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ABSTRACT

This report expands an earlier study of the impact of the Targeted Jobs Tax Credit (TJTC) upon program participants. It explains how TJTC has been used in three major urban areas with large disadvantaged populations: Baltimore, Kansas City, and St. Louis. After a summary of the history of TJTC and of the findings of other studies of wage subsidies in Part I, Part II reviews the origins of current employment problems of disadvantaged persons in Maryland and Missouri. Part III reviews income experiences of TJTC participants in the two states 5 years after hiring. Part IV examines changes in use patterns from 1985 to 1987 to determine the impact of the hiatus period (after TJTC expiration and prior to reenactment) on job seekers and employers. Part V reviews the significant changes in the TJTC summer program and relates the changes to efforts to direct more employment and training resources to solving the problems of at-risk youth. Part VI examines the experiences of employment and training agencies with TJTC. Employer use of TJTC is reviewed in Part VII. It focuses on the institutionalization of TJTC within the business community and the implications of current employer use for the design of employment subsidies. The conclusion includes recommendations for modifications of TJTC and an analysis of the role of TJTC as an employment strategy in urban areas with significant unemployment. Notes and a 10-page bibliography complete the report. (YLB)

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# The Targeted Jobs Tax Credit in Maryland and Missouri: 1982 - 1987

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Edward C. Lorenz

Research Report No. 88 - 18

November 1988

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## NCEP

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## PREFACE

On March 17, 1988, Congressman Charles B. Rangel, Chairman of the House Ways and Means Subcommittee on Select Revenue Measures, requested the National Commission for Employment Policy to update its 1985 study of the Targeted Jobs Tax Credit (TJTC). Because Congress was considering whether to extend TJTC past its December 31, 1988 expiration date, a timely response was needed. Fortunately, Dr. Edward C. Lorenz, the author of the 1985 study, was willing to conduct further research on the TJTC program. A preliminary report was sent to Congressman Rangel in mid-June, and copies of the present final report were sent to the Congress in mid-September.

In the "technical corrections" tax bill passed by the Congress in October, TJTC was extended for one year, to December 31, 1989. Two major changes in the program are that the economically disadvantaged youth category is now restricted to 18-22 year-olds instead of 18-24, and the summer youth credit is now 40 percent of the first \$3,000 in wages instead of 85 percent.

The Commission is grateful to Dr. Lorenz for his ability to research and write such a substantive report under severe time constraints. It hopes that the report will contribute further to the policy debate on TJTC that will need to be resumed in 1989. Questions about the report and requests for additional information may be addressed to the project officer, Dr. Stephen Baldwin, at the Commission's office, 1522 K Street, N.W., Suite 300, Washington, D.C. 20005, telephone 202-724-1553.

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## ACKNOWLEDGEMENTS

Edward C. Lorenz, Ph. D., was formerly the Manager of Employer Services and Employment Tax Credit Coordinator for the Maryland Job Service. He currently teaches political science and history at Charles County Community College in Maryland. He is grateful for the support and assistance of staff of Charles County Community College and of the Maryland Department of Economic and Employment Development (DEED). Charles Middlebrooks, the Assistant Secretary of Employment and Training, and Paulette Hall, the Executive Director of the Office of Employment Services, were especially supportive. In addition, he received much assistance from David Ghee, the TJTC Coordinator, and Mary Morris and other staff of the Maryland TJTC office. He is equally grateful for the assistance of staff of the Missouri Department of Labor and Industrial Relations, including C. Bruce Cornett, Director of the Division of Employment Security, as well as for the efficient data processing support of Ed Winkelman and John Helmig. Many people in both states gave advice and assistance to the project. Without minimizing the help of any individual, he especially is grateful for the time given by Charles L. Leven of Washington University and George D. Wendel and E. Allan Tomey of St. Louis University; who did so much to orient him to the employment and economic development challenges facing St. Louis. Staff of Maryland and Missouri Job Services and JTPA offices were generous with their time and provided insight into the often contradictory uses of TJTC. John and Susan Flanigan offered special assistance in the St. Louis phase of this project. Marilyn Lorenz read and commented upon the earlier drafts and, of course, supported the project in many other ways. Staff of the National Commission, particularly Stephen Baldwin and Everett Crawford, have provided constructive comments and guidance. Responsibility for flaws remains with the author. The opinions expressed are those of the author and do not necessarily reflect the views of the National Commission for Employment Policy or its staff.

## EXECUTIVE SUMMARY

The goal of the Targeted Jobs Tax Credit (TJTC) is to increase the jobs available to certain economically disadvantaged and handicapped job seekers by subsidizing the real or perceived additional costs of employing them. If the program achieves its goal, the job retention and earnings of TJTC participants should increase. The Targeted Jobs Tax Credit: An Assessment, a study conducted for the Commission in 1985, focused on this subject. That study, examined the incomes and work histories of 1,017 program participants and 791 persons from a comparison group in two states, Maryland and Missouri. Incomes and employment histories were tracked for a year before employment under TJTC and for two years after hire.

- o Generally, that study found persons employed under TJTC had significantly higher incomes in the first year after hire than did persons in the comparison group. In the second year after hire, the income differences became much less significant.

This study continues the earlier one by following the income histories of the original samples for three additional years after hire. In doing so, it provides information on long term earnings patterns that may relate to program participation. It allows for more conclusive evaluations than in the previous study of those placements under TJTC which lead to the greatest income gains.

- o There is a significant correlation between the size of the credit and long term earnings, and specifically between receipt of the full first year credit and higher long term earning .
- o Those not retained for a full first year credit had average (mean) incomes after five years insignificantly different from the comparison group.
- o These findings lead to the recommendation that the percentage and duration of the credit should be changed to encourage or reward retention.

If the credit amount is changed to reward retention, such as by reducing the percentage of the credit, while lengthening the time period over which the credit is earned, greater impact can be achieved at far lower cost than under the present formula. Small credits tend to produce no change in employer or job seeker behavior. Unfortunately, the result of the 1986 changes in the credit formula (reducing the first year credit from 50% of eligible wages to 40% and abolishing the second year credit) was to increase small ineffective credits.

The earlier study was completed when the Targeted Jobs Tax Credit was approaching expiration. While the tax reform bills containing the extension were being debated, the program expired at the end of 1985. There followed nine and a half months of uncertainty. After January 1, 1986, the program could not function. Finally, on October 22, 1986, the credit was reenacted, through December 31, 1988, retroactively from January 1, 1986. The hiatus period -January to October, 1986 - has created a unique topic for study. This

report examines changes in utilization patterns in Maryland and Missouri from 1985 to 1987, to learn the impact of the hiatus period on job seekers and employers. It reviews the administration of TJTC during and after the reenactment process.

Generally, there was a decline in the number of TJTC participants after the hiatus period. In Maryland the issuing of TJTC vouchers declined, particularly to persons without jobs. Most determinations of eligibility, unlike before, were requested by employers or their agents for persons already employed. JTPA programs continued to issue fewer vouchers than in previous years, a trend that began with the transition from CETA to JTPA. Only agencies serving special populations, such as vocational rehabilitation programs, continue to issue vouchers at the rate of years before 1986.

- o After the hiatus period there was a decline in the level of vouchering, particularly in urban areas, and in program utilization by categories of business that have had records of better retention and higher earnings.
- o The proportion of determinations that were made after persons had been hired greatly increased.
- o Vouchering of certain groups, particularly minority females, increased in number, while vouchering of minority males has declined.
- o Most employers of large numbers of TJTC applicants do not hire proportional numbers of handicapped persons, veterans, or ex-offenders.
- o These declines in program quality may result more from decreases in program funding that correspond to the hiatus period as to the interruption of the program.

Points to consider in the reenactment process that result from the analysis of the hiatus experience include:

- 1.) Any reenactment should be completed before the next expiration, and the reenactment should be for a sufficient period to encourage companies to plan on long-term utilization of TJTC to reduce labor costs.
- 2.) The Department of Labor should vigorously support, with funding, technical assistance, and, if necessary, financial sanctions, TJTC vouchering by Job Service and JTPA agencies.

The decline in vouchering associated with the hiatus period was comparatively small compared to the decline in vouchering of "Qualified (economically disadvantaged) Summer Youth," 16 or 17 years of age. This part of the program was introduced in the summer of 1983. Compared to program activity under the Comprehensive Employment and Training Act (CETA), JTPA programs have reduced vouchering of qualified summer youth to less than one



third of the 1983 level. The Job Service has reduced its vouchering to 25 percent of the 1983 level.

- o Since the declines in Qualified Summer Youth activity began before the hiatus period, they do not relate specifically to the delay in reenactment.

Rather they appear to relate to changes in youth employment program priorities and funding. There are enough JTPA Title II-B summer jobs for most disadvantaged youth registered with summer jobs programs. Therefore, those programs have little interest in referring disadvantaged youth to private sector summer jobs.

- o The TJTC summer jobs program should be coordinated with JTPA funded summer jobs, so that no JTPA money is spent until all possible Qualified Summer Youth are placed in the private sector.
- o JTPA Title II-B money saved by this procedure should be transferable to summer remedial education programs for at-risk youth.

Generally, the study finds many indicators that TJTC, when of significant value, may help the disadvantaged increase their entry into private sector employment that is of a type likely to allow the employee to escape the poverty cycle. However, there is no systematic requirement or effort to use TJTC to solve the problem of disappearing stable, entry level jobs for the disadvantaged. The reason for the failure to systematically use the program is a result of problems of both:

- 1.) employment and training agencies, and
- 2.) employers.

Certain public employment and training agencies, particularly in recent years, have been unable or uninterested in offering TJTC vouchers to a cross section of their clients. Particularly JTPA programs and urban Job Service offices have failed to make TJTC available to most of the disadvantaged job seekers in their communities. By contrast, some specialized agencies serving the handicapped and other targeted groups have continued to utilize TJTC as a job placement and retention incentive. There appear to be three factors linked to the decline in vouchering.

- 1.) Agency performance standards, particularly under JTPA, discourage the enrollment of large numbers of hard to place individuals.
- 2.) Most employment and training agencies have experienced significant declines in funding. Job Service funding is linked to state unemployment rates. Yet, TJTC workload may not decline with low unemployment but need to increase, for two reasons:
  - a.) More persons are being hired when unemployment is low and more TJTC certifications are being requested by employers, and

- b.) While overall unemployment has been declining, urban unemployment, particularly among the poor and minorities, remains a serious problem.
- 3.) Requests for retroactive eligibility determinations threaten to overwhelm Job Service offices. (Nationally, the Job Services received several million letters requesting credits in 1987.) Because of the large retroactive workload, Job Service staff have come to view TJTC cynically, as an employer windfall. Because TJTC certification information can be used to inflate local office placement achievement, retroactive certifications can have a corrupting influence on the need of the agency to seek regular placements under the program. Consequently, many staff no longer see that job seekers might benefit from being given a pre-employment voucher.

This problem relates directly to the utilization patterns of TJTC within the private sector. While many, perhaps most, employers use TJTC as intended, a significant number have been unable or unwilling to incorporate TJTC into their procedures as a hiring incentive, but rather have turned the program into a windfall. Certain consultants or Management Assistance Companies (MACS), but not all, have encouraged utilization of the program as a windfall, assisting companies in having workers found eligible after hire.

- o Many of the retroactive users of TJTC have poor rates of retention.
- o Retroactive users tend to be suburban or rural users and tend to hire a disproportionate number of white youth, who have average pre-employment incomes higher than other eligible groups.

If TJTC is to be more effective, the findings suggest that several changes should be made immediately to end program abuse and improve program impact. These changes include:

- 1.) Retroactivity should be abolished so that employers and the MACS can devote their work to improving retention of TJTC eligible workers and not to generating millions of letters requesting credits.
- 2.) Large users should be required to file hiring plans to indicate that they will seek vouchered applicants from all groups, particularly from among the handicapped and minority males.
- 3.) The value of the credit should be changed to allow or encourage employers to pay higher wages and offer permanent jobs to the disadvantaged (for example, offer the 40% credit on the first \$10,000 in wages).
- 4.) The second year credit or other long term credit should be restored, if for no other reason than to send the message that retention is a goal of the program.
- 5.) The youth group should continue to include persons up to age 24,

since many disadvantaged urban minority youth fail to secure permanent employment until their early twenties. Savings of tax expenditures should come from abolishing retroactivity not by eliminating many urban poor from participation.

- 6.) The Qualified Summer Youth credit should either be coordinated with other programs to increase summer remedial education options of disadvantaged youth, or the program should be terminated.

## INTRODUCTION

The National Research Council's recent report on Urban Change and Poverty found, "Urban poverty, always a serious problem, appears to be getting worse, and it is being compounded by long-term changes in the structure of the national economy and in metropolitan and regional demographic patterns."<sup>1</sup> Perhaps this is the most fitting observation with which to begin a review of the impact of the Targeted Jobs Tax Credit (TJTC). The Targeted Jobs Tax Credit was created ten years ago as part of President Carter's Private Sector Initiatives Project, directed particularly at solving the unemployment problems of the urban poor by increasing private sector involvement in employment and training. Any evaluation of TJTC must acknowledge that it and the other job and training initiatives of the past decades have not succeeded in eliminating the employment problems of the "urban underclass."

This report answers basic questions about the impact of TJTC upon program participants by studying the program in two states, Maryland and Missouri, with three major urban areas with large disadvantaged populations. This report provides an explanation of how TJTC has been used in typical communities with large eligible populations: Baltimore, Kansas City, and St. Louis. Since TJTC is not solely an urban program, the study also examines statewide utilization, especially in those small cities and rural areas with high unemployment, such as Western Maryland or the Ozarks. It also describes the administration of TJTC and the extent of its acceptance by the employers in the two states. The continuation of serious unemployment problems after ten years of TJTC points to the need for significant changes in the design of the credit, if not its replacement. The use of TJTC in Maryland and Missouri, particularly in St. Louis and Baltimore, suggests fairly clearly what tax credit options should be considered to improve the impact of future wage subsidies.

There are four dimensions of public employment programs which need evaluation. The first is the measurement of the economic impact of the program on participants. In addition, each program has political, legal, and administrative dimensions which need study. Under TJTC, which is largely state administered, there are recurring political dealings between the state administering agencies and local employment and training institutions. Since the program results from federal legislation, there are relations between state agencies and federal agencies, particularly the Department of Labor. The study of intergovernmental political relationships under TJTC could be a report unto itself.

In addition to the political issues, TJTC has a fascinating legislative history, with repeated reenactment by Congress, each making minor modifications to correct apparent abuses in the program. The efficiency of these changes in resolving the problems with TJTC is of interest considering the continuation of serious employment problems which the program was supposed to address. The conclusions of this report primarily concern legislative changes that should improve program impact.

The administrative history of TJTC reveals much about the structure of American government, business, and employment. While the findings are not

original, they are ones which are usually ignored in designing programs such as TJTC. Perhaps the administrative observations are the most important to emerge from this study.

The goal of the Targeted Jobs Tax Credit (TJTC) is to increase the jobs available to certain economically disadvantaged and handicapped job seekers by subsidizing the real or perceived additional costs of employing them. If the program achieves its goal, the job retention and earnings of TJTC participants should increase. The Targeted Jobs Tax Credit: An Assessment, a study conducted for the Commission in 1985, focused on this subject. That study sought answers to two specific questions related to the impact of TJTC upon program participants in Maryland and Missouri:

1. Do participants experience gains in earnings from the program, and
2. Do they experience job changes which improve their standing in the labor force?

It examined the two questions by analyzing the incomes and work histories of 1,017 program participants and 791 persons from a comparison group in two states, Maryland and Missouri. Incomes and employment histories were tracked for a year before employment under TJTC and for two years after hire. It found that earnings benefits from TJTC were concentrated on the one-third of participants who remained on the TJTC job for at least one year. The earlier study also reviewed the origins, implementation, and effectiveness of the administrative procedures of the program.

