Tool finds itself unable to grow and unable to support the needs of its prime suppliers. We have machinery idle because of the lack of skilled help. Through my work with the National Association I realize the problem is nationwide and anything our association could do to eleviate this problem would in my mind certainly benefit our country. The obvious question is if we are having a problem meeting the needs of the military in peace time, how could we ever support the needs of the military during an emergency? As you know, it takes years to train a highly skilled machinist.

If we can supply more information or be of any use in the efforts to eleviate this problem, please contact me.

Sincerely,

Alfred F DuPaul, President
A & A Tool Company, Inc.

AFD:jc

PRECISION PRODUCTS INCORPORATED
8 ENTERPRISE ROAD BARNES PARK NORTH WALLINGFORD, CONN 06492 · TEL (203) 265-2081

June 10, 1980

National Tool Die & Precision Machining Assn.
9300 Livingston Road
Washington D.C. 20022

Attention: Mr. William Ruxton

Dear Mr. Ruxton:

Please consider this letter confirmation of our recent discussion in which I outlined to you my concerns relative to the severe shortage of skilled labor in our area, and especially as to the effect that this has on our ability to perform under our various military contracts.

As you know, we currently produce parts for many major military programs such as those listed below:

1 - 30 MM Gau-8 Gun for the A10 Aircraft.

2 - Transmission parts for the new main battle tank.

3 - Feeder Assemblies for the Cobra Gun Ship.

4 - Miscellaneous 20MM gun parts.

In recent years we expanded our facility and conducted extensive in-house training to meet our requirements, and while this program was reasonably successful we feel that we have reached the point where while we might like to expand, we do not feel that we have the resources to mount the necessary training effort to provide the skilled people that are required, and as a result we have seriously curtailed our quoting activity on major government programs.

Your efforts in trying to alleviate this problem is certainly grea ly appreciated and if we can be of any further assistance, please do not hesitate to contact me.

Yours truly,

T. P. Swain

T. P. Swain
President

TPS/dtp

The Lyons Tool & Die Company.

TOOLS • DIES • JIGS • FIXTURES • JIG BORING • JIG GRINDING • VISUAL GRINDING

87 GYPSY LANE, MERIDEN, CONNECTICUT, 06450

June 5, 1980

Mr. William Ruxton
National Tooling & Machining Assoc.
9300 Livingston Road
Washington, D. C. 20022

Dear Bill,

I understand you are interested in the impact of the skilled help shortage in Connecticut. Connecticut has prided itself throughout it's history as a skilled labor intensive State. It is a State that is heavily defense-oriented. Our local chapter of N. T. M. A. is consequently one that has a very high percentage of defense-oriented campanies as members.

The topic of skilled help shortage is one that is discussed constantly by members of our State Chapter. Accompanied by the discussion is the ready acceptance by our members of facts such as; extended deliveries due to lack of help, little response or unqualified response to want-ads, inability of the State Vocational System to provide replacements for retiring workers in number or capability, and the failure of any Federal Training Project (C.E.T.A.) to adequately perform.

A recent survey of our members showed that there is a great need for skilled help in our industry. There is, however, little optimism that the people we need can be found. The average age of skilled help in our industry is over fifty years of age within the State of Connecticut.

There is little doubt that efforts to increase the pool of skilled help in our industry would be self-serving. It is disconcerting, however, to imagine the further ramifications of a tooling and machining industry that is weakened and unresponsive due to skilled help shortages. Presently in the State of Connecticut, it is possible to speak to member companies that do defense related work that are extended out in deliveries for more than a year. What benefit is there for a company in that situation to invest in plant and equipment if skilled help shortages will restrict growth? What would be the situation in wartime if these same backlogged companies were asked to step up production? Is it possible? It is distressing in an age when people are looking for high paying

continue page 2

The Lyons Tool & Die Company.

TOOLS • DIES • JIGS • FIXTURES • JIG BORING • JIG GRINDING • VISUAL GRINDING

87 GYPSY LANE, MERIDEN, CONNECTICUT, 06450

June 5, 1980

Mr. William Ruxton
National Tooling & Machining Assoc.
Page 2

and satisfying jobs that we are labor poor. It is time that our skilled help problem were dealt with in a prompt, constructive manner.

Sincerely,

William Lyons
William Lyons
President
Conn. Chapter of
National Tooling & Machining Ass

STEVENS MANUFACTURING CO., INC.
280 ROCK LANE
MILFORD, CONNECTICUT 06460
PHONE: 878-2328

June 12, 1980

National Tooling & Machining Association
9300 Livingston Road
Washington, D. C. 20022

Attn: Mr. Bill Ruxton

Dear Bill,

In reply to your question regarding skilled help and its effect on government contracts, yes, we have idle machines and constantly seek skilled help. The problem of skilled help has been a continuing one for many years.

Stevens Manufacturing Co., Inc. is currently operating as approximately 50 % of its true capacity. We have turned away many skilled contract bids. There is a need for financial assistance to our industry to help the unskilled worker.

I note, with deep concern, the many social reform programs instituted by the federal government and other local agencies, which merely employ the young and unskilled with no particular skill involved.

Our company is in precision machining and fabricating for the aerospace industry. We employ fifteen people and have capacity for thirty. We have been in business for twenty three years.

It has been a pleasure to respond to your question on such a timely subject.

Sincerely,

Stephen R. Fogler

Stephen R. Fogler, President
STEVENS MANUFACTURING CO., INC.

SRF:scg

Additional Comments from NTMA Member Companies

Regarding the Defense/Skills Shortage Problem

"We could do a lot more defense work if we only had more skilled people. We're backlogged for a year right now, and most of the backlog is defense-related. We can't quote anything for delivery before June 1981, and we can't just drop our commercial customers mid-way in a job. We're receiving a lot of RFQ's for defense work that would be ideal for our equipment, but they're asking for deliveries in 30-36 weeks (or less) and we simply can't meet those deadlines without more journeymen."

(A&A Tool Co., Inc., a 16-employee precision machining company in Orange,CT)

. . . .

"Equipment isn't the problem. For defense work, there's usually something available from DIPEC that will suffice in a pinch situation, even though it may lack tooling, be nearly obsolete, and in need of repair. The lack of skilled people has prevented us from taking on more DOD work and has been our biggest problem in meeting delivery dates for the jobs we get. The only thing we can take on now is "garbage work": repetitive jobs like punching or drilling that can be performed by semi-skilled or unskilled people. Since we don't develop quotes on the jobs we have to turn down, there is no way to estimate how much business we've lost simply for want of fully-trained people."

(Burgess Brothers, Inc., a Boston-area company with 48 employees.)

. . . .

"For the last ten years, Gentz employees have been working at a single 55 hours per week shift due to the lack of skilled manpower. Despite large-scale lay-offs which have occurred in the automotive industry in our area, our plight has not eased, since the skills employed in the mass-production of cars and trucks are not directly transferrable to job-lot precision high-technology defense work.

"Because of the critical lack of skilled help, we have been unable to bid on defense work requiring deliveries in less than one year. Gentz was recently forced to decline to bid on work for the cruise missle, helicopter engine components, and jet fighter engine components."

(Gentz Incustries, Inc. a Detroit company with 42 employees; performs precision machining & fabrication primarily for the defense industry)

80-595 O—81——18

"We have definite problems in attracting and training qualified individuals for skilled jobs, which restrict our ability to do certain types of work. As defense work becomes more sophisticated, we find that we need more highly-trained people on the shop floor. Our older skilled employees don't have the newer skills in computer technology, numerical controls and so on -- these have to come from newly trained, fully trained people and the local schools aren't providing that kind of training."

"We have been forced to start our own in-house training program to help meet our own needs. Presently, we have ten trainees in this program. The money we spend on training could be used to update and expand our plant and equipment if we had a source for skilled help, but as things are, we've got to train just to stay in business."

"We did not get involved with work on the cruise missle simply because of a lack of skilled manpower. We did some work on the XM-1 tank program, but had to turn down follow-on orders because we couldn't muster up enough qualified toolmakers and precision machinists."

"Right now, we're very reluctant to market ourselves to the Defense Department for fear that the skills shortage might prevent us from meeting contract obligations for work on new weapons systems."

*(Jerry Weaver, president
Dixie Tool & Die, Inc., Gadsden,
Alabama, 60 employees)*

. . . .

TESTIMONY BEFORE THE SENATE FINANCE
SUBCOMMITTEE ON

ECONOMIC GROWTH, EMPLOYMENT AND
REVENUE SHARING

SENATOR H. JOHN HEINZ, III
CHAIRMAN

Concerning the Extension of the
Federal Jobs Tax Credits Program
as Outlined in the
Revenue Act of 1978

April 3, 1981
12:30 p.m.

Rm. 2221 Dirksen Senate Building

Target Management Co., Inc.
2639 Walnut Hill Lane, Suite 143
Dallas, Texas 75229
(800) 527-5124

SUMMARY STATEMENT

Representatives of Target Management Co., Inc. see the underlying thrust of the TJTC program as an effort to curb unemployment, without extensive government subsidy, in a way that stimulates the economy and with a minimum of maintenance cost incurred by participating agencies.

Representing companies from diverse industries, Target Management Co., Inc. believes firmly that these goals are being reached. Further, employers from every segment of industry also widely endorse the program and attest to its positive economic effects.

One important dimension of the program as it stands is retroactive recovery. Making credit recovery available retroactively has resulted in a much broader acceptance of the program by industry and serves to induce active recruitment of eligible job applicants referred by participating agencies.

TJTC combines a social program designed to curb unemployment and tax credits designed to help industry retain additional capital for more productive uses. The program uniquely stimulates the economy from two directions at once.

TMCO, its clients, and all of industry applaud a program where persons traditionally difficult to place in the labor force are helped through gainful employment. Further, they are being helped in the manner most likely to make a positive long range contribution to the U.S. economy by becoming tax paying citizens no longer requiring tax dollars for support.

The Federal Jobs Tax Credits Program (TJTC and WIN/Welfare) and the Revenue Act of 1978

It is our understanding that the initial intent of the Federal Jobs Tax Credits Program (TJTC and WIN/Welfare), as outlined in the Revenue Act of 1978, included:

1) helping persons who traditionally have been difficult to employ;
2) aiding these persons in a specific way, not by a direct governmental subsidy, but by facilitating their becoming participants in the U.S. work force;
3) stimulating the economy by giving employers a tax incentive for hiring these persons who traditionally have been difficult to employ;
4) facilitating a program with a minimum of red tape, while still protecting against fraudulent claims; and,
5) designing a program which would meet the above requirements and be implemented by the private sector, with minimal governmental expense in initiating and maintaining the program.

Underlying the primary thrust of the Federal Jobs Tax Credits Program seems to be the assumption that the only long range solution to poverty and underemployment is employment itself: people gaining active participation as workers and contributing both to production and taxes.

Target Management Co., Inc. is a business consulting firm assisting a large number of national corporations participating in the Federal Jobs Tax Credits Program. These companies are from diverse industries: textile, clothing, medical services (hospitals and nursing homes), hotel facilities, restaurants, retail department stores, printing, fast foods, manufacturing, food processing, and construction.

Our experience in working with firms representing over a million employees leads us to believe firmly that the Revenue Act of 1978 is achieving its original goals. There is little doubt that the tax credits are stimulating the economy. Employers from every segment of industry are enthusiastically endorsing the Federal Jobs Tax Credits Program and are testifying to the positive economic effects this single piece of legislation is having upon their respective companies.

The pertinent question is whether or not the Revenue Act of 1978 is truly aiding persons who traditionally have been difficult to employ. There are some who have criticized the effectiveness of the Federal Jobs Tax Credits Program, claiming that retroactive recovery of tax credits--for persons who have come to the employer on their own--has circumvented the original purpose of the law. Indirectly, but powerfully, retroactive recovery has accomplished precisely what the drafters of the law intended: private employers actively are seeking out eligible persons for employ.

Retroactive recovery can be compared to a pilot project; employers can be shown quickly that the program works. Many programs suffer from a gap between congressional conceptualization and private sector implementation. A review of recent attempts at getting industry to accept referrals from various agencies reveals a less than enthusiastic response from employers. Retroactive recovery has bridged this gap. Industry does not have to wait several years to experience the positive results of the Federal Jobs Tax Credits Program.