This report updates and expands the earlier study by following the incomes of the original samples through the fifth year after hire. An earlier version of part of this report was submitted in June 1988 to the House Ways and Means Committee, Subcommittee on Select Revenue Measures, chaired by Representative Charles B. Rangel (D.-N.Y.). After a summary of the history of TJTC and a summary of the findings of other studies of wage subsidies in Part I, the report reviews the origins of current disadvantaged employment problems in Maryland and Missouri in Part II. Part III reviews the income experiences of the sample of TJTC participants in the two states five years after hire. In doing so, it provides information on long term earnings patterns that can be related to program participation. This information allows for evaluations of certain types of patterns of participation under TJTC. Specifically, it evaluates the relationship between the size of the first year credit and retention and long term earnings. Its findings lead to several specific recommendations for improving the cost-effectiveness of the credit.

The earlier study was completed when the Targeted Jobs Tax Credit was approaching expiration. While the tax reform bills containing the extension were being debated in the Congress, the program expired at the end of 1985. There followed nine and a half months of uncertainty. After January 1, 1986, the program could not function. Finally, on October 22, 1986, the credit was reenacted through December 31, 1988, retroactively from January 1, 1986. The hiatus period -January to October, 1986 - has created a unique topic for study. Part IV of this report examines changes in Maryland and Missouri utilization patterns from 1985 to 1987, to learn the impact of the hiatus

period on job seekers and employers. It reviews the administration of the reenactment process and of the minor retention requirement and credit change added under tax reform.

Beginning with the summer of 1983, the credit included a special incentive for the employment of disadvantaged youth 16 or 17 years of age. The impact of this incentive could not be measured by the income tracking methods used in the previous study, and there was not sufficient experience with it in 1985 to evaluate it by other methods. As five summers have passed, it is now possible to reach some conclusions regarding the effectiveness of the TJTC summer program. Part V reviews the significant changes in the TJTC summer program and relates the changes to efforts to direct more employment and training resources to solving the problems of at-risk youth.

Part VI examines the experiences of employment and training agencies with TJTC. It describes the changes in the relationship of TJTC to other programs administered by agencies in the two states. The difficulties these agencies have had fitting TJTC into their operations are reviewed and recommendations made for solving some of the problems. Particularly, the role of performance standards in altering TJTC use is considered

Employer utilization of TJTC is reviewed in Part VII. It focuses on the institutionalization of TJTC within the business community and the implications of current employer use for the design of employment subsidies. This part of the study leads directly to the Conclusion which includes recommendations for modifications of TJTC to allow it to have a meaningful impact on the serious employment problems of the poor in Missouri and Maryland.

The study concludes with an analysis of the role of TJTC as an employment strategy in urban areas with significant unemployment, particularly minority unemployment. It reviews the employment strategies used in Maryland and Missouri and their relationship to TJTC. It considers the ways employment and economic development agencies perceive and utilize TJTC and contrasts TJTC use with that of the enterprise zone tax credits in the two states.

## PART I

### THE TARGETED JOBS TAX CREDIT: 1978-1988

The Targeted Jobs Tax Credit (TJTC) was established by the Revenue Act of 1978 to provide a subsidy for the employment in the private sector of certain economically disadvantaged and handicapped individuals. It was part of the Private Sector Initiatives Program of the Carter administration, a program designed to increase private sector involvement in employment and training. At the same time that TJTC was being developed, amendments to the Comprehensive Employment and Training Act (CETA) established Private Industry Councils (PICS) to oversee local CETA programs. While both TJTC and PICS have been reenacted and changed by subsequent laws, both survive as legacies of the era. The relationship of TJTC to the programs controlled by PICS under the Job Training Partnership ACT (JTPA) which succeeded CETA are an important part of the story of TJTC in the past ten years.<sup>2</sup>

For many years before 1978, proposals for a tax credit to subsidize employment had been made and some were implemented in various western industrial countries. One such program had been tried briefly in Germany in the Depression Era, shortly before the rise of Hitler.<sup>3</sup> For the next thirty years, the elegance of tax incentives to promote employment without inflation were promoted by various academics.<sup>4</sup> In the early 1970's the Work Incentive Program (WIN) Credit was offered to employers in the United States that hired welfare recipients. However, the initial credit had long retention requirements. The credit was twice modified to increase the dismally poor rate of utilization. However, many of the welfare offices which could have authorized credits after 1976 never developed procedures to certify eligible clients for employers.<sup>5</sup>

The first major American experiment with employment credits began in 1977 with the creation of the New Jobs Tax Credit (NJTC) which subsidized employment increases. To earn a NJTC, a business had to increase employment over the previous year. The credit rewarded employment expansion of any kind, whether the new employees were unemployed drop-outs or recent university graduates. By most assessments, the utilization rate of the NJTC was extremely high. However, there was concern that the credit was being given for expansion that would have happened anyway. As employment increased in 1978, attention was directed to modifying NJTC to limit benefits to the employment of the disadvantaged. The Targeted Jobs Tax Credit emerged from this process in September, 1978.<sup>6</sup>

Since that time there have been vehement opponents of the credit, as well as many supporters. The opponents of the program played a role in terminating it at the end of 1985. Ten months later, the program was reenacted, retroactively to its expiration date. This hiatus period introduces a special opportunity to evaluate the program. The very fact that it was reenacted, largely as a result of private sector lobbying, testifies to the niche the program has found in certain businesses.<sup>7</sup>

Despite the name, the Targeted Jobs Tax Credit is not primarily a tax program; rather, it is an employment subsidy to private businesses that hire

poor or handicapped job seekers from one of the targeted groups specified under the law. There are three concepts embodied in TJTC: subsidization as a means of increasing job opportunities; targeting of the subsidy on certain disadvantaged persons rather than upon all job seekers; and vouchering to allow job seekers to use the subsidy as they seek employment.

Subsidization was a concept behind a number of employment programs extending back to the early 1960's, such as the Manpower Development and Training Act (MDTA) which paid employers for part of the training costs of workers hired under on-the-job (OJT) training contracts. Under CETA, a large number of positions were subsidized at public and private non-profit agencies. There were problems with these subsidies, however. Private sector OJT was never widely used, partially because the paperwork and legal implications of OJT contracts discouraged businesses. In contrast, CETA public service job programs, which were originally counter-cyclical measures, never offered long term skill training to participants, even after being refocused on skill development. They often served more to subsidize the employer than the employee. In St. Louis, for example, the public service jobs program was clearly both a source of jobs to the underclass and a vital supplement to the city's budget.<sup>8</sup>

TJTC was one of the programs designed to find permanent jobs for the poor by subsidization of private sector jobs. Since it is redeemable only against the federal income tax of the employer, TJTC is inherently limited to jobs with businesses. It could not be claimed by public sector employers. To encourage widespread private sector use, the paperwork burden under TJTC was placed primarily upon government agencies and job seekers. Under TJTC, an eligible person had to have eligibility determined by an employment program authorized by the state employment security agency (SESA). The agency interviewed a job seeker and, if it found him or her eligible, issued to the job seeker a voucher redeemable by any employer hiring the worker. When hired, the employer took the form from the new employee, filled-in a few lines on the form giving the firm's name and address and the hire date and mailed the form to the SESA. After reviewing the form, normally a process taking a few days, the SESA mailed the employer a certification form authorizing the credit. The employer did not need to meet with public agency staff under TJTC. The employer did not sign a contract with the public agency. The original credit did not require any retention of the eligible worker and did not in any other way interfere with the hiring or employment process. The paperwork was ingeniously designed to fit within the loosely controlled, individualistic employment system in the United States.

The targeting of the tax credit on the disadvantaged emerged from previous experience with both the WIN and New Jobs Tax Credits. Within NJTC there was a small targeting component providing an extra credit for handicapped persons added to the work force. In addition, the WIN/Welfare Credit had always been a targeted subsidy. However TJTC, which was an amendment to the NJTC, radically changed NJTC by abandoning concern with growth, while focusing the subsidy upon firms which hired persons with certain characteristics. Originally, the targeted groups were:

1. Economically disadvantaged youth, 18-24 years of age,



2. Economically disadvantaged Vietnam era veterans,
3. Economically disadvantaged ex-felons,
4. Recipients of general assistance (GA),
5. Recipients of Supplemental Security Income (SSI),
6. Vocational rehabilitation clients, and
7. High school cooperative education students.

Subsequent changes in the Economic Recovery Tax Act of 1981 (ERTA) limited the cooperative education category to disadvantaged students and merged the recipients of Aid to Families with Dependent Children from WIN into TJTC. In 1982, the Tax Equity and Fiscal Responsibility Act (TEFRA) created a new group: 16 and 17 year old economically disadvantaged youth eligible only during the summer months. Sixteen and 17 year old youth could only qualify for credits during the school year if they were in cooperative education or if they were in some other category, such as being an AFDC recipient. While there have been these and other minor changes in definitions of eligibility, targeting has remained consistent for ten years.<sup>9</sup>

Vouchering the disadvantaged unemployed has been the most difficult part of TJTC to properly implement. Vouchering is the initial part of certifying that a worker entitles a business to a credit. It allows members of the eligible groups to get a form (voucher) redeemable for a tax credit by the business which gives the worker a job. While there have been many problems with vouchering, the process for issuing the forms, developed in 1978, has changed little. Many states continue to use vouchers which are nearly identical to the originals.<sup>10</sup>

In the original design of the program, it was assumed that vouchering could be begun in one of three ways.

- 1.) An eligible job seeker who wanted to use the credit as an aid in his or her job search could ask any local public employment program for a voucher and then offer it to any business where the job seeker applied for employment.
- 2.) An employer could ask a job applicant who seemed to meet program eligibility standards to go to the nearest public employment office to have eligibility determined. If found eligible, the public employment program would send the job seeker back to the employer with a voucher.
- 3.) Public agencies, such as state Job Service offices, Comprehensive Employment and Training Act (CETA) or JTPA offices, vocational rehabilitation agencies, parole and probation offices, and similar institutions were authorized in many states to issue vouchers to eligible clients being placed into jobs or sent on a job search.

If a vouchered job seeker is hired, the employer takes the voucher from the new employee, completes a few lines to identify the company, and mails the form to the appropriate state certifying office. The certifying office, by law, is a part of the state Job Service. That office checks eligibility documentation prepared on each vouchered individual at the time the voucher was issued. If the determination was complete and accurate, the certifying office mails to the employer a TJTC Certification on that individual. A job seeker can request a voucher on one day and not secure a job for a month or six weeks. Once the employer mails the voucher, however, the certification should be returned to the business within one or two weeks.

While this process appears simple, three complicating results followed. First, employment and training agencies repeatedly have had difficulty fitting vouchering into their goals. Second, many employers have not been successful at incorporating systematic use of TJTC into their personnel procedures. Finally, and largely as a result of the first two developments, TJTC has spawned a fourth initiator of vouchering -- in fact, a whole industry. Management Assistance Companies (MACS) or TJTC Consultants that assist employers in using TJTC.

MACS do not seek government funds to pay for their operations. Rather, their funds come from fees charged businesses to help secure certifications. At their best, the consultants are the private sector watchdogs of the program, supporting vouchering agency funding needs, goading agencies to process forms promptly, and pressuring the U. S. Department of Labor to provide timely guidance to the state agencies. At their worst, the MACS merely help corporate bureaucracies earn windfall credits by meeting the strict time requirements for filing TJTC paperwork. In many such cases, they are helping firms receive credits on persons who would have been hired without TJTC.

One of the complexities of TJTC in recent years has been the requirement that all credits must be requested on or before the hire date. While that requirement ostensibly prohibits retroactive credits, in fact, it has provided a marketing strategy for MACS. One of the basic services of the firms has been to assume responsibility for requesting credits on everyone employed by their clients. Consequently, the state Job Services are flooded with thousands of form letters requesting credits on every new employee of firms that retain MACS. Most of the people identified on these letters-of-request (LORS) are clearly ineligible for the credit. However, the letters must be sent on the day of hire, and there is no chance to perform thorough screening at that point. Later, perhaps several days or weeks after hire, MAC staff check to see if a person identified on a letter of request appears eligible. If so, the person is sent to the local Job Service for a "retroactive voucher."

The development of MACS has been one of the ways TJTC has evolved somewhat differently than initial supporters envisioned. Since the first reenactment of TJTC in 1981 there have been important criticisms of the credit's effectiveness, with some critics calling for the termination of the program. There have been at least four major criticisms of the program by

those who believe it should be allowed to expire:

- 1.) Persons hired under the program would have been hired anyway and, therefore, TJTC is merely a windfall to the employer;
- 2.) The hiring of TJTC eligible workers, at best, displaces others;
- 3.) Vouchering of disadvantaged job seekers has been more of a stigma to them than a help in their job search; and
- 4.) Utilization has been so low that it has affected only a small number of the eligible persons who have been hired.<sup>11</sup>

In contradiction to the last point, there have been worries by some Internal Revenue Service (IRS) staff that program utilization will become so great, since it is an entitlement, that costs to the treasury will soar.<sup>12</sup>

In addition to these criticisms, which relate to program design and program operation, there are more theoretical discussions of the utility of seeking to encourage greater employment of low wage workers. With the labor content of products declining, low wage employment incentives are not very attractive to most businesses outside the labor intensive service sector. However, there are those who believe these criticisms are incorrect.<sup>13</sup>

Supporters of wage subsidies point to the use of other government incentives which have encouraged intensive use of capital rather than labor as a reason for redressing the balance with programs such as TJTC. Not only have there been incentives to mechanize plants and procedures there have been other incentives to abandon cities. Some of these have been in place for over thirty years, and redressing the balance with urban employment incentives may take as long.<sup>14</sup>

The specific criticisms of vouchering, wage rates, and of the rate of utilization have been challenged by other students of TJTC. The vouchering tests appear to have been conducted in atypical communities or with inappropriate populations. Some have held that the low wages of TJTC workers are proof that the program is reaching the proper market. The disadvantaged population is only going to get jobs at low wages. The purpose of the program, they say, is to generate sufficient entry jobs that high unemployment rates among the disadvantaged will fall. Training and experience received on these initial jobs will allow the disadvantaged to move to better unsubsidized jobs. Others have seen the low levels of TJTC use as proof of the program's efficiency. Only those in real need of the program use it. Being labor market driven, the program is little used in areas with a small disadvantaged population. There is little need for a public agency to plan where the program will be utilized.<sup>15</sup>

However, the role of public agencies is a major factor in program use. While the program is an entitlement for businesses and job seekers determined to utilize it, there is considerable variation in the support for the program in different states and regions. Among those who support continuation of TJTC the role of agencies in program use is a major topic of concern. While

Vermont vouchered more than one third of its eligible job seekers in 1983, Colorado vouchered less than three percent of its eligible population. States such as Colorado have decided to voucher only persons hired by employers, thus making the program unavailable to job seekers. Other states have tried to reach as many eligible persons as possible.<sup>16</sup>

Understanding the reasons for agency attitudes about TJTC is important if the program is to continue and its effectiveness is to be improved. Factors in need of review include the formula for allocating administrative funding and the development of Job Service and JTPA performance standards that favor vouchering. Some agencies, such as those serving the handicapped, are consistently interested in TJTC. Others, such as some programs for welfare recipients, are reluctant to voucher. Yet, the most significant variation occurs between the Job Services in different states or different JTPA programs.