With an intial tax savings through retroactive recovery, firms now are looking for eligible persons to hire. This has been accomplished in an extremely short period of time. Most companies were hesitant of the program at first and have become involved intensely only in the last year. (The under utilization of the program in its first two years does not reflect poorly on the concept of a jobs tax credit.) After recouping the retroactive tax credits one time, they now are open not only to accepting persons referred by participating agencies, but to active recruitment of eligible job applicants.

A few governmental agencies have referred to retroactive recovery of tax credits as "windfall". They say, "those employers would have hired targeted workers regardless of a jobs tax credit". Such criticisms reflect a lack of understanding about the fundamental approach of a tax credit.

> Example: Company A already is aware that it employs many "difficult to employ", i.e. targeted, persons. Company A's director of personnel is a creative and enthusiastic worker. She uses the newspaper, radio, and televison to advertise as job openings arise. In fact, Company A has developed an extremely positive image in the community as a firm which will give people of varied backgrounds and experiences a chance to work.
>
> Company B does not have an aggressive personnel staff. They spend no money on the advertising of job openings. Their personnel director has established no community reputation; unemployed people are not aware that Company B exists.
>
> Company A hires 100 new employees a year who are eligible under the Federal Jobs Tax Credits Program. They do it on their own. They really have taken upon themselves the role of an employment agency, governmental or otherwise. Without retroactive recovery, they receive no jobs tax credit.

Company B is contacted by the local employment commission and agrees to hire persons vouchered as eligible for a tax credit. At the end of the year Company B has hired 25 such referrals and receives a tax credit for such.

Which company more nearly fulfills the intent and hopes of the drafters of the Revenue Act of 1978? Local participating agencies tend to view companies which accept referrals as representing the ideal approach. Their view assumes that targeted persons who first come through their agencies must somehow be more difficult to hire or more important by some other criterion. Neither can be shown to be the case.

Which company has taken the hiring of "hard to employ" persons into the hands of the private sector? To such companies is the tax credit especially deserving. The Revenue Act of 1978 was not designed to create another federal bureaucracy, but to encourage the private sector to assume responsibility for a service often handled, by default, by the federal government. Such is the approach of a tax credit program.

Imagine if the retroactive recovery of investment tax credits were viewed as windfall. Governmental agencies would attempt to distinguish between 1) "companies who would have expanded anyway" and 2) "firms who have stimulated our economy through expansion only because of agency contact".

The basic intent of a tax credit program is to foster an atmosphere in which a desired action is encouraged, supported, and rewarded, hopefully with little agency involvement. The Federal Jobs Tax Credits Program (TJTC and WIN/Welfare) is doing precisely this!

Various agencies have reported to us the difficulty they have had in placing their referrals in private industry. It has taken their most creative efforts to get employers to hire vocational rehabilitation referrals, welfare recipients, ex-offenders, Viet Nam veterans, and low income youth. Now, private employers seek out those agencies. Some firms are implementing and maintaining a strong participation in the program on their own. Others view the technical aspects of eligibility and the coordination of all the certifying agencies as cumbersome and use a third party such as ourselves on a consultant basis. In either case it is significant that the private sector is performing a service with a high level of efficiency, while the still rather formidable certification procedure is safeguarding against misuse, i.e. we have that rare combination of a program 1) with minimal abuse, 2) that is understandable and workable by private employers.

Thus, it appears the original goals of the Federal Jobs Tax Credits Program are being realized. 1) The tax credits are stimulating the economy of participating firms.

2) The system is safeguarded against fraudulent claims while keeping the red tape within manageable boundaries. 3) The private sector increasingly is becoming involved in initiating and maintaining participation in the program, with a minimum of governmental expense. 4) Persons traditionally difficult to place in the labor force are being helped through gainful employment. 5) And, they are being helped in the manner most likely to make a positive long range contribution to the U.S. economy -- by becoming tax paying citizens no longer requiring tax dollars for support.

The Federal Jobs Tax Credits Program is going beyond these specific goals to serve a much larger function. In a day when we are hearing the survivalists warn us to retreat, conserve, entrench, and hoard, the Revenue Act of 1978 is rewarding employers who face the future with an eye toward expansion. Enclosed are letters from major U.S. companies who testify that they are no longer considering a non-replacement policy concerning labor vacancies. They are not considering a moratorium on hiring. U.S. firms, directly in response to the Federal Jobs Tax Credits Program as enacted by the Revenue Act of 1978, now are openly expanding and actively seeking out those persons who traditionally have been difficult to employ.

The enclosed letters and this statement serve as our testimony that we strongly urge continuation of the Federal Jobs Tax Credits Program (TJTC and WIN/Welfare). Thank you for your consideration.

NATIONAL MEDICAL ENTERPRISES, INC. 11620 WILSHIRE BLVD • LOS ANGELES, CALIFORNIA 90025 • TELEPHONE (213) 479-5526

March 20, 1981

Mr. Gary Preston, President
Target Management Company
2520 Electronic Lane, Suite 810
Dallas, Texas 75220

Dear Mr. Preston:

National Medical Enterprises, Inc. is one of the nation's largest owner-operators of acute care hospitals and skilled nursing facilities, employing approximately 25,000 people in the United States. As an ever expanding, fast growing corporation, our need for additional employees is a constant factor in that growth. Accordingly, the Federal Targeted Jobs Tax Credit program is a very beneficial government program that we would like to see continued and even expanded.

As we have made the benefits of the TJTC program known to our hospital and skilled nursing facility administrators and personnel directors, the response has been very enthusiastic towards the TJTC program. With the knowledge that some of their current labor needs at the hospital can be filled by simply calling their local economic development department and requesting a TJTC certified candidate, their jobs have been made easier. At the same time, we recognize the benefit to the community by our hiring individuals from the targeted groups and giving them a productive job to do in the health care field.

We currently estimate that about 5 to 7 percent of all employees are hired in our facilities from the various targeted groups and would hope to see that percentage expanded. However, we understand the current TJTC program only lasts thru calendar 1981. We would wholeheartedly and enthusiastically support an extension of the program with even further liberalization of the benefits as an inducement to the employer. Perhaps an increase in the $6,000 wage base limitation and/or an expiration of the salary and wage deduction offset for the credit claimed, could be incorporated in future legislation.

Overall, we at National Medical Enterprises, Inc. are acutely aware of the benefits of the Targeted Jobs Tax Credit program to the employers, the targeted employee groups, and to the Society as a whole in our nation. We would encourage the 97th Congress to enact legislation permitting its continuation and expansion for the betterment of our economy.

Sincerely yours,

Larry J. Lisses

Larry J. Lisses
Vice President,
National Medical Enterprises, Inc.

LJL:vb

THE MERCHANDISE MART, CHICAGO, ILLINOIS 60654 | (312) 751-7582

LAWRENCE F. WILKAS
Vice President

March 20, 1981

Mr. Robert Lighthizer
Chief Counsel
Senate Finance Committee
Room 2227
Durkson Senate Office Building
Washington, D. C. 20510

Dear Mr. Lighthizer:

I would like to take this opportunity to express my views on the Targeted Jobs Tax Credit Program.

The benefits of this program are readily apparent - to the individual who is no longer unemployed, to the company who is able to retain additional capital for more productive uses and to society who benefits from a social program which is not an inflationary burden.

It is our belief that this program has in the past and continues to fulfill its intended goal - business working with government in partnership for common good.

Sincerely yours,

Lawrence F. Wilkas

Lawrence F. Wilkas, Director
Personnel and Organization

pg
bc/c to A. R. Caldwell-TMCO

BEST COPY AVAILABLE

March 30, 1981

Senator H. John Heinz, III
443 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator:

Please accept this letter as a testimonial in behalf of continuation of the Targeted Jobs Tax Credit and WIN/Welfare Tax Credit programs.

We, at Salant, have recently engaged in seeking tax credits through the above mentioned programs. Through these programs we expect to accomplish two objectives (i) increase working capital and (ii) be able to plan new jobs.

We now know that a certain percentage of our work force would qualify for a tax credit under these programs. Knowing this, we can anticipate the costs of labor for the coming year. Not only can we take a more positive view toward new jobs, we now can be more open to applicants referred to us by various participating agencies.

We see that the Federal Jobs Tax Credits program is working. We have additional working capital with which to plan. And, we see that there will be an increasing number of persons on our payroll, paying taxes, who might otherwise be unemployed.

We feel that the Federal Jobs Tax Credits program is one of the best governmental moves in decades to stimulate the economy. We strongly support continuation.

Very truly yours,

George H. Herman
President

GHH:ML

BEST COPY AVAILABLE

WAL-MART

WAL-MART STORES INC 702 S W 8th ST P O Box 116 BENTONVILLE ARKANSAS 72712 PHONE 501-273-4000

March 26, 1981

Mr. Gary Preston, President
Target Management Company
2639 Walnut Hill Lane
Dallas, TX 75229

Dear Mr. Preston:

It is my understanding that you plan to testify at the April 3, 1981 Congressional Hearing regarding proposed extension of the Targeted Jobs Tax Credit Program.

Although our company did not initially take full advantage of this program, we have recently recognized the potential available to us and are utilizing more TJTC qualified employees. The potential return to the company is significant and offers us an incentive to employ qualifiable associates.

We certainly endorse the extension of this program.

Sincerely,

Charles Self
Corporate Controller

CS/wpw

80-595 O—81——19

National Living Centers

INCORPORATED

April 1, 1981

Mr. Robert Lighthizer
Chief Counsel
Senate Finance Committee
Room #2227
Dirkson Senate Office Building
Washington, D.C. 20510

Dear Mr. Lighthizer,

National Living Centers, Inc., is the largest healthcare management company in the Southwest, and operates more than one hundred fifty (150) nursing and convalescent facilities in the state of Texas, and eighteen (18) facilities in Oklahoma. We employ a grand total of 8,971 employees, and among these we have many who fall into one or more of the targeted groups as described by the Targeted Jobs Tax Credit legislation.

In the nursing home business, we offer entry level positions to many disadvantaged people who are looking not only for a job, but for a future in the medical profession. The Targeted Jobs Tax Credit has enabled us to offset many of our training expenses that we experience in training our targeted employees. Our type of business is carefully watched by the State Department of Health, in both Texas and Oklahoma. We provide all our employees with orientation and training in the various job tasks performed at a nursing facility. This training is of course, state controlled. We believe that helping and training disadvantaged individuals into a specific trade not only helps us provide quality care to our patient, but also helps us to provide a benefit in each community where our facilities are located. At National Living Centers, we feel that we are providing new jobs to these people, where as somewhere else, they may never obtain work due to the lack of job training and experience.

National Living Centers has been involved with the Targeted Jobs Tax Credit program since May, 1979, and would like very much to see this program continued. Retro-active recovery on terminated employees has also given us a boost to try and utilize this tax credit program to its full potential.

I hope that the information will give you a better insight to how important this type of program is to us and how beneficial it has been to our business.

Sincerely,
Chris Barbee
Chris Barbee
Manpower Programs

713 627-2700 -- 777 SOUTH POST OAK ROAD -- SUITE 600 — HOUSTON, TEXAS 77056

BURGER KING CORPORATION EXECUTIVE OFFICES 7360 NORTH KENDALL DRIVE / TELEPHONE (305) 596-7011 / TWX 810-848-8692

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT,
AND REVENUE SHARING

TAX INCENTIVES FOR EMPLOYMENT

Written Statement of:

Ronald L. Platt
Vice President, Public Affairs
Burger King Corporation
March 27, 1981

POST OFFICE BOX 520783, GENERAL MAIL FACILITY, MIAMI, FLORIDA 33152

On behalf of Burger King Corporation and our franchisees who together operate over 2800 fast service restaurants within the domestic United States offering over 120,000 employment opportunities, I welcome the opportunity to comment on the effectiveness of the Targeted Jobs Tax Credit (TJTC). It is also the purpose of our comments to offer suggestions on how this program might be improved.

The aim of Congress in enacting the Targeted Jobs Tax Credit as part of the Revenue Act of 1978 was to help the structurally unemployed to find employment in the private sector by providing tax credits to employers who hire workers from seven target groups. "The Committee believes it is appropriate to focus employment incentives on those individuals who have high unemployment rates and on other groups with special employment needs." Further, the Committee added the cooperative education students "in order to encourage employers to participate in educational processes which the committee believes are particularly valuable." House Report 95-1445, page 90. The TJTC replaced a former employment tax credit which gave employers an incentive to hire any new worker. The TJTC target groups are:

° handicapped persons referred from vocational rehabilitation agencies;

° youths, between the ages of 18 and 24, from economically disadvantaged families;

° general assistance recipients -- individuals receiving income maintenance payments, based on need, under state and local programs;

° Supplemental Security Income recipients -- elderly and disabled persons who are not eligible for Social Security payments;

° economically disadvantaged Vietnam-era veterans;

- students, age 16 through 19 (increased from age 18 by a technical amendment in 1980), participating in cooperative education programs; and
- ex-convicts from economically disadvantaged families who are hired within five years of release from prison or date of conviction, whichever is later.

Each of these groups was targeted for special attention by the Congress because of a high incidence of structural unemployment. This included youth enrolled in cooperative education programs 1/, because young people as a group are lacking in job skills and experience and also because evidence demonstrates that a substantial portion of vocational education youth came from economically disadvantaged circumstances. 2/

The 1979 Joint Economic Report of the Joint Economic Committee understood completely the importance of the Targeted Jobs Tax Credit as a weapon against structural unemployment:

> "This Committee recognizes that the term structural unemployment is a cold, clinical term which really does not capture the human dimension of the problem. Too many blacks, too many Hispanics, too many young people remain jobless and often without much hope of participating in the economic life of our nation. The recommendations in this Report [#13 of which is a recommendation that the Administration undertake a major effort to inform businessmen and

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1/ "The provision would apply to students in work study, distributive education, work experience, cooperative education, vocational educational, industrial education, career exploration, apprenticeships or any similar work-education program ... The Congress enacted this provision to encourage the employment of students who would participate in a planned, supervised program that alternates school and work in any occupational field." Congressional Record, S 1804, February 26, 1980. "Clarification of Section 51(D) of the Internal Revenue Code." Senator Matsunaga.

2/ Statement of Dr. Gene Bottoms, Executive Director, American Vocational Association, before the House Subcommittee on Elementary, Secondary and Vocational Education, February 26, 1980. pages 2-5.

> women about the new Targeted Employment Tax Credit Program.] would not solve the problem completely. But they are sound, solid recommendations that underline the obligation - the economic, moral and humanitarian obligation - we as a nation have to foster opportunities for employment."

Further, as would be expected, given its critical importance, Congress recognized the link between youth employment and entry level jobs in fighting structural unemployment. "One of the key measurements in a training program's success should be whether it gives the individual needed work skills." The 1979 Joint Economic Report, page 35. Moreover,

> "because early employment and unemployment experiences make such a long-lasting impression on adult employment patterns, the Committee believes that linkages between the business world and teenagers are crucial at an early stage. The exposure to the "real world" imposes a type of job discipline and provides actual knowledge of job opportunities. In addition, private employers will be sure to train workers with skills necessary to their business operations. This results in reenforcement of the acquisition of additional skills with the exercise of those skills".

The 1979 Joint Economic Report.

The Targeted Jobs Tax Credit has begun to do its part to help give targeted individuals a start up the American economic ladder.

During the past two years, Burger King Corporation has developed an effort to recruit several of the target groups. However, our greatest experience, given the demographics of our overall workforce, has come with youth enrolled in qualified vocational education programs. For this group, Burger King Corporation has developed specialized promotional and training materials designed to recruit such youth and to meet the requirements of having the work experience contribute to the student's education and future employability. As a result of the programs, the number of such students employed in our system has increased by 100%. Some of this increase is, of course, due to growth. More impressive, the number of these employees as a percentage of our total workforce has increased by 17% per year in each of the past two years. These percentages would have been even higher but for the depressing effect of general economic conditions. Further, in this time period, overall youth unemployment increased from 16 1/2% to over 19%. In effect, what Congress intended to happen has occurred in that an employer has sought out members of the target group in order to qualify for the incentive. To suggest, as some critics of the TJTC have done, that these young people would have found employment without the program is manifestly incorrect.

It should be remembered in evaluating the success of the TJTC that the program was extremely slow in getting underway because the Department of Labor, which had responsibility for formulation of a plan to implement the program at the state and local level, found the procedures involved in implementation to be more complicated than anticipated. Because the implementation plan makes use of existing state agencies, we have also had differing experiences in a number of states due to the priority given to the program and the attitude toward the program by these state agencies. An additional impediment to the success of the TJTC has been the fact that the Internal Revenue Service has yet to issue final regulations on the program. Some employeers and some state agencies have been reluctant to fully participate in the TJTC lacking final regulations.

The regulations initially proposed by the IRS had a particularly chilling effect on the certification of cooperative education students. Those proposed regulations were interpreted by some state officials as to only allow certification of students when the youth's employment was in the same field as his vocational training. Despite a letter from the Commissioner of Internal Revenue to Senator Richard Stone and a floor statement by Senator Matsunaga, who was a member of the Senate Finance Committee that had helped write this program (see attachments), some confusion still exists in this area.

Among the suggestions offered by some to improve the TJTC program is the elimination of cooperative education students as a category. It is suggested that such students are not necessarily disadvantaged and that employers would hire such employees irrelevant of the TJTC [3/] Research clearly shows that vocational education students come in much greater proportion from lower socio-economic ranks and are students who as a group demonstrate less academic ability than their peers. [4/] It is crucially important to assimilate these type students into the American system. Vocational education develops human capital by developing the total individual. Through vocational programs . . . in cooperation with employers, . . . students mature into adult roles, not only through basic and technical skills acquisition but

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3/ Putting the Targeted Jobs Tax Credit Back to Work, Northeast-Midwest Institute, September, 1980, page 21.

4/ Sue Bennyman, "Vocational Education and the Work Establishment of Youth: What Combination and for Whom?" Rand, Santa Monica, Ca. August, 1979.

also through learning experiences which deal with personal and interpersonal skills. Burger King Corporation is extremely proud of our record of working with schools to develop programs which influence individuals in their school lives, their work lives and in their personal development. Data previously noted demonstrates that the TJTC has dramatically increased the employment of vocational education students by Burger King Corporation. Elimination of this category might reduce the overall cost of the TJTC because approximately 50% of the certifications issued have been for this category. But this savings would come at the expense of a category that is largely economically disadvantaged at a time when youth employment is over 19% . . . a four year high.

Others critize the performance of the TJTC on the basis that the program has not expanded employment . . . i.e. expanded the total number of jobs available. In theory, the TJTC could induce some overall expansion of employment. However, this was not the primary aim of Congress in creating the TJTC. Rather the purpose of the TJTC was to expand job opportunities for those in the target groups . . . groups determined to have a high incidence of structural unemployment. To this purpose the program has worked reasonably well, particularly considering the problems of implimentation and the lack of final regulations from the IRS. Because an employment subsidy for targeted groups acts to stimulate employment directly through reduced wage costs, it may serve to decrease unemployment of the target groups much more rapidly and with less accompanying inflation than other policy measures.

There is no question that the performance the TJTC has disappointed some of its supporters. As we have noted, several factors may have combined during the initial stages of the program to produce this result. Recent data -- December 1980 with a 28% increase in certifications over the average of previous months -- shows an improvement. This should not, however, close the door to improvements in the administration of the program.

The Department of Labor and specifically, the Employment and Training Administration, should provide more assistance to state agencies. The uneven performance among states is reflective not only of a difference in the efforts among states, but also of the lack of a well-defined national plan for administration at the state level. Burger King Corporation has had a series of problems with the promotion of the program and with certification in a number of states, with continuing difficulties concerning certification of vocational education students in both California and Massachusetts. Congress should give particular consideration to providing funds to participating state agencies to assist with the cost of promotion and administration. Such reimbursement either in whole or part would provide an incentive to state agencies to execute their responsibility more effectively.

Further we agree with the conclusions of the Northeast-Midwest Institute 5/ when they suggest the following three general improvements:

5/ Putting the Targeted Jobs Tax Credit Back To Work page 34-36.

(1) Refundability ... some businesses have no incentive to participate in the program because they have inadequate tax liabilities to offset with the credit. This is a particular problem for small businesses which can be a major source of employment for the structually unemployed. If the credit was refundable . . . a firm without any tax liability given a tax refund . . . many smaller business would be helped with a resulting positive impact on unemployed workers.

(2) Limitations on Use of the Credit ... The TJTC decreases in value with an increase in the tax rate because the employer's deduction for wages is reduced by the amount of the credit. As a result, high-profit business are not rewarded to the same degree as businesses in lower tax brackets, since those deductions increase in value with an increase in the rate of tax paid. Consideration should be given to removing the provision which requires a reduction of the payroll deduction by the amount of the credit.

(3) Retroactivity ... Congress did not intend to provide a "windfall" to employers who discover they have inadvertently hired a member of a target group. Under any program of employment subsidies some businesses will be rewarded who perhaps should not be. Burger King Corporation believes the key to making the TJTC more effective is to reduce the incidence of such situations without creating such a mass of red tape that employers cease to utilize the program. Employers could be required to apply for certification of eligible employees within a prescribed period of time ... for example, sixty days ... after hiring.

While there are both valid and invalid criticisms leveled at the performance of the TJTC, neither should blind us to the fact that the program has shown signs of being an effective and inexpensive tool in an overall effort to reduce structural unemployment. Serious consideration should be given to the improvements outlined above, extending the program with better administration, and the issuance of regulations by the Internal Revenue Service.

Entry level jobs are the crucial factor in enhancing a student's employability and are an essential preparation for entering the labor market. Entry level jobs are the first and foremost weapon in the battle against structural unemployment. These jobs provide a start up the American economic ladder. Most white collar and blue collar workers can personally recall the necessary experience gained from jobs totally alien to their current occupation. The jobs provide the initial experience to a real world business enterprise. They provide necessary learning experiences in dealing with our government's tax system, health system, retirement system, labor law system, and general regulatory system. They provide an experience in working in supervised capacities with other co-workers. They acquaint the student with the rudimentary requirements of being punctual for work, filling out a time sheet, managing finances, and accepting responsibility, etc. Structural unemployment exists because persons (particularly youth) are functionally illiterate in both a work and school environment. Such persons cannot expect any level of success in our American system. The results of this failure need not be discussed, they are familiar to all. A properly structured work/school, cooperative education experience greatly alleviates this functional illiteracy. There can be no doubt that entry level jobs enhance a student's employability and prepare him for entering the labor market. It is this experience, among others, that Congress wanted to encourage when it enacted the Targeted Jobs Tax Credit.

We strongly urge Congress to recognize the utility of the cooperative education student incentive and to expeditiously extend the Targeted Jobs Tax Credit.

HOLLY FARMS POULTRY INDUSTRIES, INC.
P.O. Box 88/Wilkesboro North Carolina 28697 (919) 838-2171

STATEMENT OF A. GERALD LANKFORD
BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT
AND REVENUE SHARING
OF THE
SENATE FINANCE COMMITTEE
ON THE
TARGETED JOBS TAX CREDIT PROGRAM
APRIL 3, 1981

A SUBSIDIARY OF THE FEDERAL COMPANY

SUMMARY

HOLLY FARMS POULTRY INDUSTRIES EMPLOYS 10,000 PEOPLE IN NINE MAJOR PLANTS LOCATED IN THREE STATES. WE HAVE PARTICIPATED IN THE TARGETED JOBS TAX CREDIT PROGRAM SINCE MARCH OF 1980. WE SUPPORT THE PROGRAM CONCEPT AND WISH TO SEE THE PROGRAM EXTENDED.

WE HAVE HAD PROBLEMS IN PROGRAM IMPLEMENTATION IN TWO SITES, RICHMOND, VIRGINIA, AND SEGUIN, TEXAS. IN RICHMOND, THE PROBLEM WAS THE COOPERATION PROVIDED BY THE GOVERNMENT AGENCY RESPONSIBLE FOR CERTIFICATION WHILE IN SEGUIN, WE WERE REQUIRED TO EXPEND A HIGH LEVEL OF EFFORT IN THE VERIFICATION OF ELIGIBILITY FOR THE PROGRAM.