The variability of employer utilization levels, within the same industry, is another issue of major concern. Some companies have been very successful in maximizing TJTC credits, while others leave the size of credits to chance or even decline to participate. The effect of Management Assistance Companies (MACS) on company utilization rates is a matter that is hardly discussed in the TJTC literature, yet those companies have become intermediaries between the government and thousands of businesses. The policy differences among MACS is an important topic as well. Some MACS run free shuttle buses for their clients while others provide little more than a toll free number to call to have questions answered. Most students of TJTC relate variations in utilization levels to specific provisions in the TJTC law or to chance. There has been little attention to the variations in corporate culture that welcome or discourage participation in programs such as the tax credit.

At a minimum, the process developed by the MACS introduces the fundamental variable in TJTC vouchering. Controlling for retroactivity must be done if the impact of vouchering is to be measured. In many, perhaps most, cases TJTC is not an important part of the hiring decision of persons issued retroactive vouchers. Firms submitting such vouchers do not know, with certainty, that the job seeker is eligible at the time of hire. Of course, retroactive vouchers can result in certifications which encourage retention, so long as the MAC or corporate tax office informs the local manager that the certification has been received.

Most studies of TJTC have ignored the distortion which the work of MACS and of retroactivity generally add to the certification process.<sup>17</sup> One certification under TJTC does not mean the same thing as every other. Unfortunately only the critics of TJTC have been willing to consider this problem.<sup>18</sup>

- o If TJTC is to continue, it is important to make decisions about program design which will encourage MACS to promote the retention and earnings goals of the program.

Finally, there is considerable disagreement over the very purpose of TJTC. Is the program supposed to generate more job openings or is it to

encourage retention? Is it only designed to stimulate more job openings for the disadvantaged? One view would be that the employment problems of the disadvantaged result from a lack of job openings. TJTC's purpose, then, would be to promote more job offers being made to disadvantaged persons. Others see the problem as increasing the retention of the disadvantaged in the jobs they secure. The first view would assume that so long as there are sufficient job openings, other employment problems would be resolved. The second would hold that the disadvantaged are frequently hired, but they have difficulty changing the quality of their employment experience to find stable jobs. While the two goals are not necessarily incompatible, emphasis upon one or the other can lead to significantly different assessments of the meaning of program results. 19

While there are a number of ways in which to seek answers to the questions raised by the various critics and supporters of TJTC, a detailed case study, using earnings and demographic data from thousands of participants in a limited area provides more answers than more general approaches. Of course, there is the problem of extrapolating from the findings in two states to the nation. Yet aggregate national data can do more to conceal than to illuminate answers to the questions.

Missouri and Maryland are both typical of a number of other states and yet unique. They are states in which TJTC utilization was fairly extensive, especially in the early 1980's, the period studied in part of this report. By selecting two states with relatively active TJTC programs, the national implications of this study's findings are biased. The findings are not typical of those states where public employment program staff opposed the program so that little TJTC hiring has occurred. Studying such states would only prove that recalcitrant local public officials can make operation of a national program rather ineffective. This study seeks to determine if TJTC can have an impact, particularly upon participant incomes, if it is conscientiously, if not enthusiastically, administered by public agencies.

By focusing in detail on several urban areas with large numbers of unemployed and underemployed eligible workers and changing labor markets, this study shows how TJTC fits within the mix of employment and training programs which are used to address the employment problems of disadvantaged and handicapped clients, particularly youth. In its most personal terms, for example, does TJTC help a disadvantaged black male youth in North Saint Louis or in East Baltimore find a job more quickly or find a job that is better than one he would have found without TJTC? If he does get a job more quickly or a job better than one he would otherwise have obtained, does TJTC help encourage the employer to retain him in the job longer than without the credit?

In addition to the questions above, an important issue with TJTC, particularly because of its use by only a fraction of employers hiring the disadvantaged, is how much displacement occurs. Phrased in personal terms, was the job a program participant received taken from another disadvantaged worker who remains unemployed or did the credit allow the employer to create a job which would not have otherwise been created? This study cannot provide conclusive answers to that question.

By studying in detail the historic employment patterns, and current

economic conditions in the two states and, particularly, their three large cities, it is possible to understand the place of TJTC in the labor market. With some caution, fairly clear conclusions can be reached about the impact of TJTC in the areas studied. Most importantly, very clear and fundamental changes in TJTC are seen as necessary if the program is worth being continued.

## PART II

### EMPLOYMENT PATTERNS AND TJTC IN MARYLAND AND MISSOURI

There are many similarities between Maryland and Missouri. In population Missouri is slightly larger, with 4,917,000 people in 1980, compared to 4,216,000 in Maryland. The two largest metropolitan areas in each, Baltimore and St. Louis, have far more in common than either has with its state. Both are old cities which have experienced catastrophic declines in the manufacturing employment which once dominated their economies. The third large city in the two states, Kansas City, by contrast, has experienced less dramatic changes, with lower unemployment and poverty rates than the other two cities. In 1984 the metropolitan area unemployment rate for St. Louis was 7.3 percent, that for Baltimore was 5.9 percent, and for Kansas City 4.8 percent. With economic improvement, by 1988, the St. Louis rate had fallen to 5.7 percent, while that of Baltimore, 4.3 percent, was nearly as low as Kansas City's 4.2 percent. However, within the urban core, unemployment rates were much higher. In the midtown area of St. Louis and the Park Heights Section of Baltimore the unemployment rates were 15 percent when the cities had enterprise zones created for the areas. These rates would have been far worse had not so many people left the neighborhoods. The midtown area lost 30 percent of its population between 1970 and 1980, the Park Heights area 10 percent.<sup>20</sup>

As with the nation, both states have seen non-manufacturing employment rise, while manufacturing jobs declined. These similarities extend to their largest urban areas. Table I below shows the changes from the mid-1970's to the mid-1980's.

TABLE I

#### EMPLOYMENT CHANGE BY INDUSTRY: SELECTED REGIONS AND YEARS

	NON-MANUFACTURING EMPLOYMENT		MANUFACTURING EMPLOYMENT	
	1970'S	1980'S	1970'S	1980'S
MARYLAND	1,239,100	1,583,600	254,000	218,100
Baltimore City	261,900	225,800	105,100	59,700
Baltimore Metro	405,300	538,600	199,700	158,400
MISSOURI	1,337,900	1,406,000	451,600	418,800
Kansas City Metro	315,100	428,700	131,900	124,800
St. Louis City	243,400	194,600	132,600	72,000
St. Louis Metro	489,500	648,200	287,500	224,900

NOTE: Statewide figures are for 1974 and 1984, Baltimore Kansas City and St. Louis figures are for 1970 and 1982.<sup>21</sup>

There naturally are differences between the two states. Being much smaller geographically than Missouri, yet having two major metropolitan areas,

Baltimore and half the suburbs of Washington, D. C., Maryland is more urbanized. While 80 percent of Maryland's population is urban, 68 percent of Missouri's lives in metropolitan areas. The larger rural area in Missouri is populated by a larger share of the poverty population than in Maryland. In Missouri, half the poor live outside the two large metro areas, either in the smaller cities or rural counties. By contrast, only 20 percent of Maryland's poverty population lives outside the two biggest metropolitan areas. In Maryland 43 percent of the state's poor live within Baltimore City. In Missouri seventeen percent live in St. Louis City. These population figures are reflected in TJTC activity, with Missouri having 53 percent of vouchers issued by offices inside the two large metro areas. In Maryland, 73 percent of the vouchers in 1987 were issued in Baltimore City.<sup>22</sup>

The difference in the proportion of the state poverty population residing in Baltimore and St. Louis is deceptive. The relative size of each city within its state is the variable. Baltimore is home to one in every six Marylanders. St. Louis is home to only one of every twelve Missourians. Comparing simply the populations within the city limits of the two cities shows the real similarities. The percent of people living below the poverty level was 22.9 percent in Baltimore and 21.8 percent in St. Louis. The minority population also was comparable: 54.8 percent in Baltimore and 45.6 percent in St. Louis. The cities share several other economic and political features which have special relevance for the administration of employment and training programs.<sup>23</sup>

Except for a number of small cities in Virginia, Baltimore and St. Louis are the only two independent cities in the United States. What that means is that the two cities are not in a county. Both are surrounded, in fact, by a namesake county which houses affluent suburbs, small poverty populations, and successful retailing, business service and manufacturing areas. The largest private employer in both metropolitan areas is a suburban defense contractor: Westinghouse at the Baltimore Washington International Airport and McDonnell Douglas at Lambert Field. Both cities have lost major manufacturing industries, particularly in primary metals, chemicals, and similar basic industries. Once, Baltimore was one of the largest copper refining cities in the world. It has no copper refineries today. St. Louis was a major meat packing city. That activity is insignificant today. St. Louis did succeed in gaining a number of automobile manufacturing firms to replace the non-durable goods industries that had dominated the economy before World War II. Unfortunately, within the city, the last automobile plant has closed. Replacing the manufacturing jobs once common in the cities, have been highly skilled white collar positions and some service jobs, particularly in the hotels and shopping areas each city has carved from the declining urban core. The number of jobs requiring less than a high school education have fallen in Baltimore from 207,000 in 1970 to 132,000 in 1985; in St. Louis the decline was even greater, from 210,000 to 117,000. At the same time, in Baltimore jobs requiring more than a high school diploma increased by 34,000, and in St. Louis, they have remained stable. The cities share another economic development link. The Baltimore based Rouse Company has been responsible for the major economic development success in both communities: Harbor Place in Baltimore and Union Station in St. Louis.<sup>24</sup>



The changes in recent decades have been particularly devastating to the black communities in both cities. Both cities shared similar ethnic experiences. They were centers of the old immigration of the mid-nineteenth century, with comparatively few later arrivals. In place of the later immigrants as a source of common labor, both cities turned to influxes of blacks from neighboring states deeper south. Between 1900 and 1960, the black population of St. Louis doubled every twenty years. The net white population in that era declined by 4,079. The Baltimore black community experienced the same type growth.<sup>25</sup>

In the early 1900's, both cities provided relatively good opportunity to blacks from the deep south. Both were changing from centers of commerce to manufacturing giants.<sup>26</sup> In a pioneering study of the St. Louis black community, in 1913, William Crossland noted,

The great demand for unskilled labor has probably increased the common labor group, which constitutes 29.1 percent . . . of the total number of workers. As a group it is more desirable for colored workers than the personal service group, because wages are better, conditions of toil more free, and service less menial. . . . The factory occupations offer the Negro the opportunity to acquire skill, and earn more wages. . . . It is safe to predict that the number of factory occupations entered by the Negro will increase, and likewise the number of workers. It is an encouraging fact that St. Louis, unlike other cities, has her Negro workers divided more or less equally in several unskilled occupations.<sup>27</sup>

While Crossland seems to have been correct in assessing the value of manufacturing opportunities, his prediction for job growth appears less accurate. The number of wage earners in manufacturing in the city grew to 107,919 in 1920, remained stable through 1930 and then declined greatly with the Depression. The 1920 number was only briefly surpassed during World War II. By 1958, there were 7,000 less manufacturing jobs in the city than in 1920. Today less than 30,000 people work in manufacturing jobs. The number of manufacturers fell from 3,205 in 1920 to 1,461 in 1972.<sup>28</sup>

Of course, the decline in urban manufacturing jobs affected all city residents. But the response of different ethnic groups, or rather the ability of different ethnic groups to respond, was not the same. Sandra Schoenberg and Lee Rainwater have investigated the differing responses of black and white neighborhoods in St. Louis to the declining job opportunities of the last half century. Residents of such neighborhoods as Soulard and The Hill were able to establish ties outside their neighborhoods. For example, Schoenberg describes the transition in the Hill during the Depression era as follows:

From the end of the First World War until the Second World War we see a period of economic growth on the Hill which culminated in . . . the emergence of an Italian business community with ties outside the immediate neighborhood. Politically, the Hill emerges as a delivery ward for the Democratic Party in the 1920's. . . . This factor enlarged the pool of patronage jobs available to local residents at a time when the brick yards and clay mines provided fewer and more limited opportunities

for a generation of Italians who spoke English and who were prepared for ties in the larger society.<sup>29</sup>

For black neighborhoods, few opportunities to establish ties outside the neighborhood existed. As Schoenberg noted: "Between 1920 and the Second World War, the black residents of the Ville witnessed increasing exclusion from American institutions and a growing limitation on their access to homes and neighborhoods in St. Louis."<sup>30</sup> Ironically, after racial integration was mandated and neighborhoods such as the Ville in St. Louis or the Madison Avenue area of Baltimore lost their unique role as centers for black middle class life within the city, disadvantaged urban blacks saw an additional link to the wider society and its economy disappear. The era of warehousing vast numbers of excess black laborers in the Pruitt-Igoes of the two cities had arrived.

In Kansas City, the opportunities for blacks were slightly different from those in the two larger cities. As did Baltimore and St. Louis, Kansas City had a comparatively large black population before most other large cities. In 1912, when Washington and Atlanta had the two largest black populations, Baltimore had the third largest, St. Louis the sixth, and Kansas City, which was only one ninth the size of St. Louis, the fifteenth largest. Thus, the proportion of blacks in Kansas City was higher than in St. Louis. More importantly, in contrast to St. Louis, Kansas City blacks were finding opportunities outside personal service. Only 29 percent of Kansas City blacks worked in personal service occupations, compared to 40 percent in St. Louis. Sixty-eight percent of Kansas City blacks worked in laboring positions, either in factories, construction, or with the municipal railroad. As Crossland had noted in St. Louis, many of the laboring positions, particularly those in factories provided a real opportunity to escape the worst poverty. At the Armour Packing Plant, there were black foreman who supervised whites. Fully 14 percent of the Armour workers were black and management believed blacks had "greater ability than the white[s] to do hard work." While there may have been greater opportunity in Kansas City than in the two older cities, the opportunity must be approached with a proper sense of perspective. In 1910, the per capita wealth of Kansas City blacks was only eighty dollars, compared to \$667 for whites. As St. Louis and Baltimore, Kansas City has experienced a decline in manufacturing jobs in recent years, removing an excellent source of job opportunities for the disadvantaged.<sup>31</sup>

It is necessary to place the decline of manufacturing jobs in the proper historical perspective. The period during which cities such as Baltimore and St. Louis were manufacturing giants was comparatively brief. They rose to wealth and importance as commercial cities. Only around the turn of the century did manufacturing come to dominate the local economies. By the 1930's, if not earlier, manufacturing was in decline, to be revived only briefly by the boom during World War II.

Furthermore, the decline in central cities, with the relative growth of suburban areas has been a trend throughout the industrial world. The problem for the disadvantaged in Baltimore, St. Louis, and Kansas City is that the manufacturing era, which provided an opportunity to escape the second class labor market, was short-lived. Particularly for minorities suffering from the

effects of discrimination as well as poverty, manufacturers valued their services as few other industries. Thus it is important to understand factors that encouraged employers of the industrial era to offer opportunities to the disadvantaged. It is necessary, also, to remember those government policies which reduced the competitive advantage of the cities, from massive public works, such as interstate highways; tax incentives for investing in machinery and new plants; and housing and other policies that favored suburban development. These measures, favoring the abandonment of the urban core, compounded the employment problems of the urban disadvantaged. Those problems were becoming severe because of the relative decline in manufacturing throughout the nation. 32

It is in this context that employment and training programs of the 1960's and 1970's were developed, including the Targeted Jobs Tax Credit. The structure of these programs and the agencies administering them must be reviewed if the impact of TJTC is to be understood. The differences in program structure and administration between St. Louis and Baltimore on the one hand, and Kansas City on the other, provide a fascinating opportunity to view the significance of management upon the success of an economic incentive. As one Kansas City administrator said, "Things work better in Kansas City. We are the first western city and St. Louis is the last eastern city."