WE SUGGEST:

1) CONTINUING THE TAX CREDIT PROGRAM,
2) NOMINATING A SINGLE AGENCY OR GROUP TO BE RESPONSIBLE FOR THE PROGRAM AND ELIMINATE JURISDICTIONAL BARRIERS TO PROGRAM OPERATION,
3) PROVIDE INCENTIVES TO THIS SINGLE AGENCY TO ACCOMPLISH PROGRAM GOALS, AND
4) ESTABLISH A 10% VERIFICATION GUIDELINE FOR THE PROGRAM.

STATEMENT OF A. GERALD LANKFORD
BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING
OF THE
SENATE FINANCE COMMITTEE
ON THE
TARGETED JOBS TAX CREDIT PROGRAM
APRIL 3, 1981

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

MY NAME IS A. GERALD LANKFORD. I AM CORPORATE PERSONNEL DIRECTOR OF HOLLY FARMS POULTRY INDUSTRIES, INC., OF WILKESBORO, NORTH CAROLINA. THIS STATEMENT IS SUBMITTED AS THEIR REPRESENTATIVE.

HOLLY FARMS IS A PROGRESSIVE COMPANY, AND OVER THE YEARS OF ITS EXISTENCE, HAS INNOVATED MANY NEW METHODS OF POULTRY PROCESSING AND TECHNOLOGY. OFTEN CALLED THE "PEOPLE COMPANY" THERE ARE OVER 10,000 EMPLOYEES DEDICATED TO PRODUCING AND PROCESSING THE WORLD'S FINEST CHICKEN. WE HAVE NINE PROCESSING PLANTS LOCATED IN THREE STATES:

WILKESBORO, NORTH CAROLINA
HIDDENITE, NORTH CAROLINA
MONROE, NORTH CAROLINA
TEMPERANCEVILLE, VIRGINIA
HARRISONBURG, VIRGINIA
GLEN ALLEN, VIRGINIA
NEW MARKET, VIRGINIA
CENTER, TEXAS
SEGUIN, TEXAS

WITH FEED MILLS LOCATED IN:

ROARING ROCK, NORTH CAROLINA
MOCKSVILLE, NORTH CAROLINA
MONROE, NORTH CAROLINA
SNOW HILL, MARYLAND
CREWE, VIRGINIA

NEW MARKET, VIRGINIA
NACAGDOCHES, TEXAS
GONZALES, TEXAS

AND HATCHERIES LOCATED AT:

SNOW HILL, MARYLAND
CREWE, VIRGINIA
BROADWAY, VIRGINIA
WILKESBORO, NORTH CAROLINA (5)
INDIAN TRAIL, NORTH CAROLINA
CLAREMONT, NORTH CAROLINA
NACOGDOCHES, TEXAS
GONZALES, TEXAS

WE ARE ONE OF THE WORLD'S LARGEST PRODUCERS OF BROILER CHICKENS AND THE LEADING MARKETER OF PREPACKAGED, DEEP CHILLED BROILERS. OUR PLANTS HAVE A CAPACITY OF OVER 6,000,000 BIRDS PER WEEK AND OPERATE UNDER STRINGENT COMPANY QUALITY CONTROL STANDARDS AND U. S. GOVERNMENT INSPECTION. ALL PRODUCTS SOLD UNDER THE HOLLY FARMS' LABEL MUST MEET U.S.D.A. "GRADE A" SPECIFICATIONS.

HOLLY FARMS OPERATES AS THE POULTRY PRODUCTS GROUP OF THE FEDERAL COMPANY OF MEMPHIS, TENNESSEE. FINANCIALLY, AFTER RECORD EARNINGS IN 1979, THE POULTRY PRODUCTS GROUP SUSTAINED A LOSS FOR THE YEAR, ITS FIRST SINCE 1971. THE LOSS FOR 1980, IN THE USUALLY VOLATILE POULTRY PROFITS WORLD, OF $135,000 ON REVENUES OF $524,923,000 COMPARES WITH NET INCOME OF $21,436,000 AND REVENUES OF $473,311,000 IN 1979. THE PRE-TAX LOSS FOR THE GROUP OF $5,244,000 WAS REDUCED BY INCOME TAX ADJUSTMENTS AND BY SUBSTANTIAL INVESTMENT TAX CREDITS.

THE DECLINE IN EARNINGS FOR THE GROUP OCCURRED IN HOLLY FARMS' FRESH BROILER OPERATIONS, WHERE MARGINS WERE REDUCED BOTH BY LOWER PRICES AND HIGHER FEED COSTS.

BROILER PRICES WERE DOWN 4.4 CENTS PER POUND, STEMMING FROM ABUNDANT MEAT SUPPLIES AND FEED COSTS INCREASED 10% PRINCIPALLY DUE TO HIGHER PRICES FOR CORN AND SOYBEAN MEAL.

HOLLY FARMS MAINTAINED A HIGH LEVEL OF CAPITAL SPENDING DURING THE YEAR IN ORDER TO PROVIDE THE ADDED CAPACITY FOR ITS LONG TERM GROWTH PROSPECTS. THE IMPACT ON SHORT TERM EARNINGS WAS HIGHER INTEREST CHARGES, UP OVER 200% OR 2.3 MILLION AND GREATER DEPRECIATION EXPENSE UP 35% OR 2.2 MILLION.

THE COMPANY EXPERIENCED CONTINUED GROWTH IN VOLUME SOLD, UP 11.5% TO 868,106,000 POUNDS, AND INCREASED ITS SHARE OF THE U. S. BROILER MARKET FOR THE FIFTH YEAR IN A ROW. HOLLYS' COMPOUNDED GROWTH RATE OF VOLUME SOLD OVER FIVE YEARS IS 9.7%.

HOLLY FARMS STARTED ITS PARTICIPATION IN THE TARGETED JOBS TAX CREDIT (TJTC) PROGRAM IN MARCH OF 1980. WE WERE FIRST MADE AWARE OF THE PROGRAM BY ONE OF OUR FRIED CHICKEN OPERATIONS IN THE WASHINGTON, D.C. AREA WHO SAW AN ADVERTISEMENT IN THE NEWSPAPER. WE PURSUED THE IDEA AND APPROACHED THE EMPLOYMENT SERVICE IN THAT AREA FOR MORE INFORMATION. THEY KNEW VERY LITTLE ABOUT IT BUT WE PERSISTED AND EVENTUALLY GOT ENOUGH INFORMATION ON THE PROGRAM TO INTEREST US AND IN MARCH BEGAN HIRING UNDER THE PROGRAM AT OUR TEMPERANCEVILLE, VIRGINIA, AND WILKESBORO, NORTH CAROLINA, OPERATIONS. TODAY, ALL OF OUR PROCESSING PLANTS ARE PARTICIPATING IN THE PROGRAM.

IN ORDER TO ATTRACT AND MAINTAIN THE INTEREST OF THE PRIVATE SECTOR, IN ADDITION TO THE MONETARY BENEFITS, THE PROGRAM IS ADVERTISED AS FREE OF RED TAPE AND ONE IN WHICH IT IS SIMPLE TO PARTICIPATE. IN THEORY, TJTC WORKS BY WAY OF AN ELIGIBILITY VOUCHER THAT IS GIVEN TO AN ELIGIBLE INDIVIDUAL BY AN AUTHORIZED PUBLIC AGENCY. THE INDIVIDUAL IS REFERRED OR SEEKS OUT A JOB WITH AN EMPLOYER. IF HIRED, THE EMPLOYER FILLS OUT PART OF THE VOUCHER AND SENDS IT TO A CENTRAL PROCESSING POINT WHERE IT IS REVIEWED FOR COMPLETENESS AND ACURACY. IF IT CLEARS THIS HURDLE THE CERTIFICATION PAGE OF THE VOUCHER IS RETURNED TO THE EMPLOYER, SUPPOSEDLY WITHIN

80-595 O—81——20

72 HOURS, AS HIS PROOF OF ELIGIBILITY AND HIS AUTHORITY TO TAKE THE CREDIT. THE CREDIT CONSISTS OF 50% OF THE EMPLOYEE'S FIRST YEAR WAGES UP TO $6,000 AND 25% OF THE EMPLOYEE'S SECOND YEAR WAGES UP TO $6,000. THIS COULD RESULT IN A TOTAL TAX CREDIT OF UP TO $4,500 WHICH IS REDUCED SUBSTANTIALLY AFTER THE EMPLOYER'S TAX BRACKET IS TAKEN INTO ACCOUNT.

LET ME FIRST STRESS THAT HOLLY FARMS IS VERY SATISFIED WITH THE PROGRAM. IN MOST CASES, THE PROGRAM HAS WORKED VERY WELL AND COOPERATION FROM THE APPROPRIATE GOVERNMENTAL AGENCIES HAS BEEN VERY GOOD. HOWEVER, IN ALL CASES WHERE IT HAS WORKED WELL, IT HAS BEEN IN A RURAL SETTING AND THE AGENCY HAS BEEN THE LOCAL JOB SERVICE OFFICE. I WOULD LIKE TO PRESENT TO THE SUBCOMMITTEE TWO ACTUAL CASE STUDIES AT OUR LOCATIONS THAT WILL DEMONSTRATE HOW PROGRESS ON A "SIMPLE" EMPLOYER ORIENTED PROGRAM CAN BE IMPEDED.

RICHMOND, VIRGINIA AREA - OUR PLANT IN THE RICHMOND AREA IS LOCATED IN GLEN ALLEN, VIRGINIA, JUST NORTH OF RICHMOND IN HENRICO COUNTY. IN JUNE OF 1980 WE ATTEMPTED TO BEGIN THE PROGRAM AT THIS LOCATION. WE CONTACTED THE VIRGINIA EMPLOYMENT COMMISSION (VEC), INITIATED A JOB ORDER FOR TJTC ELIGIBLE PEOPLE, AND REQUESTED THAT THE CERTIFICATION PROCEDURE BEGIN. WE WERE INFORMED THAT THE TWO CONSORTIUMS FUNDED BY CETA WERE RESPONSIBLE FOR CERTIFICATION, THE HANOVER AND HENRICO COUNTY CONSORTIUM (COUNTY) AND THE CITY OF RICHMOND. ALSO INVOLVED WAS THE BALANCE OF STATE PRIME SPONSOR FOR THOSE EMPLOYEES WHO RESIDED OUTSIDE THE RICHMOND AND COUNTY AREA. SO WE WERE IMMEDIATELY DEALING WITH THREE GOVERNMENTAL UNITS WITH LITTLE OR NO COORDINATION OF EFFORT. AT THIS POINT LET ME SAY THAT ALL OF OUR TJTC PARTICIPANTS AT THIS LOCATION HAVE BEEN GATE HIRES. WE HAVE SCREENED THE PEOPLE OURSELVES FOR ELIGIBILITY AND HAVE THEN HAD TO WAIT FOR SOMEONE TO CERTIFY THEM. EVEN THOUGH WE HAVE ACTIVE JOB ORDERS FOR TJTC PEOPLE, WE HAVE NOT TO THIS DATE RECEIVED THE FIRST TJTC REFERRAL FROM ANY AGENCY.

THE CERTIFICATION PROCESS WAS TREMENDOUSLY FRUSTRATING AND BULKY. FOR THOSE HIRED FROM THE BALANCE OF STATE AREA THE VEC, WHO HAD THE RESPONSIBILITY FOR

THIS AREA, SENT REPRESENTATIVES IN FROM AS FAR AS FARMVILLE AND CHARLOTTESVILLE TO DO THE CERTIFICATION. THE COUNTY CONSORTIUM ALSO PROVIDED US WITH SERVICE. THE CITY OF RICHMOND, HOWEVER, FROM WHICH WE GET 80% OF OUR HIRES CAME TO OUR PLANT ONCE, STATED THAT THIS WAS A "COURTESY VISIT" DID SOME CERTIFICATION AND TOLD US WE WOULD HAVE TO TRANSPORT ALL SCREENED EMPLOYEES TO DOWNTOWN RICHMOND FOR CERTIFICATION FROM THAT POINT ON. THIS, OF COURSE, WAS FINANCIALLY AND LOGISTICALLY IMPOSSIBLE.

THE NEXT 4-5 MONTHS WERE SPENT IN APPEALING OUR POSITION AND IN MEETINGS WITH THE VEC, THE AREA PRIVATE INDUSTRY COUNCIL, THE INVOLVED CETA AGENCIES, AND OUR CONGRESSIONAL REPRESENTATIVES. THE RICHMOND CONSORTIUM FINALLY AGREED IN NOVEMBER TO COME TO OUR PLANT ON A TIMELY BASIS TO CERTIFY OUR ELIGIBLE PEOPLE. WHY THERE WAS SO MUCH RESISTANCE IS STILL IMPOSSIBLE TO UNDERSTAND.

<u>SEGUIN, TEXAS</u> - OUR SEGUIN OPERATION IS LOCATED SOME 40 MILES NORTHEAST OF SAN ANTONIO. WE STARTED OUR SCREENING AND HIRING PROCESS HERE IN SEPTEMBER OF 1980 AND DETERMINED THAT A CETA ORGANIZATION NAMED THE COMMUNITY COUNCIL OF SOUTH CENTRAL TEXAS WAS RESPONSIBLE FOR THE PROGRAM IN THE AREA. THIS ORGANIZATION CAME TO OUR PLANT AND IMMEDIATELY INFORMED US THAT THE INFORMATION ON PROSPECTIVE QUALIFIERS WAS INCOMPLETE. THEY NEEDED THE FOLLOWING INFORMATION:

1) BIRTH CERTIFICATES ON <u>ALL</u> MEMBERS OF THE FAMILY.
2) PROOF OF RESIDENCY.
3) PROOF OF INCOME - CHECK STUBS, A STATEMENT FROM PREVIOUS EMPLOYERS OR SOMETHING SIMILAR.

WE WERE TOLD THAT WE WERE REQUIRED TO PRODUCE THIS DOCUMENTATION. OUR PEOPLE ARGUED THAT THIS WAS, IN ESSENCE, REQUIRING 100% VERIFICATION OF CERTIFICATION AND WAS AN UNDUE BURDEN ON THE EMPLOYER AND EMPLOYEE. EMPLOYEES, ESPECIALLY AMONG TARGETED GROUPS, FIND IT VERY DIFFICULT TO PRODUCE THIS TYPE OF EXTENSIVE DOCUMENTATION. WE EXPLAINED THAT OTHER AREAS, ONE AS LITTLE AS 25 MILES AWAY,

DID ONLY THE 10% REQUIRED VERIFICATION AND POINTED OUT THAT WHEN THE APPLICANT SIGNED THE VOUCHER/CERTIFICATION FORM THAT HE WAS SUBJECTING HIMSELF TO PENALTIES FOR GIVING FALSE INFORMATION BUT ALL OUR ARGUMENTS FELL ON DEAF EARS.

WE HAVE INSTITUTED A DETAILED VERIFICATION PROCESS. NOTARIZED STATEMENTS HAVE BEEN PROVIDED TO VERIFY INCOME AND COURT HOUSES HAVE BEEN VISITED SEARCHING FOR BIRTH RECORDS. A GREAT DEAL OF TIME AND EFFORT HAS GONE INTO THIS PROCESS. HOLLY FARMS HAS LOST A SUBSTANTIAL NUMBER OF CERTIFICATIONS DUE TO THIS WEIGHTY PROCEDURE.

WE HAVE APPROACHED THE DEPARTMENT OF LABOR BUT THEY HAVE BEEN UNABLE TO DO ANYTHING ABOUT THE SITUATION. SENATORS TOWER AND BENTSON AND CONGRESSMAN KAZEN ARE CURRENTLY INVOLVED AND WE APPRECIATE THEIR EFFORTS.

AS OF THIS DATE, THE SITUATION HAS NOT CHANGED.

I WOULD LIKE TO SIBMIT FOR THE RECORD THE FOLLOWING SUGGESTIONS:

1) CONTINUE THE TAX CREDIT PROGRAM. IT IS A GOOD CONCEPT AND WITH SOME IMPROVEMENTS CAN CONTRIBUTE TO THE EMPLOYMENT AND RETENTION OF THE TARGETED GROUPS. WE ARE ESPECIALLY INTERESTED IN THE RETENTION OF THE CARRY BACK (3 YEARS) CARRY FORWARD (7 YEARS) FEATURE OF THE PROGRAM. THIS IS ESSENTIAL TO INDUSTRIES SUCH AS OURS WHERE RAPID CHANGES IN THE MARKET ARE COMMON.
2) PLACE THE RESPONSIBILITY OF VOUCHERING/CERTIFICATION IN THE HANDS OF A SINGLE AGENCY. DO NOT REQUIRE THE EMPLOYER TO DEAL WITH A VARIETY OF AGENCIES FROM SEVERAL JURISDICTIONS. I WOULD STRONGLY SUGGEST THE REMOVAL OF CETA FROM ANY RESPONSIBILITY FOR THE PROGRAM. I UNDERSTAND THAT CETA HAS A LONG HISTORY OF CONFLICT WITH THE PRIVATE SECTOR. TITLE VII OF CETA, THE RECENT LINK BETWEEN CETA AND THE PRIVATE SECTOR, WOULD HAVE NEVER EXISTED HAD THE CETA STRUCTURE RESPONDED ADEQUATELY TO THE NEEDS OF

BUSINESS AND INDUSTRY.

3) PROVIDE THIS SINGLE VOUCHERING/CERTIFICATION AGENCY WITH THE NECESSARY INCENTIVES TO DO THE JOB. THE MOST FREQUENT COMPLAINT HEARD FROM THESE AGENCIES IS THAT THEY DON'T HAVE THE STAFF OR THE TIME TO DO THE JOB. PERHAPS IF THEY WERE ALLOWED A PLACEMENT CREDIT PREMIUM ON TJTC CERTIFICATIONS THE SITUATION WOULD IMPROVE.

4) ESTABLISH A GUIDELINE THAT NO MORE, NO LESS, THAN 10% VERIFICATION OF CERTIFICATIONS IS REQUIRED. IF ABUSE IS FOUND WITHIN THIS 10% SAMPLE, TO BE DONE ON A QUARTERLY BASIS, THEN AN AUDIT OF THE COMPLETE PROGRAM WOULD BE REQUIRED. THE EMPLOYER WOULD BE INVOLVED ONLY IF FRAUD OR WANTON ABUSE IS DETECTED.

THANK YOU FOR YOUR KIND ATTENTION. IF I CAN PROVIDE FURTHER INFORMATION, PLEASE DO NOT HESITATE TO ASK.

RESPECTFULLY SUBMITTED,

A Gerald Lankford

A. GERALD LANKFORD

STATEMENT OF FRED L. SCHUERMANN

VICE PRESIDENT - CHIEF FINANCIAL OFFICER

AMERICAN FURNITURE COMPANY

MARTINSVILLE, VIRGINIA

before the

U. S. SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON ECONOMIC GROWTH,

EMPLOYMENT, AND REVENUE SHARING

April 3, 1981

SUMMARY OF STATEMENT

I urge the continuation of the Targeted Jobs Tax Credit. This credit has proven effective in the employment and retention of the targeted groups. The credit is of benefit to the employee, the employer and the government.

However, the credit the employer receives for employing people from the targeted groups is substantially decreased when it becomes a function of his tax rate.

It is suggested that

1) more attention be given to the special needs of the individuals within the targeted groups.

and, 2) various methods be employed to make the credit more attractive to employers.

STATEMENT OF FRED L. SCHUERMANN
IN SUPPORT OF THE
TARGETED JOBS TAX CREDIT
before the U. S. SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT, AND REVENUE SHARING

I am Fred L. Schuermann, Vice President and Chief Financial Officer of American Furniture Company. American is a manufacturer of a broad line of high quality bedroom, living room, occasional and upholstered furniture for both the retail and hotel and motel guest room markets.

Its main offices and plants are located in Martinsville, Virginia, with additional plants in Marion and Chilhowie, Virginia. We presently employ approximately 3,000 people and have employed as many as 3,700.

I am grateful for this opportunity to make a statement in favor of the Targeted Jobs Tax Credit Program (TJTC). American has been participating in this effort since the Spring of 1979. We have been very pleased with the results. It has allowed us to look more closely at specific segments of the unemployed population. It has proven that given the proper support and provided with successful work experiences the targeted groups can become productive.

As of this past week, we have hired a total of 231 persons on the Tax Credit Program. This has been over nearly a two year period. Of these hires, an overwhelming proportion, 90% or 209, have been economically disadvantaged youth. Thirteen have been economically disadvantaged ex-convicts, 6 Vietnam era veterans, and 3 of them vocationally rehabilitated.

We recently conducted a retroactive survey to determine if the Tax Credit Program has affected our hiring practices. We examined the hires for the period prior to learning about and participating in the program and a period of the same length after learning about and participating in the program. Since disadvantaged youth was the largest group and the most easily identifiable in our records, we concentrated our study in this category. The results showed a total of 166 youths hired during the period prior to the program and 208 youths hired during the period immediately following. This is an increase in the hiring rate for youth of 25%. I believe that further studies would show similar increases in the other groups as well and that this is a very significant trend.

Several in-plant surveys have also been conducted to determine turnover rates among the targeted groups when compared to those hired outside the program. It would be expected that turnover among the targeted groups would be much higher than regular hires due to substantial work experience and background while the targeted groups are generally associated with little or no work experience or poor work histories, etc. This has just not been the case. While the competition for labor in the Martinsville area is keen and would make the turnover among workers higher than in other vicinities, this is not the whole story. American, recognizing the high cost of turnover and cognizant of the special problems of the targeted groups, has instituted a special counseling program for those individuals on the Tax Credit Program. This special attention to job-related problem solving and prevention has had a remarkable effect on turnover. The targeted groups have retention rates as good or in some cases, better than our hires outside of the program.

Despite the obvious positive impact on the people involved in the Tax Credit Program and their employers, much has been said and written in opposition to this approach. Most common is the accusation that the employers are reaping "windfall profits" from their participation. This "windfall" is said to come from two of the programs features; (1) from the tax credit itself, and (2) from the ability to certify participants retroactively to September 27, 1978.

On paper, the employer is allowed a credit of 50% of the first $6,000 of wages for the first year of employment and 25% of the first $6,000 of wages for the second year of employment. This is a total of $4,500 per employee over a two year period. This would be a substantial tax credit for hiring and retaining people from the targeted groups. However, the employer does not receive this amount due to the fact that he must increase his taxable income by the amount of his tax credit. It then becomes a function of his tax rate and his credit is decreased accordingly. I have an example of this as follows:

TAX CREDIT BREAK-OUT

	1st year	2nd year
American Furniture average tax rate 78,79,80 = 43% at least 100,000 per year	100,000	100,000
Increases taxable income by the amount of wages equal to amount of tax credit earned 1st year (one person)	3,000	1,500
Taxable income 1st year	103,000	101,500
Effective tax rate 43%	43%	43%
	44,290	43,645
Less earned credit	3,000	1,500
Tax liability with program	41,290	42,145
Tax liability without TJTC Program	43,000	43,000
Less tax liability with TJTC Program	41,290	42,145
Tax credit for TJTC	1,710	855

TOTAL 2,565

Therefore, the maximum credit that can be received for two years is $2,565 considering the variables used in this example. If we look at this from another point of view, the real "windfall" recipient from this program could be the Federal Government. To put it simply, the government receives a 141% return on its investment on each targeted jobs tax credit employee that is put to work.

To illustrate this, I have taken as an example, one tax credit employee making $4.00/hour for the two year period. We will also assume that he or she is single which is fairly typical of the disadvantaged youth in our program. The potential return to the government is outlined below.

POTENTIAL FEDERAL GOVERNMENT RETURN

	1st year		2nd year
Computations based on one TJTC employee earning $4.00/hour, 40 hours/week yearly. Salary - $8,256.00			
Income tax paid	830		830
Social Security - Employee Contribution	549		549
Social Security - Employer Contribution	549		549
Employer Fed. Unemployment Insurance	30		30
	1,958		1,958
Total return of revenue to Government		3,619	
Less cost of TJTC		2,565	
Net return to Government in tax dollars		1,054	

This break-out does not attempt to calculate the other effects of the employment of the individual such as state sales tax created by increased purchasing power, state income taxes, the decreasing possibility of potential public assistance and others. It does show that the TJTC Program is a sound business investment for the government and in the people participating.