The roles of the state Job Services and of local job training programs funded under the Job Training Partnership Act (JTPA) vary greatly in Maryland and Missouri. However, there are many similarities in the way the agencies interact in Baltimore and St. Louis. In both cities the JTPA staff believe the priorities of the Job Service differ from their own. They see the Job Service as seldom being concerned with general employment policy but only with placing individuals. Both JTPA programs sponsor summer jobs programs that use key community leaders to get job pledges. The Job Service is on the sidelines during such efforts. In Baltimore, JTPA staff view the Job Service, at best, as unresponsive to urban job training issues. This perception exists in spite of the agency being headquartered in Baltimore and not in the capital, Annapolis. In St. Louis, staff of the JTPA program, the St. Louis Area Training and Employment (SLATE) agency, see the Job Service headquarters in Jefferson City as a bureaucracy dominated by rural interests.

Job Service staff in Baltimore and St. Louis share opinions of JTPA. They feel that JTPA tries to monopolize job openings in the city. JTPA agencies in both cities have had city economic development officials include contractual wording in publicly assisted development projects requiring that jobs be offered to the JTPA program. The Job Service staff feel they could fill some of these jobs with persons not participating in JTPA. Job Service staff feel frustrated as well with the publicity gained by local JTPA staff for summer jobs programs. They feel JTPA takes credit for obtaining employment that does not meet the strict Job Service definition of a job placement. The Job Service placement rules in both states restrict placement credit to only those situations where the staff actually refers persons to specific job openings.

Placement rules also make urban job service staff very critical of TJTC. In urban offices in Baltimore and St. Louis, staff feel TJTC is primarily a

windfall for fast food and service employers and their MACS. The downtown St. Louis office does not even issue vouchers except on Friday afternoon. That time is reserved for persons referred either by their employers or by SLATE. In Baltimore the central office will voucher job seekers, however, it primarily vouchers persons referred by private employment agencies or MACS.

There are several important differences between the JTPA programs in Baltimore and St. Louis. First, the Maryland Job Service has allowed the Mayor's Office of Employment Development, the local JTPA program, to issue vouchers. Thus in Baltimore, TJTC serves as a mode of coordination between JTPA and the Job Service. In St. Louis, the Job Service monopoly on vouchering has turned TJTC into one more reminder of the turf battles between the Job Service and SLATE. Secondly, the Office of Employment Development is more interested in directly administering training and placement programs than is SLATE. Thus the Office of Employment Development is more involved in promoting TJTC than is SLATE.

The city JTPA programs in Baltimore and St. Louis are similar, however, .. the relationship of urban and suburban employment and training programs. In contradiction of all labor market trends, the namesake counties which surround the two cities have been designated as separate Service Delivery Areas (SDAS) under JTPA and have established totally different job training agencies. Of course the suburban programs are quite willing to give the depressed labor market of the urban core to the city SDA, while they monopolize the booming suburban job market. Ironically, with the tightening suburban labor market in the past two years, both the Baltimore County and St. Louis County JTPA programs have moved to open training slots to city program participants. In fact the announcement of the two cooperative agreements were nearly simultaneous.

While the JTPA programs have been moving toward increased cooperation, the Job Service offices have been losing sight of their common goal of serving a regional labor market. Particularly in Maryland, the two offices in Baltimore County have been seeking to restrict the visits of employer relations staff from city offices to high growth areas of the county.

In contrast to the relationship of agencies in St. Louis and Baltimore, the relationship of employment and training agencies in Kansas City is completely different. If being western means working-out logical cooperative agreements, then Kansas City is truly the first western city. Unlike St. Louis where the line between the city and the county is nearly insurmountable and the divisions between the Job Service and SLATE impervious to bridges, in Kansas City the only line which is difficult to bridge is the Kansas boundary. While the suburbs of Jackson County have a separate Private Industry Council from that in Kansas City and the other metro counties, both PICs rely on the Full Employment Council to administer the metro areas JTPA programs. The state Job Service provides all intake and placement services for the Full Employment Council. Since the Job Service also vouchers for TJTC, the tax credit is fully integrated into the JTPA and Job Service placement systems of the region. The only distinct area program is for younger summer employees. A separate office places disadvantaged youth under 18 years of age. Since most of its placements are in the public sector, there is little utilization

of the special summer youth credit under TJTC.

In the other areas of Maryland and Missouri, the relationships of the Job Service and JTPA agencies vary greatly. In most rural areas of Maryland and many in Missouri, the Job Service is the primary service provider for all employment and training program intake and job referral, playing a role much like that in Kansas City. In more urbanized areas, such as in Prince Georges County Maryland, in the suburbs of Washington, the JTPA program functions independently of the Job Service. In Prince Georges County, the JTPA program has sought to take control of job placement from Job Service. Yet JTPA has performed little vouchering in recent years in the county, while the Job Service office in the county has been the second most productive vouchering office in the state.

While some rural areas in the two states are prosperous, both states include regions with high unemployment and high rates of poverty. In 1982, when Missouri per capita income was \$10,403, thirteen counties, all in the Ozarks, had per capita incomes below \$6,000. Reflecting the comparative wealth of urban areas, even St. Louis City had a per capita income slightly above the state average. In 1983, Maryland's per capita income stood at \$13,047, one of the highest in the nation. Yet that rate was distorted by the extremely high levels around the nation's capital, where Montgomery County's average was \$19,738. The low income areas of Maryland, however, were in the three far western counties (a part of Appalachia) and the lower Eastern Shore. In the little Dixie region of Southeast Missouri, unemployment rates stood at 18.2 percent in Dunklin County and 16.6 in Pemiscot County.<sup>33</sup> Both here and in Maryland's lower Eastern Shore there were large numbers of poor rural blacks.<sup>34</sup>

Some of the rural counties provide interesting tests of TJTC utilization. Particularly in Western Maryland, where there are six state Enterprise Zones, offices have frequently combined TJTC and Enterprise Zone Tax Incentives to offer employers state and federal wage subsidies in excess of \$7,000 per worker. Rural offices in Missouri have heavily vouchered eligible people. In 1983, sixty percent of the 16 and 17 year old youth vouchered under the special TJTC summer credit were found eligible in offices outside the two big metro areas. While much of this paper will focus on urban employment, the non-urban areas should not be completely ignored.

The Job Service and JTPA programs in both states share one common problem, significant budget cuts since the early 1980's. For instance, in the year ending June 30, 1984, Baltimore City receive \$7,594,609 in JTPA Title II-A. By 1987, Title II-A funding had fallen to \$6,872,472. Those cuts which have reduced the JTPA funds available to subsidize OJT have increased the interest in TJTC, at least in the Baltimore and Kansas City JTPA operations. Yet, both JTPA and Job Service staff have been cut, reducing the likelihood than as many TJTC vouchers will be issued in the late 1980's as in 1982.<sup>35</sup>

While prosperity has returned to much of the country, including the St. Louis and Baltimore metropolitan areas, the serious employment problems of the disadvantaged in North St. Louis or East or West Baltimore, or in the Appalachians and Ozarks, indicate some federal employment and training subsidy might be needed. However, there is no reason from the above to believe TJTC

is the proper form for such a subsidy or if a subsidy will work to increase the employment opportunities of the poor. The next part of this paper will look at the long term income histories of a group of 1982 TJTC participants in the two states to see if they benefited from the program.

## PART III

### THE IMPACT OF TJTC UPON PARTICIPANT INCOMES

This study is a continuation of a report that focused upon the income experiences of TJTC participants hired in Maryland and Missouri. The findings of this section are a necessary first step in answering the question of whether TJTC has a positive economic impact. If program participants experience significant gains in earnings, there is at least some value in TJTC. If earnings gains are not found, then TJTC has been unsuccessful and should be allowed to expire. While the measurement of changes in earnings can tell much about programs such as TJTC, there are limits to what can be known.

In this study, earnings for a year before participation in the program are reviewed to provide base data. While that is a relatively long time, a longer period would be even better, since many people experience spells of poverty for more than a year followed by return to higher earnings. Even one year of data may be insufficient then to assure that apparent income histories are real and not aberrations.

More frustrating are the results of earnings analysis. The results of this study are fairly clear. There seem to be short run positive changes associated with TJTC participation, but, for most participants those changes are transitory. Despite a large amount of demographic data on the persons studied it cannot be known with certainty what caused the results. Furthermore, even if fairly clear income gains are noted, it must be remembered that income is not the only measure of success. Finally, the longer term results are particularly subject to misinterpretation.

Long term earnings are used in this study to see if program participants changed their pattern of employment and income after being hired under TJTC. That is the basic question behind this project. However, there cannot be any claim that a two year tax credit caused earnings to be either high or low five years after hire under the program. What the study shows is what were the long-term employment experiences after participating in TJTC. There is no claim that TJTC caused certain patterns of earnings several years after the credit ended.

The methodology used in the study of earnings, particularly, the definition of the comparison group, are important issues that relate to the interpretation of data. For a fuller discussion of the origins of the study and the methodology, the 1985 report, The Targeted Jobs Tax Credit: An Assessment, should be consulted. The procedures are reviewed briefly below.

#### Measurement Procedures

To measure the impact of TJTC upon participants, the initial study tracked the incomes and work histories of persons hired under TJTC (on whom a tax credit certification was requested) over a three year period, beginning one year before employment under TJTC and extending two years after the hire date. The present study extends the post-hire income tracking for three

years. The experiences of a comparison group of persons eligible for the program were tracked, as well, to provide a standard against which changes could be measured. Included in the study were 1,017 persons hired under TJTC in Missouri and Maryland in the first six months of 1982 and a comparison group of 791 persons found eligible in those states in that time period but not hired under TJTC. Maryland and Missouri were selected not only because they vigorously utilized TJTC as an employment incentive but also because those states included a representative sample of industries, unemployment rates, and per capita incomes. The time of hire, early 1982, was determined by the fact that it was the most recent period after which two full years of income data were available. It also came after major legislative and administrative changes in the program, resulting from passage of the Economic Recovery Tax Act of 1981. Because income data from only two states were used, the results may not be representative of results for the entire country; however, there is no reason to believe the two states were atypical.

The incomes and work histories of the persons hired and certified under TJTC are examined beginning with the first full calendar quarter after hire, since the wage records were by quarters. Records were tracked for eight consecutive quarters from 1982 through 1984. The present study added income from July 1985 to June 1986 and July, 1986 to June, 1987. Incomes were also checked for the four quarters of 1981, the year before hire. Thus for each worker hired under TJTC six years of income data have been reviewed. While comparing the five post-hire years to the one pre-hire year provides some measure of program impact, the earnings of a comparison group have been tracked for a six year period to provide a reference point for the results. The comparison group is composed of persons vouchered for TJTC during the first six months of 1982 in the two states but never hired under the program.

Selecting the comparison group from among those vouchered but not certified has both advantages and disadvantages over using a random sample from the general population. Positively, the procedure assures that members of the group were sufficiently active in the labor market in early 1982 to have sought out the TJTC eligibility determination office in their community, just as those vouchered and hired. A number of potential variables related to the character of the job search, such as, dependence upon public employment programs, have been eliminated from consideration by selecting the comparison group from among persons vouchered. Negatively, using this selection criterion introduced a potential difference between the comparison group and those hired under TJTC. Those hired under the program were known to have secured a job during the selection period; the comparison group members did not have to do so. If the TJTC participants experienced only temporary gains immediately after being hired, this selection procedure might have exaggerated the significance of those gains relative to the comparison group. Alternative methods for selecting a comparison sample, however, appeared to raise more serious possibilities of biasing the results.

To reduce the number of variables, only persons from the four largest groups eligible for TJTC are included in the study: low income youth, eighteen to twenty-four years of age; recipients of Aid to Families with Dependent Children; Vietnam era veterans; and vocational rehabilitation clients. These four groups accounted for 83 percent of persons found eligible nationally in



1984. The smallest excluded group, recipients of SSI, included less than one percent of all eligible persons. The other excluded groups are low income summer employees, under 18; general assistance recipients; cooperative education students; and low income ex-felons. There are several reasons for excluding these groups. The economically disadvantaged summer employee category was not a category until 1983, the year after the hire period used in this study. It is studied by a different procedure described in Part IV of this report. Since the general assistance and AFDC groups are similar in that both include "welfare recipients," only the larger was included in the study. The other two excluded categories, the cooperative education students and the ex-felons are excluded because different methods of evaluating program impact are needed for them.

Another factor in sampling is the timing of the voucher relative to hire. Since many persons on whom tax credits are received are hired before eligibility is determined, it is imperative that two groups of employed individuals be maintained. Those issued a voucher before hire and subsequently hired under TJTC are the first group, called the vouchered group. Those determined eligible after hire are called the retroactively certified, since the credit was certified based upon information supplied after hire. While some employers of the retroactively certified may have assumed they would receive a tax credit on the worker at the time of hire, it is not known with certainty that they believed the worker was eligible. It is assumed that the employers of vouchered workers knew the credit was available, since they submitted the voucher given them by the worker before the worker began employment. By keeping the vouchered and the retroactively certified groups distinct, any differences in incomes or work histories which might have resulted from the timing of the determination of eligibility can be measured.

In addition to the different targeted groups and the timing of the eligibility determination, several demographic factors affected the numbers selected in the samples, including race, sex, and age. Sampling by these factors both eliminates variables and insures sufficiently large samples by race and sex so that conclusions can be reached for targeted persons with specific race and sex characteristics. Since youth under 25, in all categories, make up over half of certifications in each year, particular attention is given to youth. Half of each of the three samples are youth under 25 years of age, stratified between white males, white females, minority males, and minority females. Because persons can be eligible in more than one group, such as an AFDC recipient under 25 years of age, sampling for the non-youth groups is restricted to persons over 24 years of age. AFDC recipients and vocational rehabilitation clients under 25 are included in the youth sample. Vietnam era veterans were not found under 25 years of age in 1982. Consequently, the categories used in this study are more discrete than those eligible for the program.

The comparison, the vouchered, and retroactively certified groups were to include in each state no more than the following number of persons with the

indicated characteristics:

Characteristic	#	Characteristic	#
Youth		Vietnam Era Veterans	
White male	50	Minority males	25
White female	50	Minority males	25
Minority male	50		
Minority female	50	AFDC Recipients	
		White females	50
Vocational Rehabilitation clients		Minority females	50
White male and female	25		
Minority male and female	25		

Hence, at most 1,200 individuals were to be tracked in each state, four hundred with the above characteristics, in each of the three groups.

Using Maryland as an example, these samples were pulled from populations of the following sizes. There were 4,069 persons from whom to draw the comparison group, 976 for the vouchered, and 725 for the retroactively certified. Of the 4,069 in the comparison group, 2,144 were youth, 1,311 AFDC recipients, 324 Vietnam era veterans, and 290 vocational rehabilitation clients. The vouchered group included 499 youth, 291 AFDC recipients, 88 Vietnam era veterans, and 98 vocational rehabilitation clients. The retroactively certified population totalled 652 youth, 48 AFDC recipients, 14 Vietnam era veterans, and 11 vocational rehabilitation clients. One result of these subtotals was that the retroactive group, in both states, included fewer than 400 total members, since the total population of retroactive participants contained fewer than the maximum projected sample in the veteran, welfare, handicapped and certain youth categories.

Two sources of data are used to describe characteristics of the samples, to measure the incomes, and to track the employment histories of individuals. First, TJTC program records (the TJTC applicant characteristics forms and employer vouchers) provide data on the following: age, residence (urban or rural), and date of participation. For those hired under TJTC, those records also list the starting wage and the job title of the position into which the worker was hired. Unemployment insurance wage records give gross income information on each individual, with reported earnings from January 1981 through June 1987.