What about the employer? It is estimated in our area that it will cost at least $2,000 per disadvantaged employee to train him to some level of basic competency. It will cost 4-5 times that to fully train him/her in a skill. As a result, the employer is faced with a situation of diminishing returns. The higher the tax bracket, the less the credit and coupled with his fixed training costs the less attractive the program becomes. Add to this the cost of the special counseling program and he may be faced with a losing situation. These factors have to be considered when deciding whether or not to participate in the program.

However, the impact of these cost factors can be assuaged if the employer is allowed some degree of retroactive certification. American, due to its early involvement in the program, has done very little retroactive certification but we can see where this would play a significant role in whether a company decides to participate or not. It amounts to giving the employer a bonus for hires he has made among those in the targeted groups in the past. It does not create new jobs. It does make the program more financially attractive and helps ease the impact of the tax bracket depreciation of the credit.

In conclusion, it is my opinion that the Targeted Jobs Tax Credit is an effective tool for moving the disadvantaged and other targeted groups into gainful employment. The billions spent on manpower training programs under CETA and other legislation have for the most part been ineffective. The tax credit approach moves people into jobs and training immediately and provides an incentive for retention. The program has operated in less than favorable economic times and has done well. It will be interesting to see how it is accepted and used as our economy improves.

I have several recommendations.

1) The majority of the people in the targeted groups need additional attention as they move into employment. Turnover among these groups is regressive for the individual, the employer and the government. I would encourage some type of incentive for employers to conduct an in-plant counseling service for these groups.

2) I would also encourage some attention be given to making the credit more attractive to employers. I don't believe anyone is in agreement with the current length of the retroactive period but if some degree of retroactivity makes the program more attractive I see nothing wrong with it, as long as it is consistent.

   Instead of this, perhaps either the amount of qualified wages could be increased per year, a refund could be used instead of a credit, or a flat percentage of all wages of qualified people could be used.

3) Since the credit is added back to the employer's taxable income, employers in higher tax brackets receive less incentive than employers in lower brackets. Larger, higher bracket employers are usually the companies capable of larger increases in employment. The current program gives a larger incentive to smaller firms who do not have the aggregate impact on employment as larger firms.

   In order to increase participation among larger firms, I would recommend either elimination of the add back provision or the utilization of a flat 25% tax rate for all employers in determining the net amount of the credit.

Again, I appreciate this opportunity to make this statement and I urge the continuation of the Targeted Jobs Tax Credit Program.

Respectfully submitted,

Fred L. Schuermann
Vice President

Saga
CORPORATION

CHARLES A. LYNCH
President and
Chief Executive Officer

March 27, 1981

Mr. Robert E. Lighthizer
Chief Counsel
Committee on Finance
United States Senate
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Lighthizer,

We have a strong interest in the hearings scheduled by the Senate Finance Subcommittee on Economic Growth, Employment and Revenue Sharing chaired by Senator Heinz on April 3, 1981 regarding Targeted Jobs Tax Credit (TJTC). It might be helpful if we shared with you for the benefit of the important deliberations of the subcommittee our company's experiences, problems and recommendations with respect to TJTC. I believe our experience mirrors that of other organizations who have taken an active role supporting this program.

TJTC is an ambitious project aimed at enlisting private sector support in solving severe unemployment among specific groups of individuals by providing a tax incentive to companies who employ these individuals. TJTC was enacted in law November 6, 1978. It required unprecedented coordination and logistics between Internal Revenue Service, Department of Labor, State and Local Job Service, private and public participating agencies, local school districts (for co-op education students) and the diverse business community. This program was new to everyone involved. Many of these groups had never worked together before and did not have established lines of communication. As might be expected of a project of this magnitude there was considerable confusion as to the specific manner in which it was to be implemented and administered.

All organizations, governmental and business responded to the challenge and made a magnificent cooperative effort to get the program implemented. We have never seen anything like it on a project of this size. It didn't happen overnight and much remains to be done. It took nearly two years before most of the "bugs" were worked out. An analysis of the certifications issued illustrates a dramatic increase in the last six months. We believe that this program will have a tremendous impact in alleviating unemployment among members of targeted groups and reducing the cost to the public that this unemployment causes.

There are additional individuals who should be included within the TJTC program. These individuals also need help obtaining gainful employment. We have included these categories in our recommendation below.

THE SAGA EXPERIENCE

Saga Corporation is a leading consumer service company with operations in more than 1,100 locations throughout the United States. Our seven divisions operate in the restaurant and contract foodservice segments of the food-away-from-home market.

Although we were an early proponent of TJTC it took considerable time to establish internal procedures for our hiring managers at over 1,100 locations and to interface with responsible government agencies. It is only within the last six months that we have begun to realize our potential under the program. For the period January 1, 1979 through September 30, 1980 (21 months) we obtained certifications for 254 employees. For the period October 1, 1980 through March 30, 1981 (6 months) we will obtain certifications for 1,100 employees! As you can see the increase is substantial.

PROBLEMS

Although most of the problems that initially beset the program have been resolved a few still remain which hinder the effectiveness of the program. These problems are centered on agencies who have "exclusive" authority to voucher employees. For example:

- Cooperative Education Students must be certified by an authorized representative of the student's school district. This results in a lack of uniformity throughout the country as to which work-study programs qualify. In California the "Work Experience Education Program" appears to meet the definitional requirements of I. R. C. Section 51(d)(8)(B) regarding a "Qualified Cooperative Education Program," however, California educators decline to certify participating students; whereas educators with similar programs in other states do.

Persons receiving supplemental Social Security benefits must be vouchered by the local Social Security Office because the Social Security Administration can not release information (even with the individual's permission regarding eligibility) to the State Job Service or any other agency. It is difficult to train and educate employment managers who do not normally deal with government agencies as to which agency is the appropriate one for a particular targeted category.

RECOMMENDATIONS

- The program should be extended through 1984. The full implementation of the program has just begun. There is not enough hard data and experience to measure its success in combatting chronic unemployment among the targeted categories.

- The State Job Service Office with guidance from the Department of Labor and Internal Revenue Service should be authorized to voucher and certify (not necessarily exclusively) all categories of individuals including Cooperative Education Program participants and supplemental Social Security recipients (by permitting authorized release to them of Social Security information). One agency will then be able to review the qualifications of all potential individuals with reference to the qualified categories and make a proper determination.

- The categories should be expanded to include:
  - Persons out of work for more than 30 days.
  - Members of families who receive food stamps, housing allowance and the like.
  - Persons who are "economically disadvantaged" as defined by I. R. C. Section 51(d)(9) regardless of age or situation (limited to Vietnam veterans or ex-felon under current law.)

We hope the Subcommittee's work will result in a strengthening and extending the TJTC program. By so doing we will realize our aim to reduce unemployment and the resultant cost to the public thereof, particularly among those groups of individuals who have difficulty securing employment.

Sincerely,

cc: Paul N. McCloskey
Alan Cranston
S. I. Hayakawa
Robert Neville,
National Restaurant Association
W. G. Glery
Food & Lodging Institute

Evanston Beauty Supply, Inc.

March 23, 1981

Stu Sweet, Legislative Asst. to
Senator John Heinz
Russell Office Bldg. Room 443
Washington D.C. 20510

Gentlemen:

I am writing this letter in defense of the Targeted Job Credit program. Our experience with this program has been excellent. The students learn to adjust in the business world, attend classes, and earn money all at the same time. Students are taught proper business practices as well as the responsibility that having a job involves.

I believe that the company benefits by getting manpower that might not otherwise be available on a full time basis. Employment is stimulated because students may want to join the company as a chosen career after graduation. Also, "word spreads" if a particular company is nice to work for and the company will not have to worry about being shorthanded.

The state of Illinois contributes to this worthwhile project by subsidizing the company for their efforts. A company may be more willing to "take a chance" by hiring students if there is some monetary value involved.

Again, the program is excellent because everyone gains from it: the schools, the companies, the state, and most important- the students.

Sincerely,

EVANSTON BEAUTY SUPPLY

Alice Anderson

Alice Anderson
Controller

AA/cjr

cc: Robert Lighthizer

White Castle
SYSTEM, INC. *Specializing in Hamburgers since 1921*

MAILING ADDRESS
P O BOX 1498, COLUMBUS, OHIO 43216
EXECUTIVE OFFICES • 555 W. GOODALE ST.
Area Code: 614 Telephone 228-5781

JAMES W. BRICKER
Asst. Treasurer
& Tax Manager

March 31, 1981

Mr. Robert E. Lighthizer
Chief Counsel
Committee on Finance
United States Senate
2227 Dirksen Senate Office Bldg.
Washinton, D. C. 20510

Subject: Targeted Jobs Tax Credit Program

Dear Mr. Lighthizer:

The purpose of this letter is to provide the Senate Finance Subcommittee on Economic Growth, Employment and Revenue Sharing with information about White Castle's experience with the Targeted Jobs Tax Credit Program. White Castle is a member of the fast food industry with 160 restaurants and approximately 6800 employees.

This program has been very beneficial in reducing the number of unemployed members of the seven targeted groups. Approximately 300 people hired by White Castle in 1980 were qualified as a member of one of these groups. The savings from this program have contributed substantially to the cash available to build new White Castle restaurants. Approximately 50 prospective members are hired when a new White Castle is opened.

It has been gratifying to learn what many of the individuals have accomplished following their initial work experience with White Castle. However, the numbers of these individuals would be increased considerably if the following revisions were incorporated into the program:

1. Reduce the minimum age of the economically disadvantaged youth category from 18 to 16.

2. Extend the program to include all high school students. Because of the limitations on the number of students who can participate in the co - operative education programs a large segment of the hard to employ group are being unfairly excluded.

We appreciate the opportunity to express our views on this subject and will be pleased to provide additional information about this program in the event you realize the need for it.

Yours truly,

James Bricker

James W. Bricker:cag

cc: R D Hays
F Grinderson

TESTIMONY TO THE

SENATE FINANCE SUBCOMMITTEE ON

ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

ON THE

TARGETED JOBS TAX CREDIT

BY

DOUGLAS X. PATINO, DIRECTOR

CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

APRIL 3, 1981

I am Douglas X. Patino, Director of the California Employment Development Department (EDD). EDD is the State agency with primary responsibility for administering the Targeted Jobs Tax Credit and three related programs: the Federal WIN and Welfare Tax Credits and the California Jobs Tax Credit, a special additional State credit available to employers who hire public assistance recipients eligible under the Federal programs.

I appreciate this opportunity to offer the following comments on the performance of the Targeted Jobs Tax Credit program and recommendations for its improvement, should the Congress extend this program past 1981.

GENERAL COMMENTS ON PROGRAM PERFORMANCE

The announcement of this hearing indicated that the Committee wishes to examine how well the Targeted Jobs Tax Credit performs in increasing employment among the targeted groups. At this time, I am not in a position to offer a comprehensive assessment, but I can highlight for you California's basic performance statistics, our observations and concerns about the program's administrative structure, and the findings of a special survey of California employers who were asked to give their reaction to the program.

California has issued thousands of vouchers and certifications under this program--a cumulative total of 66,556 vouchers and 13,591 certifications through January, 1981--but we do not now have information on how long the people hired under the program have remained on the job, the wages they have been paid, or the amount of credits employers have gained. The first evaluation of the State tax credit program, which is designed to answer such questions, will be issued this coming December.

We do know of several current research projects that are evaluating the Targeted Jobs Tax Credit program. These include:

- Mary Fitzpatrick, Putting the Targeted Jobs Tax Credit Back to Work (Washington, D.C.; Northeast-Midwest Institute, September, 1980).

- Michael J. McIntyre, "Jury Still Out on Jobs Tax Subsidy Programs," Jobs Watch (published by the Center for National Policy Review, Catholic University Law School; May-June, 1980).

- Ohio State University, Mershon Center, The Implementation of the Targeted Jobs Tax Credit, Report No. 2, prepared for the Office of Program Evaluation, Employment and Training Administration, U.S. Department of Labor (Columbus, Ohio, January, 1981).

All three of these documents find that (1) the program has had little impact on employers' hiring practices, and as a result has not been very effective in creating new jobs or in helping to move members of the targeted groups into employment; (2) many of the workers hired under the program appear to be displacing other workers who otherwise could have obtained employment on their own; and (3) the great majority of retroactive vouchers and certifications under this program suggests that many participating employers are enjoying tax windfalls that do not motivate them to increase their hiring. McIntyre, however, also suggests that the program is somewhat helpful in promoting hiring of unemployed youth, and that tax incentives designed to foster investment in labor can provide a useful balance to available tax incentives that favor capital investment.