There are several important limitations in these data sources. For example, since the employer vouchers for those hired under TJTC often are submitted before the job seeker begins employment, it is possible that the employment anticipated on a few of the forms never materialized. The unemployment insurance wage data in Maryland and Missouri do not provide wage information from other states. If a worker from St. Louis crosses into Illinois to work, for example, income from that job would not appear on the records. Another limitation of the unemployment insurance data is that only wages are reported. Self employment income is not revealed. Finally, a small percentage of employment is not covered by the unemployment insurance system.

These limitations might result in some underestimation of incomes; however, there is no reason to believe the resulting inaccuracies are more prevalent among either the comparison or certified groups.<sup>36</sup>

While none of the limitations above should bias the results of the study in favor of one group, there are some fundamental limitations in attempting to assess program impact by tracking wage and related records over a three and a half year time period. Care is required to interpret properly the meaning of the data from the year before eligibility. This information is collected, primarily, to check the similarities among the three groups. For the categories other than youth, one year of earnings data is too little to make generalizations upon the individuals' long term earning patterns. For youth, averaging 21 years of age on June 30, 1982, the 1981 earnings are from the 19th or 20th year of age for the average individual. Whether or not the youth participated in TJTC or any other program, some earnings gains would be expected for a six year time period, at the end of which the 19 year old from 1981 would be 25 years of age. The importance of the comparison group, considering these limitations, is that it provides a standard against which to make a relative comparison of program impact.<sup>37</sup>

In both states, problems have been encountered in finding a full complement of eligible persons with certain characteristics. Ultimately, 1,808 individuals are included in the study, not 2,400 as planned. The original study noted two important findings inherent in this smaller number.

- o The vouchered group did not have 800 cases because 109 individuals selected from state certification records did not really begin employment for the employer receiving the certification. While it had been assumed that this problem would be encountered to a small extent, with initial sample sizes adjusted upward, accordingly, the magnitude of the problem resulted in lower than expected usable samples in both states. Likewise, a few of the retroactively certified were lost for the same reason.
- o Only the two white youth groups among the retroactively certified had a full number of cases. In fact, five of the categories among the retroactive participants had fewer than twenty members in the two states and were dropped from the study. The minority youth and the minority AFDC categories among the retroactively certified had sufficient numbers to be studied only when the entire population of TJTC participants with those characteristics, not a sample, was included.

Table 2, below, shows the number of persons in each group, by characteristic, included in the study.

TABLE 2

## CHARACTERISTICS OF SAMPLE, BY GROUP, MARYLAND AND MISSOURI

CHARACTERISTIC	COMPARISON GROUP	VOUCHERED GROUP	RETROACTIVE GROUP	ALL GROUPS
White male youth	99	87	92	278
White female youth	100	90	93	283
Minority male youth	96	86	66	248
Minority female youth	99	84	64	247
White voc. rehab.	49	38		87
Minority voc. rehab.	50	37		87
Minority Viet. vet.	50	34		84
White Viet. vet.	50	48		98
White female AFDC	100	72		172
Minority female AFDC	98	87	39	224
GROUP TOTAL	791	663	354	1,808

## Short-term Impact of TJTC Participation

The 1985 study found that the vouchered group and the comparison group were remarkably similar in 1981, the pre-employment period. The retroactive group, while also quite similar, showed a significantly higher pre-TJTC employment income for the white youth and a significantly lower rate of receipt of unemployment insurance. Nearly half of each group were residents of central cities, however, again the retroactive participants differed from the vouchered group. Only six percent of the retroactively vouchered were from rural areas, in contrast to seventeen percent of the vouchered. The low proportion of rural retroactivity probably resulted from the locations of the businesses which are familiar with the retroactive provisions of the law.

Table 3, below, shows the mean income by category for each of the years covered by the two studies. Generally, in 1982/83, the first year after eligibility, there is a significant increase in the average (mean) earnings of the members of the two TJTC participant groups relative to the comparison group. The change in group average (mean) incomes indicates the magnitude of the comparative increases within each category. For example, while the comparison group average (mean) income increased from \$1,301 in the year before eligibility to \$1,836, the vouchered went from \$1,469 to \$4,115. The retroactively certified income increased from \$1,375 to \$3,900. The comparison group income increased by 41 percent compared to 180 percent for the vouchered and 183 percent for the retroactive.

- o All categories among the certified groups experienced 1982/83 earnings significantly higher than their counterparts in the comparison group.

- o It is important to remember that because samples in this study were balanced by race, sex, age, and group, the group averages CANNOT be interpreted as averages for TJTC in general.

In general, the trends of the first year after certification continued into the second year, with some notable exceptions and with the gap between the comparison group and the two other groups being reduced considerably. In the two veteran categories among the vouchered, which had shown the least percentage difference in the first year relative to the comparison group, there was not a significant difference in second year earnings. The mean income of the small retroactive minority AFDC recipient category fell below the mean income of the comparison group.

In the first two years of employment, half of the persons hired under TJTC departed their job before the employer received \$1,000 in credits. Since the credit was 50 percent of the first year wages at the time, that meant half earned less than \$2,000 with the TJTC employer.

A detailed review of the experiences of youth participants is instructive. In the first year after hire, while 11% of the youth in the comparison group earned \$5,000 or more, 35 percent of the vouchered group earned at least that amount. Even more importantly, only three percent among the comparison group had income above \$8,000, while 16 percent of the vouchered had achieved that income. In the second year, 23 percent of the comparison group had achieved at least \$5,000 in income, but by then 38 percent of the vouchered had that amount. Only 10 percent of the comparison group was found above \$8,000, while among the vouchered there were 22 percent.

- o An important point is that the average program impact was not a result of raising the incomes of all youth who participated by increasing the length of employment slightly or reducing the job search period for all. Rather, the average impact came from assisting a minority of eligible persons to significantly improve their employment prospects, while leaving the majority of participants unaffected by their participation (at least in terms of mean earnings).
- o Directly related to the income gains of a minority of TJTC participants, the credits received by the employers of the most successful were much higher than those received on the less successful.

The patterns of credit usage are extremely significant. Only six percent of persons earning under \$5,000 in the first year made their employer qualify for credits in excess of \$3,000. In contrast, 68 percent of those earning over \$5,000 stayed with the initial employer long enough for at least \$3,000 in credits to be earned, and 33 percent of this higher earnings group entitled their employer to the full two year credit which existed under the old law. These facts challenge the theory that the subsidy under TJTC could be much lower without affecting impact. Most of the smaller credits were wasted, in that they came from employment of no greater duration or human capital development potential than that which eligible workers found on their own. These patterns become no less pronounced with the inclusion of three additional years of earnings data.

## LONG TERM INCOME HISTORIES

A review of the average incomes of the participants as well as the control group for the year ending June 30, 1987 is both positive and negative. Positively, average incomes have risen significantly. For example, the typical minority male youth, hired under TJTC in early 1982 after being vouchered, had \$1,516 in paid income in 1981. By 1987, the annual figure rose to \$5,487. For the comparison group, the comparable figures are \$1,155 and 4,277. Initially, it appears that minority youth were doing much better in 1987 than in 1981, and the TJTC participants were doing better than non-participants. However, such an assessment is not fully accurate.<sup>38</sup>

There are several reasons why the average income gains from 1981-1987 are not very encouraging. Continuing the focus on minority male youth, \$5,487 is a dismally low annual income for a 26 year old man. It highlights the magnitude of the problem described by William J. Wilson of "a shrinking pool of 'marriageable' (that is economically stable) men" in urban America.<sup>39</sup> While minority males hired under TJTC experienced significantly greater short term earnings gains, the long-term income fell. The difference between the vouchered and comparison group incomes on average are no longer significant in 1986/87. The simple message from these numbers is that TJTC may have provided short run help but not sustained assistance. The 1986 changes in the program only intensified this effect, abolishing the second year credit and reducing the first.

Turning to all categories in the study, the patterns noted for minority males are typical. The trend of average (mean) income after participation in TJTC is one of rapid increase in the first year with a leveling off in the last years. The comparison group members, by contrast, displayed less spectacular increases in income each year, which after five years brought them nearly level with the income levels of most participants. Table 3, below, and Figure 1, show this trend.

Most participant categories do have higher mean incomes in 1987 than the comparison category, but not significantly so. Retroactive youth (except for minority females), white vocational rehabilitation clients, and welfare recipients maintain significantly higher earnings in 1987 than their counterparts in the comparison group. Most other participant categories are only modestly ahead of similar categories in the comparison group after five years. The differences are no longer significant. A few, including the two Vietnam-era veteran groups and the retroactive minority welfare recipients are actually behind the comparison category.

Further investigation of patterns of income gains by sub-categories among participants, however, reveals there are patterns of significant long term income impact. In certain cases, TJTC does seem to encourage more job seekers and employers to enter into sustained employment relations which are likely to break the poverty cycle. The key to understanding how to make the credit have more impact is to find those factors in participant employment experiences that correspond with sustained, significant income advantages over the comparison group. The most important pattern may be the positive correlation between the size of the first year credit and long-term earnings.

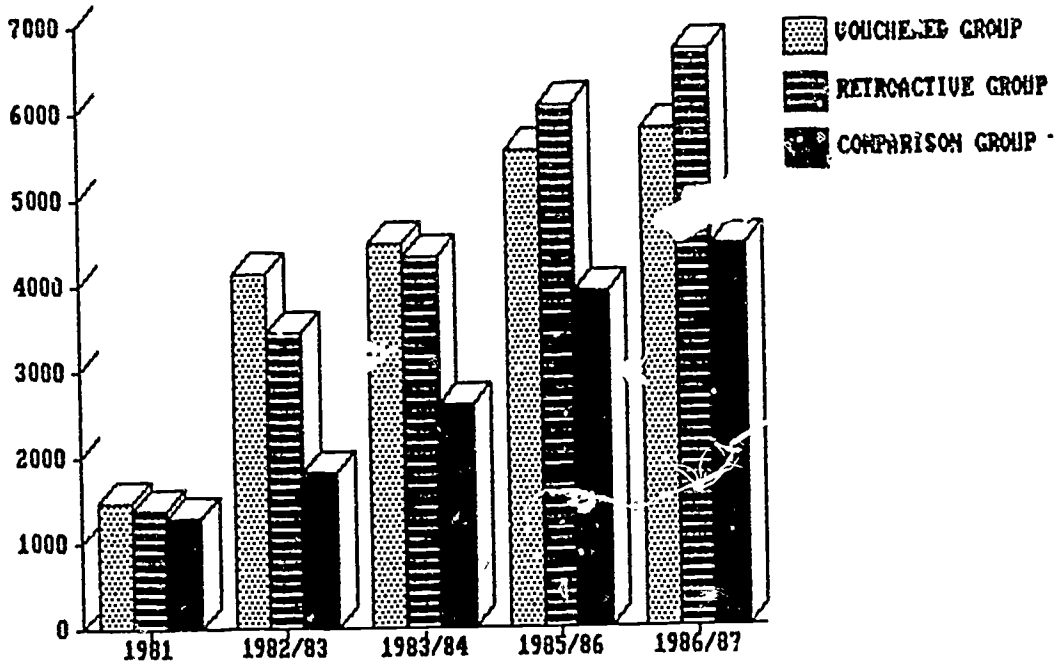
TABLE 3  
MEAN INCOMES, BY GROUP AND YEAR

GROUP	1981	1982/83	1983/84	1985/86	1986/87
<b>Regularly Vouchered</b>					
White male youth	1292	4180	4827	6274@	7013@
White female youth	1335	3952	4035@	4611	4632@
Minority male youth	1516	3647	4259	5050@	5487@
Minority female youth	751	2647	2956	3997@	4495@
White Voc. Rehab.	2834	6106	5980	8008	8714
Minority Voc. Rehab.	1008	4232	2960	3858@	4049@
Minority Viet. Vet.	2590	4757	5547@	5348@	4648@
White Viet. Vet.	3015	5143	4894@	6284@	6900@
White AFDC	1147	4637	5570	7271	7157
Minority AFDC	991	3946	4355	5605@	5252@
<b>Retroactively Vouchered</b>					
White male youth	2017	4882	5353	8178	8987
White female youth	1462	3811	4562@	5468	6156
Minority male youth	907	3672	3808	6749	6443
Minority female youth	1135	3602	4041	4831	5675@
Minority AFDC	914	3059	2427@	3167@	4463@
<b>Comparison Group</b>					
White male youth	1318	1935	3143	4655	5142
White female youth	1239	2047	2441	3261	3725
Minority male youth	1155	1869	2578	3784	4277
Minority female youth	1143	1442	1745	3196	4259
White Voc. Rehab.	1533	1626	2271	3297	3749
Minority Voc. Rehab.	531	1206	1448	2180	2326
Minority Viet. Vet.	1516	2699	4133	6616	6343
White Viet. Vet.	2692	3224	4049	5297	6947
White AFDC	1090	1467	2355	3188	3785
Minority AFDC	1318	1560	2699	4750	4739

@ Indicates figure is not significantly different than figure for same comparison sub-group.

FIGURE 1

MEAN INCOMES BY GROUP AND YEAR, MARYLAND AND MISSOURI DATA



In the earlier study, most attention was given to the analysis of average (mean) earnings. Because of concern that the earnings of a few persons might be skewing the results for all, it is important to look at the median or middle income of persons in the various groups over the period. Table 4, below shows these income figures. Except for the white vocational rehabilitation clients and Vietnam era veterans the median incomes in the year before hire of those regularly vouchered were not significantly different from those of the comparison group. Because of the many individuals who only were employed briefly under TJTC, the median incomes are somewhat lower than the mean incomes in the first year after hire. Showing the impact of those whose incomes returned to the low levels comparable to the comparison group, by 1987 the median incomes were generally far below the mean incomes. Only the white AFDC category and Vocational Rehabilitation group had nearly identical median and mean incomes. Those were the two groups with the highest incomes after five years. The 1981 median incomes of the vouchered group were not much different than those of the comparison group. Only the white vocational rehabilitation group and the white Vietnam era veteran groups had 1981 median incomes much above those of their counterparts in the comparison group.

The most disturbing result from these figures is the status of the minority handicapped. Their mean income fell after the first year of hire and



by 1987 they had the lowest mean income. Their median income of only \$145 shows the problems this group has entering the competitive work force. Their problems contrast starkly with the success of white handicapped individuals. This discrepancy in incomes should be a matter of concern for all rehabilitation programs.

TABLE 4  
MEDIAN INCOME BY GROUP AND YEAR

GROUP	1981 INCOME	1982/83 INCOME	1983/84 INCOME	1985/86 INCOME	1986/87 INCOME
REGULARLY VOUCHERED					
White Male Youth	\$283	\$3656	\$3770	\$4471	\$3614
White Female Youth	359	3793	3343	2029	2392
Minority Male Youth	336	2824	2367	3167	2887
Minority Female Youth	154	1936	1875	2477	1491
White Voc. Rehab.	1441	5735	4117	6287	8094
Minority Voc. Rehab.	0	2531	529	518	145
Minority Viet Vet	786	4652	4665	4013	706
White Viet Vet	1135	3861	2142	2779	3271
White AFDC	100	4324	5101	7030	7151
Minority AFDC	461	2859	2290	2965	2437
COMPARISON GROUP					
White male Youth	\$52	\$350	\$369	\$284	\$1
White Female Youth	369	650	102	496	688
Minority Male Youth	164	377	1086	1423	1830
Minority Female Youth	130	0	0	757	1087
White Voc. Rehab.	42	0	0	0	0
Minority Voc. Rehab.	0	0	0	0	0
Minority Viet Vet.	326	1040	844	2866	3033
White Viet. Vet.	153	931	2145	0	1
White AFDC	0	46	253	409	576
Minority AFDC	116	0	423	1241	1099

The median income data become more informative if the groups are divided by 1987 income levels. Using Maryland data, which includes more individual information on participant backgrounds, it is possible to correlate a number of factors with 1987 income level to see if a variety of personal or employment characteristics correlate with high 1987 incomes. Individuals were sorted using \$7,500 as the division point between a high and low 1987 incomes. Important differences appear in pre-employment median income, and median first year credits between the regularly vouchered, the retroactively vouchered, and the comparison group. Table 5, below, shows the 1981 median income and the median first year credit for those with 1987 incomes above \$7,499 and those below \$7,500.

TABLE 5

## MEDIAN INCOMES AND CREDITS, BY GROUP AND 1987 INCOME LEVEL, MARYLAND DATA

GROUP	1987 INCOME ABOVE \$7,499		1987 INCOME BELOW \$7,500	
	1981 MEDIAN INCOME	MEDIAN 50% CREDIT	1981 MEDIAN INCOME	MEDIAN 50% CREDIT
<b>Regularly Vouchered</b>				
White male youth	\$725	\$1809	\$955	\$483
White female youth	1299	1284	534	954
Minority male youth	844	509	6	807
Minority female youth	161	294	106	394
White Voc. Rehab.	26	3000	1257	577
Minority Voc. Rehab.	1956	2049	0	1038
Minority Viet. Vet.	315	2837	711	719
White Viet. Vet.	2865	613	66	1143
White AFDC	0	3000	40	665
Minority AFDC	310	2375	0	492
<u>GROUP</u>	<u>507</u>	<u>1625</u>	<u>67</u>	<u>632</u>
<b>Retroactively Vouchered</b>				
White male youth	1873	330	755	677
White female youth	1509	976	807	743
Minority male youth	285	1421	74	610
Minority female youth	577	2297	13	720
Minority AFDC	1211	698	0	810
<b>Comparison Group</b>				
White male youth	1144		1181	
White female youth	2389		585	
Minority male youth	508		353	
Minority female youth	2045		215	
White Voc. Rehab.	462		449	
Minority Voc. Rehab.	386		0	
Minority Viet. Vet.	1486		143	
White Viet. Vet.	6661		90	
White AFDC	1521		0	
Minority AFDC	925		0	
<u>GROUP</u>	<u>1429</u>		<u>89</u>	

The regularly vouchered have particularly interesting patterns. For four groups -- the white male youth, white handicapped, minority Vietnam veterans, and white welfare recipients -- the 1981 median income for the high income group was lower than the median for those with low income in 1987. For two other high income groups, the minority female youth and minority female AFDC group, the 1981 median was insignificantly higher than the median for those

with low 1987 income. For seven of the high income groups, the median first year credit was higher than the median credit for the low income group. Two of the high income groups had the full \$3,000 credit as their median. By contrast, the 1987 high income recipients in the comparison group consistently had higher median incomes in 1981 than did the low income recipients. Six of the ten comparison group categories had significantly higher medians.

These results indicate that participation in TJTC may provide the opportunity to change earnings patterns. The relationship between pre-employment income and long-term higher income is more random than for members of the comparison group. In a number of cases, the credit size correlates with higher income, showing the credit may have been important in changing opportunity. Before reaching this conclusion a number of other factors from the Maryland samples were correlated with high and low income in 1987. Starting wage, job classification, industry of the TJTC employer, age, place of residence, and agency determining eligibility were checked, with no consistent results. Thus the conclusions regarding the relationship of earnings and credits is the only one to emerge from a detailed analysis of the samples.

The retroactively vouchered were a special case. The high income retroactive categories consistently have higher pre-employment medians than the low income categories. This would indicate that the tax credit might be irrelevant to the income experiences of the retroactively certified. This result would reinforce the view that retroactive credits are windfalls.

#### RETROACTIVE CREDITS

As noted in the 1985 study, the first fact that is clear from a review of retroactive TJTC certifications is that they were not received on a cross section of eligible persons. Primarily, businesses received retroactive credits on white youth. This fact is disturbing, particularly in Maryland, since for TJTC as a whole a majority of participants are black. It means, as well, that the handicapped and Vietnam era veterans did not participate in this part of the program. When welfare recipients were hired, they were hired into the lowest paying positions. There is the possibility that many of the retroactive youth were eligible for the program.

To learn more about the retroactive group, the Maryland retroactive sample was examined in detail. Several patterns emerged. There were essentially two groups of retroactives. Those found eligible within one day of hire and those found eligible two or more days after beginning work. This sorting resulted in groups of nearly identical number, with 105 and 106 cases respectively. Seventy-nine percent of those found eligible immediately after hire worked primarily for restaurants and service businesses compared to 59 percent of the later eligible persons. The starting wages of those immediately determined eligible were lower than the late determinations: \$3.30/hour compared to \$3.58. Those immediately determined eligible were much more likely to be minorities (70 percent) than the late determinations (44 percent). Those immediately determined eligible had pre-employment annual income of \$982 compared to \$1,554 for the late determinations. The mean

annual income for those vouchered before hire in the Maryland sample was \$1,326. In the first year after TJTC employment, those immediately vouchered earned \$3,105 compared to \$4,295 for the late determinations and \$4,204 for the regularly vouchered. By 1987, those determined eligible within a day of hire earned \$5,033, while the persons determined eligible later earned \$7,886, and the vouchered earned \$6,021.

This analysis indicates there was an important difference within the retroactively eligible. A large segment are very disadvantaged individuals, who gain little from their TJTC participation. Another group, of about equal size, are the least disadvantaged of TJTC participants. This group comes into TJTC with higher pre-employment earnings. The group experiences earnings gains somewhat greater than those of persons vouchered before hire. However, the key difference between the vouchered and those determined eligible several days or more after hire is that the latter seem to be less disadvantaged.

There are two ways to interpret this information. The most negative view is that many of the persons determined eligible several days after hire are not eligible, but qualify as a result of errors in the eligibility determination process. A more positive view would show the retroactives determined eligible several days after hire had the greatest employment gains. Yet these income gains are raised significantly by the relatively high earnings of white male youth.

The concern with ineligible persons incorrectly certified under the retroactive procedures is based upon the experiences of Job Service staff. Particularly in suburban Job Service offices, many children of middle class families are sent by MACS to see if they qualify under rules that allow for self-supporting young adults to be declared independent of their families. The MACS contend that such youth are self-supporting and disadvantaged, since they have little personal income.

- o A detailed review of retroactive determinations raises disturbing questions about how disadvantaged many retroactive participants are.
- o There clearly are patterns of the handicapped and Vietnam era veterans not being certified retroactively and of low starting wages for minorities hired into retroactive positions.

### Relationship of Credits and Earnings

Since the current TJTC provides only a one year credit, the relationship of the full first year credit to long term earnings is an important topic for investigation. If participants are divided between those retained sufficiently for the full credit to have been received in 1982 and those not so retained, a strong correlation is found between the full \$3,000 credit and five year earnings. Generally, those retained for the \$3,000 credit experienced a major increase in earnings in the first year of participation. Subsequently, they remained at that level of earnings. Those not retained for the full credit, by contrast, experienced income histories almost precisely like those of the comparison group. Figure 2 and Table 6 below show these trends.

The contrast between the earnings of minority females retained for the full \$3,000 credit and those not retained is particularly encouraging. Unfortunately, only 17 percent of the minority males and 11 percent of the females were retained for the full first year credits. Figures 3 and 4, on page 16, graph the mean incomes of minority youth by credit size and group.

- o As observed with short-term data from the previous study, this information would indicate consideration should be given to adjusting the credit formula to reward or encourage retention. The 120 hour retention requirement added to TJTC in 1986 is too short to be meaningful.
- o Large credits did not particularly help minority males. The income gains of minority males after five years were not as dramatic as those of minority females. Also, only small numbers of minority males were retained for full credits. This result is a major problem.<sup>40</sup>

FIGURE 2  
INCOME MEANS IN DOLLARS BY SIZE OF FIRST YEAR CREDIT

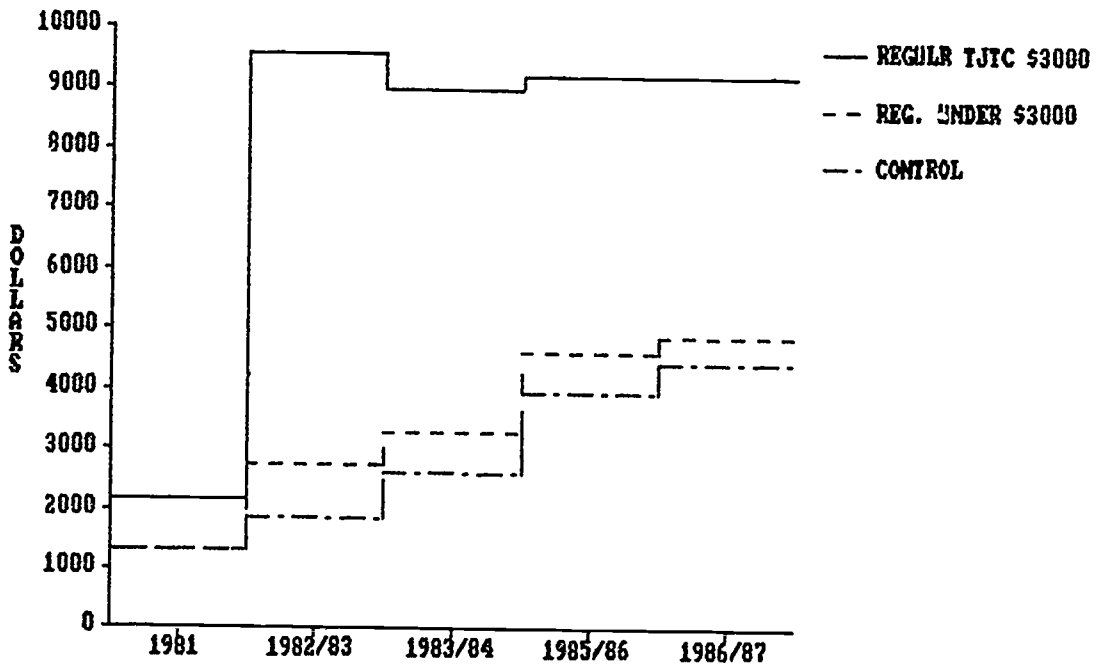


TABLE 6

## MEAN INCOMES, BY GROUP, YEAR, AND CREDIT SIZE

GROUP		1981	1982/83	1983/84	1985/86	1986/87
Regularly Vouchered						
White male youth,	\$3000 Credit	3292	10836	11750	11393	12637
	Under 3000	940	3010	3610	5374	6024
White female youth	3000 Credit	1273	8626	7900	5633@	3848@
	Under 3000	1350	2708	3272	4354	4827
Minority male youth	3000 Credit	2221	8468	8743	7134	6519@
	Under 3000	1345	2628	3311	4538	5268
Minority female youth	3000 Credit	839	8178	7196	7162	9236
	Under 3000	740	1938	2447	3617	3926
White Voc. Rehab.	3000 Credit	2548	11954	9846	11790	13798
	Under 3000	2966	3406	4196	6262	6367
Minority Voc. Rehab.	3000 Credit	2473	9705	5409	7105	8124
	Under 3000	465	2204	2052	2512	2539
Minority Viet. Vet.	3000 Credit	3240	8342	9651	6407@	7829
	Under 3000	2390	3654	4284	5021	3670
White Viet. Vet.	3000 Credit	5296	12187	12146	11692	11563
	Under 3000	2337	3049	2738	4676	5514
White AFDC	3000 Credit	545	5808	5329	7206	7217
	Under 3000	1263	2958	4535	5778	5606
Minority AFDC	3000 Credit	1371	8586	9094	10514	8766
	Under 3000	877	2561	2939	4140	4203
Retroactively Vouchered						
White male youth	\$3000 Credit	2999	10427	9757	12966	14008
	Under \$3000	1727	3241	4050	6761	7502
White female youth	3000 Credit	2491	9284	8200	6659@	5722@
	Under 3000	1352	3225	4172	5340	6202
Minority male youth	3000 Credit	573	7034	6301	8369@	7161@
	Under 3000	974	3000	3309	6425	6299
Minority female youth	3000 Credit	2149	8170	7691	7475	8112
	Under 3000	877	2437	3110	4157	5054
Minority AFDC	3000 Credit	1809	6986	6522	4770@	5752@
	Under 3000	751	2344	1992	2875	4228

@ Indicates mean for those retained for \$3000 credit is not significantly higher than the mean for those in the sub-group not retained for full credit.

FIGURE 3  
MINORITY MALE YOUTH INCOME MEANS, BY SIZE OF CREDIT

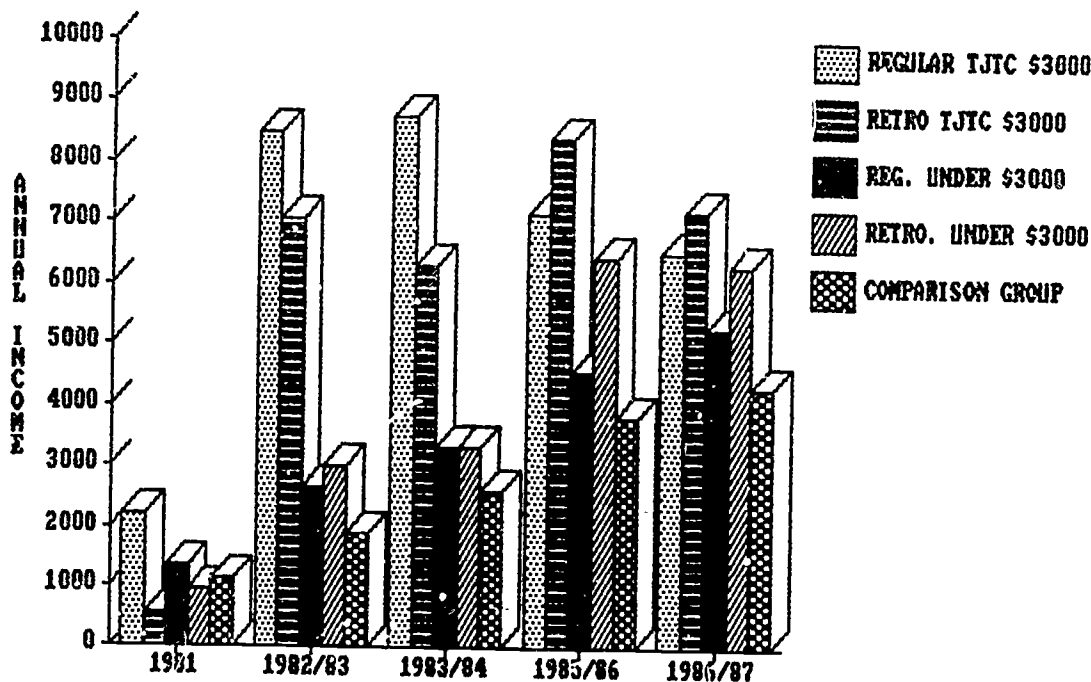
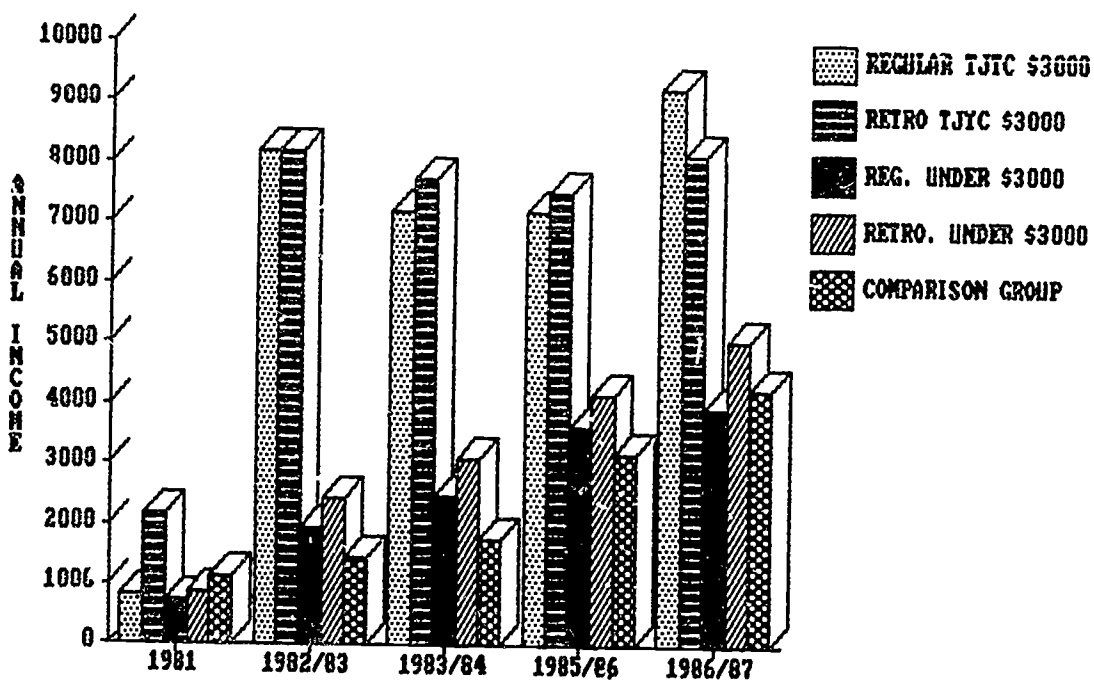


FIGURE 4  
MINORITY FEMALE YOUTH INCOME MEANS, BY SIZE OF CREDIT



Although the full credit correlates with higher subsequent earnings, the credit is not necessarily the factor in the experiences of the TJTC participants which causes retention. While not fully conclusive, one test is to compare the strength of the relationship between the credit and later earnings with that between earnings in the year before hire and later wages. The 1987 earnings of all persons included in the study were correlated with 1981 wages. For those certified, the 1987 wages were also correlated with the first year credit. Table 7, below shows those correlations that were significant.