Our experience to date in California corroborates some of these findings. We are particularly concerned about the incidence of retroactive vouchers and certifications, running well over 50 percent in California and apparently also in other states (according to the Ohio State University study). One of our recommendations for amending the authorizing legislation is designed to address this problem. In addition, we have identified several other aspects of the program's administration that we believe impede its effectiveness, some of which are statutorily mandated; the recommendations below also summarize statutory changes that would correct these problems.

EMPLOYERS' RESPONSE TO THE PROGRAM

Before summarizing these recommendations, I wish to present the results of some more informal "research" that EDD conducted last year, which offer interesting insights into employers' views of the Targeted Jobs Tax Credit.

Last year, with the assistance of the California Legislature, we surveyed members of California Employer Advisory Groups for their comments on why employers would or would not take advantage of the credits and on how we might increase employer participation in the program. This survey was prompted by our concern over the increasing gap between vouchers and certifications in all the jobs tax credit programs.

The summary of the results of this survey is attached.* The summary demonstrates employers' aversion to the categories of persons qualifying under the Targeted Jobs Tax Credit, their belief that the tax credits do not provide sufficient incentive to hire from such groups, and their reluctance to become involved in a government program.

We find some of the results ironic. For example, despite employers' widespread perception that members of the eligible categories generally make poor hiring prospects, the high incidence of retroactive certifications suggests that many employers who would be reluctant to hire someone whom they knew to qualify under this program have already hired and retained persons who had not originally made known their status. We take this finding to mean that we need to make an even more concerted effort to communicate to employers that the high proportion of retroactive certifications demonstrates that members of the targeted groups do make good employees.

*Attachments to the summary, including the detailed breakout of employers' responses to individual questions, are available on request. I am not including them here because of their length.

RECOMMENDATIONS FOR STATUTORY CHANGE

If Congress reauthorizes the Targeted Jobs Tax Credit beyond the end of this year, we urge amending the legislation as outlined below in order to remove several administrative obstacles that hinder the program's efficient operation:

1. Consolidate the Targeted Jobs Tax Credit with the WIN and Welfare Tax Credits.

   When the Targeted Jobs Tax Credit was created in 1978, it was designed as a pilot program. As a demonstration program with a limited time span, it was kept separate from the WIN and Welfare Tax Credits, which had been in existence for some years already and which are intended to continue indefinitely. If, as a result of the current review, the Targeted Jobs Tax Credit is reauthorized, we recommend adding WIN registrants and AFDC recipients to the other target groups and repealing the separate WIN and Welfare tax credit programs. This change would substantially streamline program administration.

2. Restrict the time period for claiming retroactive certifications.

   The intent of the Targeted Jobs Tax Credit legislation was to provide employers an incentive to hire traditionally hard-to-place job seekers and to expand employment. However, because of the law's generosity in permitting retroactive vouchering and certification of workers already on an employer's payroll, many employers are taking the credits for persons they had already hired some time earlier, and a substantial portion of the program's administrative budget is being used up in processing retroactive certifications. As noted above, the proportion of retroactive vouchers and certifications is in the neighborhood of 50 percent. We believe it is counter to the law's intent.

It may be that the retroactive provision was thought necessary when the program was established, to increase employer interest. By now, we believe a 90-day time limit from date of hire to date of certification request should be ample.

3. Extend the voucher validity period for low-income target groups. Under current law, the voucher is valid only during the month it is issued for three of the target groups: economically disadvantaged youth, economically disadvantaged Vietnam veterans, and economically disadvantaged ex-felons. We believe that this requirement is far too stringent. We recommend, instead, making the voucher for these groups valid during the month of issue and the following three months.

4. Allow persons eligible for services under CETA Titles II, III, and IV to qualify automatically under the Targeted Jobs Tax Credit. Although there is substantial overlap of the two programs' eligibility criteria, there are also discrepancies. CETA prime sponsors voucher for the Targeted Jobs Tax Credit persons applying for CETA participation. Right now, they have to screen these people twice. It would simplify program administration, and strengthen the competitiveness of CETA-eligibles in the job market, if eligibility under CETA Titles II, III, and IV automatically granted eligibility under the Targeted Jobs Tax Credit program.

Thank you for the opportunity to present our concerns and observations about the Targeted Jobs Tax Credit. We look forward to the testimony of other participants in this hearing and to the results of the Committee's deliberations on this program.

JOBS TAX CREDIT SURVEY

OF

EMPLOYER ADVISORY GROUP MEMBERS

JULY 1980

Prepared by:

Employment Service Division
Operations Branch
Employment Development Department

This is a report of a survey of the members of the Employment Development Department's Employer Advisory Groups to determine why employers do or do not take advantage of the Jobs Tax Credits and what can be done to increase employer participation.

SUMMARY OF RESPONSES

I. WHY ARE MORE TAX CREDIT APPLICANTS NOT HIRED?

- 54% of employers responding did not feel that the tax credits were enough of an incentive to hire tax credit eligible applicants.

- A substantial majority of employers responding believed that employers did not hire tax credit eligible applicants because such applicants did not have the basic abilities to do the job, were not motivated to work, had too many personal problems, or would take too much money and effort to train. A lesser, though significant, number of respondees believed tax credit eligible applicants were not hired because employers get few applicants from these groups.

II. WHY ARE TAX CREDIT APPLICANTS HIRED?

- Respondent employers felt that when tax credit eligible applicants were hired, it was predominately to get the tax credit or because they would have been hired even without the tax credit.

III. WHY ARE NOT MORE TAX CREDIT CERTIFICATIONS BEING REQUESTED BY EMPLOYERS?

- Most employers stated that employers do not request certification of tax credit eligible employees because they are reluctant to get involved in government programs, do not understand the tax credit program, or are not aware of the program.

IV. WHAT SHOULD THE EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD) DO TO INCREASE HIRING OF PERSONS DESIGNATED FOR TAX CREDIT?

- Predominately, responding employers felt EDD should get more tax credit information to employers and refer more tax credit eligible applicants.

V. WHAT CHANGES SHOULD BE MADE IN TAX CREDIT PROGRAMS TO INCREASE HIRING OF TARGETED GROUPS?

- The great majority of responses were to increase the amount of tax credits, and remove the provision that the tax deduction for wages be reduced by the amount of tax credits allowed.

DISCUSSION

Most employers responding to the survey felt that tax credit eligible persons do not have the qualifications necessary for hire. Whether or not this is a valid perception is not as important as the fact that this perception is prevalent among employers, and therefore is a substantial barrier to the program's success. This perception is further borne out by a general observation by field office staff that many applicants refuse vouchering for fear that being identified as a member of a targeted group will hinder, rather than enhance their chances of being hired.

To address this problem we must demonstrate to the employer community that many tax credit eligible individuals are qualified and are being hired by employers. This conclusion is supported by the fact that during the period October 1, 1979 through March 31, 1980 over 105,000 disadvantaged individuals, many of whom were tax credit eligible, were referred to jobs by EDD and subsequently hired. This fact alone is not going to change the employer's general perception of the qualifications of tax credit eligible individuals. We must demonstrate to the employer community that these people are qualified and EDD will only refer tax credit eligible applicants that meet the employer's job requirements.

Although 197 responses were that the most likely cause of employers not requesting certification was an unawareness of the tax credit program,it is notable that only 7 volunteered responses indicated that this was a "most likely" cause of not hiring applicants designated tax credit. In order to inform employers of the tax credit program, EDD has conducted an intensive informational campaign. This campaign has included tax credit articles in three issues of the California Employer, which is sent to approximately 500,000 employers; Employer Service Representatives presentations during their ongoing face-to-face meetings with employers; providing tax credit information during employer seminars and on radio "talk shows"; and placing display ads in newspapers.

While not discounting the need to continue, add to, and, perhaps, retarget publicity and information being given to employers regarding tax credit provisions, it appears that primary emphasis must be aimed at overcoming the negative image employers hold of persons in the tax credit targeted groups.

RECOMMENDATION

The Employment Development Department continue to promote the program, with added emphasis on Job Service screened applicants and the minimal paperwork.

Promotion at the local level, where direct employer contact occurs, is where the program must be sold. Employer Service Representatives should be aware of the qualifications of the individuals in the tax credit vouchered pools so they can promote the program in occupations in which qualified applicants are available. Testimonials of satisfied employers who have participated in the program should be extensively used in selling the program. In addition to the employer testimonials contained in the federally developed sales kit, locally obtained testimonials should be used. An employer's endorsement of the program is the most persuasive sales pitch that we can present to other employers.

ATTACHMENTS

I. Questionnaire Summary

II. Representative Sample of Verbatim "Other" Answers and General Comments.

III. Field Office Directive Containing the Instructions for Conducting the Survey.

CALIFORNIA RESTAURANT ASSOCIATION

FOUNDED IN 1906

REPRESENTING THE FOOD AND ALCOHOL BEVERAGE SERVICE INDUSTRIES OF CALIFORNIA

448 South Hill Street, Suite 612, Los Angeles, California 90013 / (213) 628-3371
1225 8th Street, Suite 325, Sacramento, California 95814 / (916) 447-5793

March 24, 1981

Mr. Robert E. Lighthizer
Chief Counsel
Committee on Finance
United States Senate
227 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Lighthizer:

The California Restaurant Association submits the following comments regarding the Targeted Jobs Tax Credit. We are very hopeful that this information will be presented to the Senate Finance Subcommittee on Economic Growth, Employment and Revenue Sharing during its hearing April 3.

The major point we wish to make is the supreme frustration experienced in California in our efforts to utilize that portion of the Targeted Jobs Tax Credit for "qualified cooperative education programs." In brief, it appears that California has applied such a narrow definition of the term "qualified cooperative education programs" to virtually eliminate this aspect of the tax credit for California employers. Rather than reiterate our views in this letter, I am enclosing copies of 1980 correspondence between our office and the California Department of Education. Although we had hoped that IRS Regulations on the subject would clarify the question and move us forward, it has not yet happened.

In any event, we urge this Committee to review these problems and to extend the operative time frame for the Targeted Jobs Tax Credit to December 31, 1984.

Very truly yours,

Stanley R. Kyker

Stanley R. Kyker
General Manager

SRK:mg

Enclosures

cc w/encls.: Senator H. J. Heinz,
Subcommittee Chairman

WILSON RILES
Superintendent of Public Instruction
and Director of Education
(916) 445-4338

STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

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September 17, 1980

Mr. Stanley R. Kyker
General Manager
California Restaurant Association
448 South Hill Street, Suite 612
Los Angeles, California 90013

Dear Mr. Kyker:

Your recent letter identifies a problem that selected employers have raised regarding the efforts of the State Department of Education to qualify cooperative education programs under the Targeted Jobs Tax Credit (PL 95-600) legislation.

The Department of Education is mandated by federal law (PL 95-600) to use cooperative education criteria to qualify programs for employer tax credit purposes. In reviewing our cooperative education regulations in an attempt to resolve the issue you raise, we have found California's statutes and administrative regulations for cooperative education to be compatible with the federal law.

The issue, as we see it, is one of statutory requirements at the federal level. Although we have received copies of statements made by Senator Spark Matsunoga in the February Congressional Record and a letter from Jerome Kurtz, Commissioner of Internal Revenue Service, to Senator Richard Stone which conveys a more liberal "intent" of this legislation, these documents do not constitute legal authority to depart from the existing federal law.

We have also made efforts to seek clarification of the legislative intent of PL 95-600 in the hope that this issue could be resolved in the final regulations. A member of my staff testified at a public hearing conducted last April by the Internal Revenue Service on proposed administrative changes to the law. We requested clarification of the intent and discussed the confusion of employers regarding what programs can be qualified as cooperative education as defined by PL 95-600. Also, we discussed this problem with representatives of the Food Service and Lodging Institute. I have attached copies of the public hearing presentation and correspondence from these representatives.

It is our understanding the the Internal Revenue Service will announce its new regulations by November 1. It is our hope that the new regulations will contain a clear statement of federal policy on this issue. The Department of Education will notify school districts of these regulations and, if necessary, revise its criteria for qualifying cooperative education programs for employer tax credit purposes.