TABLE 7

CORRELATION OF 1981 WAGES AND FIRST YEAR CREDITS WITH 1987 EARNINGS

GROUP	1981 EARNINGS CORRELATED WITH 1987 EARNINGS	FIRST YEAR CREDIT WITH 1987 EARNINGS
REGULARLY VOUCHERED		
White Male Youth	.290***	.274***
White Female Youth	.049	.021
Minority Male Youth	.165	.015
Minority Female Youth	.153	.244**
White Voc. Rehab.	.187	.378**
Minority Voc. Rehab.	.408**	.396**
Minority Viet Vet	.014	.329*
White Viet Vet	.344**	.108
White AFDC	.037	.372***
Minority AFDC	.158	.413***
RETROACTIVELY VOUCHERED		
White Male Youth	.236**	.336***
White Female Youth	.026	.086
Minority Male Youth	.153	.105
Minority Female Youth	.389***	.446***
Minority AFDC	.158	.010
COMPARISON GROUP		
White male Youth	.272***	
White Female Youth	.205*	
Minority Male Youth	.139	
Minority Female Youth	.191*	
White Voc. Rehab.	.200	
Minority Voc. Rehab.	.594***	
Minority Viet Vet.	.095	
White Viet. Vet.	.326**	
White AFDC	.248***	
Minority AFDC	.250***	

\*Significant at the 5% level.

\*\*Significant at the 2.5% level.

\*\*\*Significant at the 1% level.



There are a number of ways to interpret these results. The more frequent correlation of comparison group income in 1981 with 1987 income probably arises from the large numbers of people with zero income. However, the more frequent correlations of 1987 incomes with credits in 1982 rather than earnings in 1981 probably shows the credit had some impact upon employment not based in 1981 earnings experiences. This conclusion cannot be reached categorically from the data. Despite considerable information on the participants, no doubt there are personal differences between people that could have caused both long retention with the employer receiving the credit and earnings over the next five years.

Consolidating the data above would indicate that for many targeted groups, particularly minority females, the white handicapped, welfare recipients, and minority Vietnam era veterans, the size of the tax credit does launch the person on an earnings path significantly different than that of those job seekers who entitle their employer to little or no credit. This finding does not claim that the earnings five year after hire are directly influenced by the credit. Rather, the credit, if it is of long duration, correlates with sufficiently long employment with one employer that there is a likelihood that the person will permanently change earnings patterns.

If the focus is narrowed to those persons eligible only for a credit in excess of \$3,000, the results of correlations indicate no significant relationship exists between pre-employment income and the wages earned in the first year of employment. Minority males showed a strong correlation between earnings in the first year under TJTC and earnings at the end of five years. However, the minority males did not do particularly better if retained for the full credit than if not retained. The only other significant correlation for youth is one between pre-employment wages of white females and wages five years after hire. That correlation tends to confirm other data which show little positive impact of TJTC for that group. For non-youth groups, there is little relationship between 1981 and 1987 incomes, however, income in the first year of employment strongly correlates with income five years later.

- o Generally, those on whom a \$3,000 credit was received do not seem to be particularly less disadvantaged than those on whom smaller credits were earned. The size of the credit does have a potentially valid relationship with changes in earnings patterns.

#### CONCLUSIONS

In the earlier study, earnings in 1982/83 were correlated with income and other factors, using \$5,000 as the threshold. As might be expected, the 1987 income for the 1982/83 high income group remained significantly higher than that for those receiving under \$5,000. The average (mean) income for the high group was \$8,560, that for the low group was only \$4,688. While minority female youth are not well represented in the high income group in 1982/83, it is important to recall that minority male youth are represented

proportionally. As with the information on credit size, this correlation indicates that consideration be given to offering a greater credit under TJTC to those employers that provide the highest first year wage or greatest retention.

Not all correlations proved significant. For example, the industry of the TJTC employer does not correlate strongly with higher income after five years. There is a noticeable pattern among employers retaining workers for the full credit which differs from that of the businesses with lower retention. The companies with high rates of worker retention are more than twice as likely to be manufacturers than are those with low rates. In contrast, the low retention companies are much more likely to be restaurants. Yet, while the average (mean) income in 1986/87 was \$6,961 for persons whose initial TJTC employer was in construction, manufacturing or communications, that figure is not significantly higher than the \$5,826 for persons hired in 1982 by restaurants.

For minority males the detailed Maryland records have been reviewed to see if any industrial correlations are significant. The numbers are extremely small, with only 43 persons among the regularly vouchered. Those employed by construction and manufacturing firms showed remarkable income changes. In the year before hire under TJTC, the construction workers had average (mean) income of \$781 and for the factory workers it was \$1519. These means were neither the highest nor lowest of industrial classifications. The factory and construction workers had the highest starting wages and the highest 1987 incomes. The construction workers had mean 1987 incomes of \$8801 and the factory workers \$8320. While the numbers are too few to draw conclusions with certainty, the implications would confirm the observations of William Crossland that factory, and construction laboring jobs offer the best opportunities to disadvantaged minority males.<sup>41</sup>

Generally, the above results are especially important since the current design of TJTC does not reward employers or industries with good retention. Rather, the present credit is heavily loaded up-front, rewarding equally short-term employers and those offering stable job opportunities. Any change in the credit to encourage retention should be guided by the commitment to continuation of open availability of the credit to all interested participants. One of the major benefits of TJTC's design is its responsiveness to the labor market.

- o Maintaining the current rate of the credit, while increasing the length of time and the amount of wages on which the credit is earned might serve this dual goal.

These comments, of course, relate to the program in effect in 1982. The impact of the 1986 changes, which eliminated the first year credit and imposed a minor retention requirement, and the impact of the hiatus period on credit utilization, clarify the changes that are needed in the program if it is to be made effective.

## PART IV

### THE IMPACT OF THE REENACTMENT DELAY

The previous analysis has focused upon the long-term impact of TJTC upon 1982 participants. There is another factor affecting program impact in recent years -- the delay in reenactment of the program in 1986. The previous authorization of TJTC expired on January 1, 1986. When the credit was not reenacted at that point, an extremely difficult nine and a half month period began during which potentially eligible job seekers and employers were given confusing information at best about the program's survival. At times the program appeared on the verge of reenactment, such as in late Winter and early Spring of 1986. By late Spring and early Summer, the forecast was more bleak. The state administering agencies which had continued to anticipate renewal accepted the advice of the Department of Labor and ended operations. In late summer, as tax reform moved through Congress, the prospect of TJTC reenactment became more positive. On October 22, 1986, with the signing of tax reform, TJTC was restored retroactively to January 1, 1986.<sup>42</sup>

This hiatus period, January 1, 1986 to October 22, 1986 introduced a special element into the analysis of TJTC. There are several reasons why the impact of this period needs study in any evaluation of TJTC.

- o Even the briefest review of program data, such as the number of certifications issued, indicates the hiatus period correlates in many states with major changes in the quantity of TJTC utilization by job seekers and employers. Whether this change in utilization related to the hiatus period or the changes in the credit needs study.
- o The phase out and reenactment process added a fascinating chapter to the administrative history of TJTC, as state Job Services, JTPA agencies, and the Department of Labor had a renewed opportunity to implement the program.
- o The changes in the new credit, particularly the minor retention requirements and reduction in the credit, can provide a test of the recommendations in the first part of this study related to encouragement of retention.

National vouchering and certification data from the Department of Labor shows vouchers fell by 37 percent and certifications by 27 percent from 1985 to 1987. Table 8 shows the change in number of vouchers issued between fiscal year 1985 and calendar year 1987. The table also shows the change in unemployment rate from the end of each of those periods. New York vouchered 68,000 people in 1987 compared to 151,000 in 1985, a drop of 55 percent. Vouchering declined by 45 percent in Minnesota, 33 percent in California, and 30 percent in Florida. Only a few states, such as South Dakota and Iowa had modest increases.<sup>43</sup>

TABLE 8  
VOUCHERING AND UNEMPLOYMENT RATE CHANGES BY STATES, 1985 TO 1987

STATE	VOUCHERS 1985	VOUCHERS 1987	CHANGE 1987-1985	CHANGE UNEMPLOYMENT RATE
Alabama	22522	19246	-3276	-0.3%
Alaska	3718	2827	-891	2.6%
Arizona	16705	13075	-3630	-0.2%
Arkansas	24160	21282	-2878	-0.3%
California	66163	44361	-21802	-1.2%
Colorado	6173	4982	-1191	2.7%
Connecticut	8363	3389	-4974	-1.3%
Dist. of Col.	8354	2744	-5610	-2.8%
Florida	78760	54984	-23776	-1.2%
Georgia	37991	22392	-15599	-1.4%
Hawaii	3689	1865	-1824	-1.7%
Idaho	7253	6387	-866	2.2%
Iowa	18710	18734	24	-1.2%
Kansas	14837	8682	-6155	0.5%
Kentucky	28236	21006	-7230	-0.1%
Louisiana	21379	23055	1676	1.3%
Maine	7232	4083	-3149	0.6%
Maryland	36302	13949	-22353	-0.1%
Michigan	46471	22605	-23866	-1.6%
Minnesota	24767	13490	-11277	0.2%
Mississippi	6990	7233	243	0.4%
Missouri	47570	44330	-3240	0.6%
Montana	3887	2585	-1302	1.1%
Nebraska	6322	4008	-2314	0.3%
Nevada	4753	2975	-1778	-1.2%
New Hampshire	2828	1614	-1214	-0.3%
New Jersey	18147	8752	-9395	-0.8%
New Mexico	8949	6167	-2782	0.2%
New York	151550	68684	-82866	-1.5%
North Carolina	36985	19751	-17234	0.3%
North Dakota	5034	3982	-1052	0.7%
Ohio	94021	89674	-4347	-2.0%
Oklahoma	17758	13942	-3816	1.1%
Oregon	28798	22562	-6236	0.8%
Pennsylvania	34250	38278	4028	-1.4%
Rhode Island	2296	793	-1503	-0.1%
South Carolina	19021	8574	-10447	-1.0%
South Dakota	7373	8602	1229	0.2%
Tennessee	23356	18028	-5328	-0.8%
Texas	82660	78661	-3999	1.2%
Utah	7823	9853	2030	1.2%
Vermont	8350	2258	-6092	-0.5%
Virginia	31253	20683	-10570	-1.3%
Washington	38324	26184	-12140	0.6%
West Virginia	11314	7119	-4195	-1.8%
Wyoming	1356	1034	-322	3.0%

There is a positive correlation between changes in the unemployment rate and vouchering. One interpretation of the correlation would be that TJTC declined because, with lower unemployment rates, there was less need for the program. However, there is another equally plausible explanation. The state vouchering agencies receive funding under a formula directly related to the unemployment rate. The decline in funding that accompanied the general decline in the unemployment rate reduced staff available to issue vouchers. This explanation was the primary one given by staff in Maryland and Missouri for the decline.

#### METHODOLOGY

This part of the study is based upon the analysis of data on program participants in Maryland and Missouri in 1987 compared to 1985, the year before the hiatus period. Maryland experienced a dramatic decline of 61 percent in vouchering and a 42 percent drop in certifications. Missouri had only a seven percent decline in vouchering and a one percent increase in certifications. Most states with high utilization rates of vouchering had decreases more like Maryland than Missouri.

For Maryland and Missouri the following information was correlated before and after the hiatus period:

- 1.) The targeted group of persons hired,
- 2.) Vouchering numbers by agency,
- 3.) Industrial classifications of employers and other employer data, and
- 4.) Wage ranges and job classifications of participants.

In addition, in Maryland only, the race and sex of persons certified was correlated. Race and sex characteristics were no longer recorded in Missouri. The sources for the information in this section were the TJTC reports and records of the state administering agency. Primarily, the analysis used information on participants in the fourth quarters, (October -December) of 1985 and 1987. These quarters were selected because the fourth quarter of 1985 was the last quarter of the old program and the fourth quarter of 1987 was the most recent before this study for which all reports were complete. The fourth quarter was also used because it did not include the summer employment period reviewed in Part V.

#### PARTICIPANT DEMOGRAPHICS

In Maryland there has been little change in the distribution of program participants by sex or race. As shown in Figure 5, in the fourth quarter of 1985, 29.5 percent of participants were white, while in 1987, 34 percent. In 1985 55.2 percent of participants were women, while in 1987 61.2 percent. Minority females comprised 39.5 percent of people hired under TJTC in 1985 and 41.8 percent in 1987. The percent of minority males fell from 30.8 percent in

1985 to 24.2 percent in 1987. In the same period the percentage of persons hired under TJTC who were age 19-24 fell from 64.9 percent in 1985 to 54.6 percent in 1987. Historically, the rise in the white percentage from 1985 to 1987 was not significant, since in 1983 33.1 percent of participants were white. What was different was the percentage who were females.

- o Persons hired under TJTC tended to be older and more often females after the hiatus period, while the proportion of minority males declined.

This fact is clearly reflected in Figure 6, which shows the shift in participants hired from the various targeted groups. In 1985, 60 percent of the persons hired in the fourth quarter in Maryland were in the youth category and 20 percent in the AFDC (Aid to Families with Dependent Children) category, the next largest. In 1985 in Missouri 66 percent were youth and 17 percent were in AFDC recipients. By 1987, the youth group accounted for only 48 percent of eligible persons in Maryland and 60 percent in Missouri. The welfare category had risen to 26 percent of Maryland participants and 20 percent of Missouri's. For all of 1985, only 14 percent of those hired in Maryland were in the welfare category, basically unchanged from the 13.8 percent in 1983. By 1987, the annual percentage in Maryland was 21 percent. Also, the relationship of the proportion of vouchered in the various categories to the proportion hired no longer followed the patterns of previous years.