I want to assure you that my staff will make every effort to make it possible for employers to provide vocational training to high school students and to receive the tax credit benefits for providing this training.

Sincerely,

Wilson Riles

WILSON RILES

California State Department of Education
Testimony Prepared for the Internal Revenue Service
Public Hearing on Proposed PL 95-600
(Targeted-Jobs-Tax-Credit) Regulations

April 24, 1980
Washington, D.C.

Mr. Chairman, members of the committee, I am Jerry Levendowski, Special Assistant to the State Director of Vocational Education, California State Department of Education. I welcome this opportunity to present testimony on behalf of the Department of Education.

The purposes of my presentation are to seek clarification of the legislative intent of PL 95-600 (Targeted Jobs Tax Credit) and to describe the problems the Department of Education is experiencing in attempting to "qualify" cooperative education programs for employer tax credit purposes.

Background

On March 16, 1979, the California State Department of Education received a U. S. Department of Health, Education, and Welfare, Office of Education, Bureau of Occupational and Adult Education, program memorandum (DVTE--FY 79-9) stating that the state board of vocational education must certify that cooperative education programs meet all the requirements of PL 94-482.

The Department of Labor's Employment and Training Administration and the Bureau of Occupational and Adult Education entered into a memorandum of understanding, effective October 11, 1979, which encourages state boards of vocational education to develop cooperative agreements with state employment security agencies to provide for the effective operation of the tax credit certification system. California's Department of Education and Employment Development Department signed such an agreement on May 3, 1979. As a result of the agreement, the Department of Education assumed the responsibility for "qualifying" cooperative education programs.

Department staff have reviewed the definitions of cooperative education contained in PL 94-482 and PL 95-600 and have found the two definitions to be similar. Both define cooperative education as a vocational education programs and specify that: (1) there must be written cooperative agreements between participating schools and employers; (2) participating students must receive vocational instruction, including required academic instruction; and (3) school and employment experiences must be planned by the school and employer and must contribute to participating students' employability and education. (See Appendix A for analysis.)

On the basis of our analysis and the instructions we received from BOAE, we have concluded that the definitions of cooperative education contained in PL 94-482 and PL 95-600 are compatible.

In California, cooperative education is defined as an instructional program which correlates formal vocational classroom instruction with regularly scheduled, paid, on-the-job learning experiences. Its purpose is to assist students in developing and refining the occupational competencies (attitudes, skills, knowledge) needed for entry level employment or advanced training in a specific occupational area (e.g., retail merchandising). The cooperative vocational education program is designed to meet the needs of individuals who have made a career choice and who desire vocational preparation. Our definition is not significantly different from the definitions found in PL 94-482 and PL 95-600.

Problems

Today, the Department of Education is being challenged by selected employers who feel that we have been too narrow in our interpretation of the PL 95-600 definition of cooperative education programs for tax credits. These employers point to the testimony given by Senator Spark M. Matsunaga on February 28, 1980 (Congressional Record - Senate) to support their position. Senator Matsunaga stated that he was unaware of the intention to narrow the credit to job training matching educational experience. Further, he stated, "Neither the conference committee nor the Senate Finance Committee in the Technical Corrections Act of 1979 intended to impose a matching requirement. Nor does the statutory language reflect any such intention." The Senator stated that the tax credit provisions should apply to students enrolled in "work study, distributive education, work experience, cooperative education, industrial education, career exploration, apprenticeships, or any similar work-education program." A number of these programs, however, do not meet the definition of cooperative education contained in PL 95-600.

In addition, the employers mentioned a moment ago contend that their position is strengthened by statements contained in a February 28, 1980, letter from the Commissioner of Internal Revenue to Senator Richard B. Stone. The Commissioner stated that the IRS regulations are not intended to require that a student's employment be in the same field as his or her vocational training. He also stated, "The final regulations will make clear that such test may be met through a variety of employments which need not be in the same technical field as the vocational education." Senator Matsunaga's statement and the statement of the Commissioner of Internal Revenue appear to us to be in conflict with the definition of cooperative education contained in PL 95-600 and with the intent of that law.

Alternatives

Before discussing alternatives, we want to emphasize the importance of clarifying the intent of PL 95-600.

(1) Was the law passed to subsidize private employers who hire students 16-19 years of age?

(2) Or, was the law passed to provide private employers with a tax credit to offset the training costs they may incur in providing on-the-job training for students in cooperative education programs?

We offer the following alternative recommendations for the implementation of the law in the proposed regulations:

Alternative 1 - Affirm the current provisions of the proposed regulations pertaining to students 16-19 by stipulating that only those enrolled in a "qualified" cooperative education program are to be certified for employer tax credit purposes.

This approach would be in keeping with the intent of the proposed regulations. At the present time, we have approximately 4,000 students who are enrolled in cooperative programs in California. Such an approach would provide a needed stimulus for educators and employers to work more closely together to provide quality vocational education to our high school students. We believe such an approach benefits employers more because it provides an excellent source for well-trained full-time employees.

Alternative 2 - Broaden the regulations so that vocational education students who are employed and are receiving on-the-job learning experiences related to their vocational instruction may be certified.

If the provisions of the proposed regulations were broadened, more students could be certified. In California, we annually have over 800,000 vocational education students enrolled in our high schools and regional occupational centers and programs.

If this approach were adopted, we consider that it would be necessary to delete from the regulations references that only students who are enrolled in qualified cooperative education programs are eligible for employer tax credits. It would be necessary to expand the definition of the types of school sponsored work experience programs to include vocational work experience education.

Currently in California, there are 20,000 vocational education students participating in vocational work experience education. These students are employed in jobs that are related to their vocational instruction. We have no estimate as to the number of vocational education students who are working but are not participating in vocational work experience education.

It must be emphasized that a dramatic increase in vocational work experience education would place a financial burden on school districts. California has a mandated work experience education student-teacher ratio of 125:1. Each additional 125 students in the program will cost a district approximately $25,000. In light of recent budget reductions, districts are in no position to employ additional staff.

Alternative 3 - Broaden the regulations so that all students, ages 16-19, who are enrolled in school and working would be eligible for certification.

If this approach were implemented, we would have a potential of 1.3 million students enrolled in grades 9-12 to certify. Many of these students are currently enrolled in various types of community-based programs, such as general work experience education which has over 100,000 students enrolled. We have no idea how many other students are working who might be eligible to be certified under this approach.

In adopting this approach, it would be necessary to (1) delete any reference to cooperative education, (2) eliminate the need to qualify schools, and (3) eliminate from the State Department of Education any responsibility for qualifying schools and programs. We are not convinced that this approach is within the Congressional intent.

Summary

We wish to commend the Congress, the Internal Revenue Service, and the Bureau of Occupational and Adult Education for their efforts to create and implement legislation that could provide a financial incentive to employers to provide students with needed on-the-job training. This legislation will play a significant role in creating new and additional training opportunities for vocational education students.

APPENDIX A

Cooperative Education

PL 94-482	PL 95-600	Proposed Rules
• Cooperative Education	• Qualified Cooperative Education	• No Reference
• A program of vocational education for persons who	• A program of vocational education for individuals who	• Program or vocational education
• through written cooperative arrangements between the school and employers	• through written cooperative arrangements between a qualified school and one or more employers	• No Reference
• receive instruction, including required academic courses and related vocational instruction	• receive instruction including required academic instruction	• An organized educational program which is directly related to the preparation of individuals for employment, or for additional preparation for a career requiring other than a baccalaureate or advanced degree.
• by alternation of study in school with a job in any occupational field	• by alternation of study and school with a job in any occupational field	• No
• but these two experiences must be planned and supervised by the school and employers so that each contributes to the student's education and to his or her employability.	• but only if these two experiences are planned by the school and employers so that each contributes to the student's education and employability.	• No

PL 94-482	PL 95-600	Proposed Rules
• Work periods and school attendance may be on alternate half-days, full-days, weeks, or other periods of time in fulfilling the cooperative program.		
		• Organized education program means only instruction related to the occupation or occupations for which the students are in training.

INTERNAL REVENUE SERVICE

HEARING ON THE PROPOSED REGULATIONS

RELATING TO

CREDIT FOR EMPLOYMENT
OF CERTAIN NEW EMPLOYEES

APRIL 24, 1980 10:00 A.M.
INTERNAL REVENUE SERVICE AUDITORIUM
7TH FLOOR 7400 CORRIDOR
1111 CONSTITUTION AVENUE, N.W.
WASHINGTON, D.C.

Internal Revenue Service

Lester Stein, Deputy
Chief Counsel (Technical)

David E. Dickinson, Asst. Director
Legislation & Regulations Division
Office of Chief Counsel

Walter H. Woo, Attorney
Legislation & Regulations Division
Office of Chief Counsel

Douglas W. Charnas, Attorney
Legislation & Regulations Division
Office of Chief Counsel

Harve M. Lewis
Tax Law Specialist
Office of Asst. Commissioner (Technical)
Individual Tax Division
Wage, Excise and Administrative Provisions Branch

WILLIAM G. GIERY
Executive Secretary

[illegible] PENNSYLVANIA AVE NW / WASHINGTON DC [illegible] / (202) [illegible] /

RECEIVED

April 29, 1980

Mr. Jerry C. Levendowski
Special Assistant to the Director
Department of Education
Vocational Education
721 Capitol Mall
Sacramento, California 95814

Dear Jerry:

On behalf of both Tom Power and myself, please accept our thanks for meeting with us after the Internal Revenue Service hearings on the Targeted Jobs Tax Credit regulations.

It was certainly interesting as well as gratifying to know that our respective statements expressed concern in the same specific areas.

We are now giving a great deal of thought to your suggestions and promise to get back with you as soon as we have an opportunity to speak with our members. Please be aware, Jerry, that we wish to do everything we can to make this program a success in California as well as in every state of the union. I promise I will be back in touch with you.

Sincerely,

Bill

William G. Giery
Executive Secretary

WGG/dm

August 8, 1980

Mr. Wilson Riles
Superintendent of Public Insti
721 Capitol Mall, Room 524
Sacramento, California 95814

RE: FEDERAL TARGETED JOBS TAX CREDIT

Dear Superintendent Riles:

The California Restaurant Association represents the California restaurant industry which, in 1979, employed more than 500,000 people within the State and grossed approximately 14 billion dollars in sales. As one of the largest employers of youth, our industry is very interested in the Targeted Jobs Tax Credits applicable to the employment of young people. In particular, we are interested in that section of the Internal Revenue Code which authorizes such tax credits for "qualified cooperative education programs."

It is our understanding that the California Department of Education, which is given the task of certifying students for whom the tax credit may be applied, has taken a very narrow approach to the subject. In fact, the Department's view is so restrictive that it has, for all practical purposes, eliminated this aspect of the Targeted Jobs Tax Credit for California foodservice employers. Many other states, through their departments of education, have taken the broader view in this regard -- indeed the correct view according to Congress and the Internal Revenue Service. Thus, with the cooperative education tax credit "carrot", many jobs are being provided for needy young people during this time of economic recession. In California, however, that "carrot" is not available.

As suggested above, and in our recent bulletin to Members (copy enclosed), the IRS and your Department appear to be working at cross purposes with each other. More than just a clash of philosophies, there seems to be a clash in the interpretation of tax law. The Congress and IRS have given great leeway to the business and educational communities to establish programs with the primary purpose of creating jobs for youth. However, your Department, motivated by a rather unclear and esoteric philosophy regarding education integrity, seems determined to foil this initiative to create badly needed jobs.

We have discussed this matter with the State Employment Development Department, and they have told us that their hands are tied. Though they would like to liberalize the process, they have informed us that only your Department has the authority to do so. They too feel that many jobs are being forfeited because your Department is unwilling to accommodate a <u>tax</u> program which was primarily established to create entry level jobs in the marketplace.

We would be most happy to meet with you to discuss this matter at your convenience. We have extensive material describing the program, <u>and</u> the confusion surrounding its interpretation, which we would be happy to supply if it would help straighten things out. In any case, we would appreciate your personal attention to this matter as it affects the well-being of many Californians.

Thank you.

Very truly yours,

Stanley R. Kyker
General Manager

SRK:o

Enclosure - Bulletin No. 10, 7-11-80