In the years before the hiatus period, a greater proportion of the youth who were vouchered were hired, while fewer AFDC recipients found jobs. Whereas 51 percent of vouchers in Maryland in 1985 went to youth, they were 66 percent of certified hires. In Missouri 56 percent of vouchers were given to youth, but they led to 61 percent of the certifications. One third of the vouchers in Maryland in 1985 went to people in the AFDC category, but they were only 21 percent of the certified hires. In Missouri in 1985, AFDC recipients received 17 percent of the vouchers but were only 13 percent of the certified hires. In 1987 these relationships became much less disproportionate. AFDC recipients in Maryland accounted for 25 percent of vouchers and 28 percent of certifications. Youth received 55 percent of vouchers and 58 percent of certifications.

These changes can be explained by the dramatic change in program utilization, the numbers of persons being determined eligible and placed under TJTC. The decline in those numbers can be attributed to several factors, some related to the unique relationship of TJTC to employment and training goals of the vouchering agencies and others resulting from the use of TJTC by the business community.

FIGURE 5  
SEX AND RACE OF MARYLAND TJTC PARTICIPANTS, 4TH QUARTER DATA 1985 AND 1987

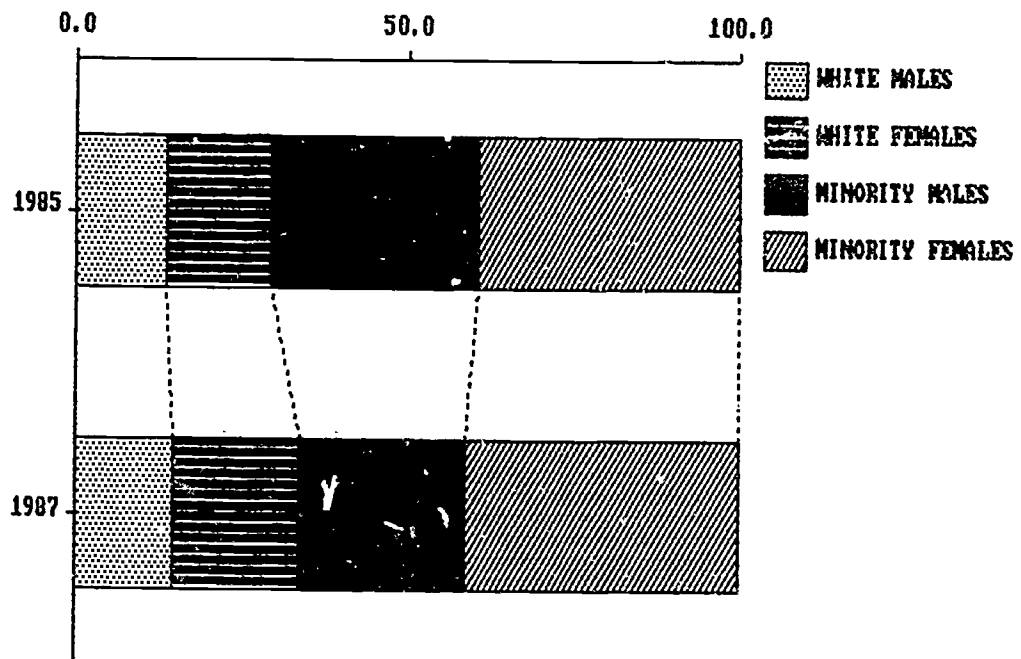
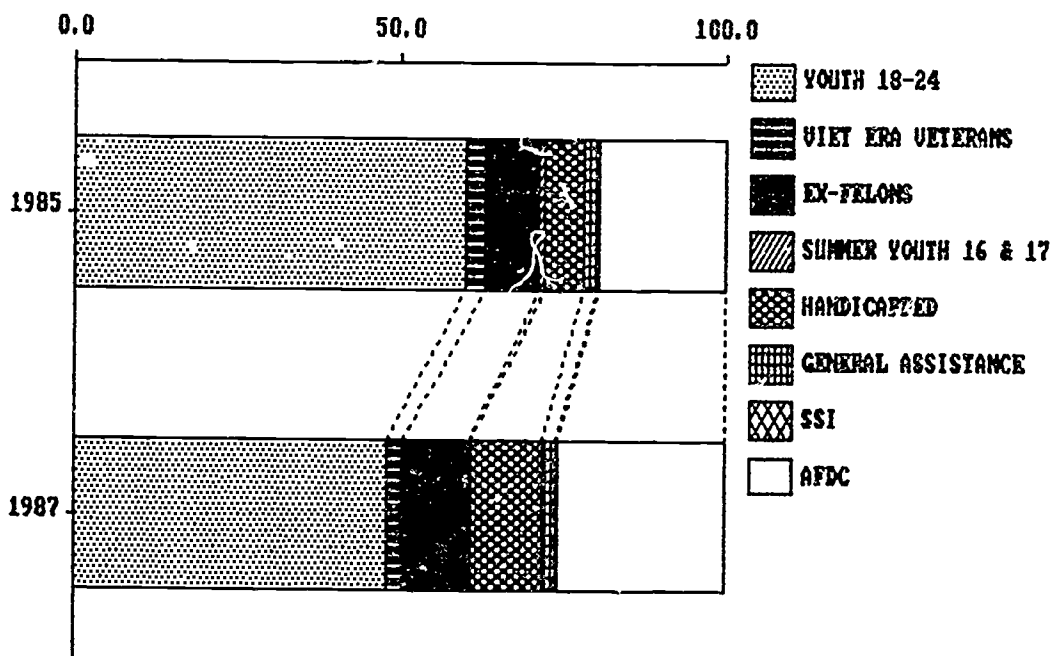


FIGURE 6  
TARGETED GROUP OF TJTC HIRES IN MARYLAND, 4TH QUARTER DATA 1985 AND 1987



## VOUCHERING BY EMPLOYMENT AND TRAINING AGENCIES

There were two especially significant changes in vouchering by agencies that corresponded to the hiatus period. First, the agencies greatly reduced the numbers being vouchered. In the fourth quarter of 1985, 8,429 persons were vouchered in Maryland, while in 1987 only 3,272. In Missouri 10,136 vouchers were issued from October to December, 1985, but only 7,669 in the same period in 1987. While vouchers were falling by 157 percent in Maryland, certifications declined only 62 percent. In Missouri, vouchers declined by 24 percent and certifications by 14 percent. Thus the percentage of vouchers resulting in a certification in Maryland changed from 42 percent in 1985 to 67 percent in 1987. In Missouri they went from 46 percent in 1985 to 51 percent. From a purely bureaucratic perspective, the placement rate greatly improved in this time period. However, a more detached examination reveals that what changed was the percentage of vouchers issued to people with jobs. In 1985, 19.7 percent of vouchers issued in Maryland were retroactive, while in 1987, 39.9 percent were. Comparable figures are not known for Missouri, but the St. Louis offices ceased general vouchering in this time period, a fact that would imply the trend was comparable in that state.

In Maryland and, at least in the St. Louis area of Missouri, a fundamental change in the Job Service's utilization of TJTC was occurring. It resulted from the coincidence of two phenomena, a decline in Job Service interest or ability to voucher, while TJTC management assistance firms, which primarily generate work retroactively, continued to send new employees to the Job Service at the 1985 rate. Consequently, the character of Job Service vouchering changed dramatically. In 1985, 76.9 percent of all Maryland Job Service vouchers were issued to persons not already hired. These people were offered the voucher, as intended by the original TJTC program, to help them on their job search. In 1987, only 17 percent of Maryland Job Service vouchers were issued to persons without jobs.

- o In numerical terms, the Job Service issued 5,520 vouchers in the last quarter of 1985 to disadvantaged job seekers in Maryland; it issued only 404 in 1987, a decline of 5,116.
- o In contrast, vouchering to persons with jobs fell only 351, from 1,657 to 1,306.

The decline in retroactive vouchers may have resulted from the token retention requirement of the new law. That requirement caused some firms to delay the vouchering of employees until the three week retention requirement had been met.

Making the situation more difficult for disadvantaged and handicapped persons relying on the credit for improved job opportunities, JTPA vouchering activity in Maryland also continued to decline. The decline in JTPA activity actually began to decrease with the ending of the Comprehensive Employment and Training Act (CETA), in 1982, not with the hiatus period. In 1983, the last year with CETA activity, the CETA/JTPA offices vouchered 6,085 people, of whom 2,296 became employed. These were people issued a voucher as part of their job search. They were not being given retroactive vouchers. By 1985, JTPA



programs issued only 3,693 vouchers, resulting in 1,887 placements. The performance standards of JTPA appear to have driven the programs to avoid providing services to high risk applicants. By 1987, JTPA programs in the state issued 1,647 vouchers of which 873 led to certifications. Figure 7 graphs the annual total of vouchers issued by the various categories of vouchering agencies in Maryland in 1983, 1985, and 1987. Missouri data are not included because in Missouri nearly all vouchers are issued by the Job Service.

There are greater problems for the urban disadvantaged than are revealed by the reduced number of vouchers issued. There also was a shift in the location of offices issuing this reduced volume of vouchers. Where in 1985, 46.9 percent of the Maryland Job Service vouchers were initiated in Baltimore City, only 39.1 percent emanated from the city in 1987. In Missouri 23.2 percent of vouchers issued in 1985 were from St. Louis. In 1987 only 19.8 percent. Vouchering in the suburbs of Baltimore grew from 19 percent of activity to 25.9 percent. In the St. Louis suburbs it grew from 8.5 to 11.1 percent. This shift in vouchering location, most probably resulted from the concentration of retroactive credit users in the suburban malls and commuter corridors.

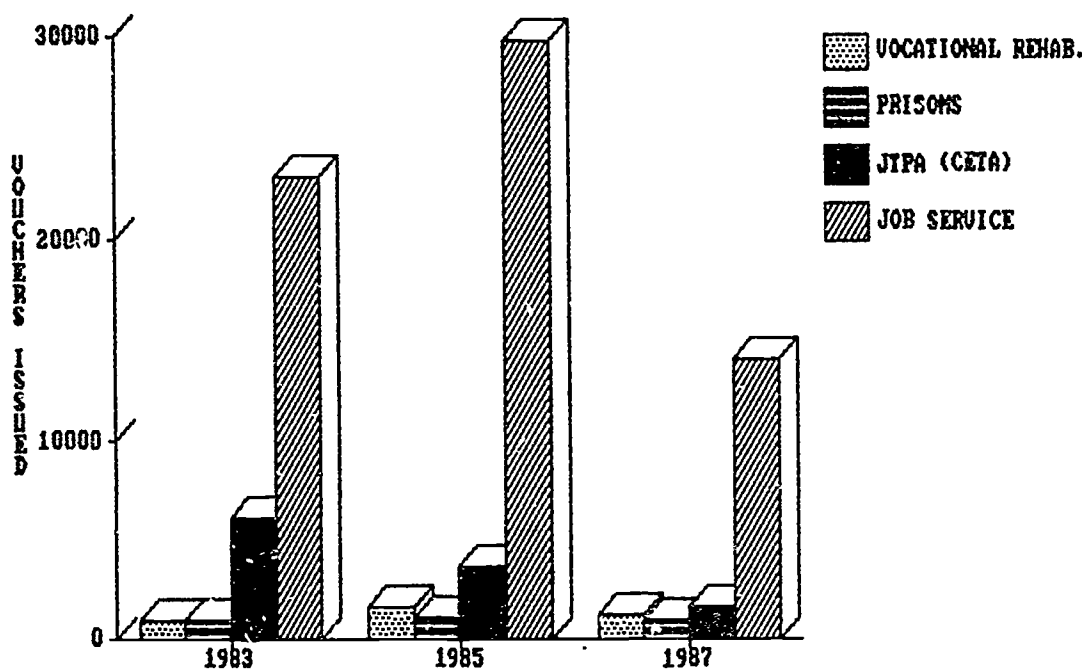
The only encouraging development in agency vouchering in Maryland during the period was the continuity in vouchering levels at vocational rehabilitation offices, the offices of the state prison and probation agency, and other specialized agencies, such as the Montgomery County Pre-release Unit in the suburbs of the nation's capital. That these agencies maintained vouchering levels at previous rates is a clue to the reason for the decline in vouchering at the Job Service and JTPA agencies. While such agencies did not actually issue vouchers in Missouri, they continued to show greater interest in TJTC than did the Job Service.

In recent years, both JTPA and Job Service offices in Maryland and Missouri have been required to meet performance standards which are heavily weighted toward placement rates and starting wage rates. Both types of agencies have been encouraged by performance standards to reduce the ratio between clients enrolled and placed. Since there is insufficient funding to greatly increase placements, the easy route to improve the ratio is to keep constant the number of clients enrolled. That policy goal conflicts with bringing a mass of TJTC eligible clients to the office to be vouchered and then allowing these clients to conduct their own job search. Further inhibiting JTPA and Job Service interest in vouchering has been the funding and administrative confusion in the last few years. Some new administrators in the employment and training system, emphasizing entrepreneurial management, have only made matters worse by seeking fees for service. The fact that TJTC is a program that should make placement easier is not important to some program administrators.

In Missouri the major change in vouchering location has been the shift to rural offices. In 1985, 30.4 percent of vouchers were issued outside the St. Louis and Kansas City metro areas, compared to 44.8 percent in 1987. One

FIGURE 7

VOUCHERING BY AGENCY TYPE, MARYLAND, 1983, 1985, 1987



factor in the increase in rural vouchering was the different approach of those offices. While St. Louis offices generally vouchered only when asked to do so by an employer, rural offices continued to voucher voluntarily. They provide vouchers to any applicant who might use one.

A factor which inhibited Job Service and JTPA interest in TJTC has been the absence of strong support for the program from the U. S. Department of Labor (USDOL), particularly since renewal. Having not been paid by USDOL to administer the program until the middle of 1987, Job Service interest in vouchering declined after 1985. In contrast, the prison system and vocational rehabilitation agencies, which never expected funding for vouchering, have eagerly embraced the program as a placement tool. Those agencies provided some of the strongest support for the credit's reenactment in 1986. They were not led to vouchering by the Department of Labor in earlier years, and they have not been encouraged, since 1985, to abandon vouchering by the lack of support for TJTC from USDOL. In retrospect, TJTC has been damaged by the hiatus period. The magnitude of the damage is illustrated by a review of employer utilization before and after the hiatus.

## EMPLOYER UTILIZATION PATTERNS

The decline in the numbers of persons vouchered obviously reduced the number of employers using TJTC in 1987 compared to 1985. More importantly, the utilization in 1987, based on a comparison of data from the sample fourth quarters of 1987 and 1985, shows several disturbing trends:

- o In Maryland there was greater utilization than in previous years by a few large users, such as fast food chains, retailers, and service firms,
- o Among people found eligible in city offices in Baltimore, St. Louis, and Kansas City, there was a significant decline in the already low hiring rate by firms outside the sales and service sectors, and
- o In Maryland, the large users were significantly less likely to hire persons from all groups, particularly the handicapped and ex-offenders.

Positively, starting wages increased, with only 56 percent of persons hired receiving from \$3.35-\$3.99/hour as a starting wage in 1987, compared to 69 percent in 1985. However, with the trend toward large users, 63.6 percent of the persons hired by the large users in Maryland received wages in the \$3.35-\$3.99/hour range, while only 37.9 percent of those hired by smaller businesses received such wages in this lowest interval.

Large users include companies which hired over 15 persons. Such employers accounted for half of all Maryland TJTC employment in 1987. In the fourth quarter of 1987, 23 companies hired 1,010 persons while 432 others hired 986 persons. Half of the big users were from the retailing sector, excluding restaurants, and employed 60.2 percent of the 1,010. Service industries, mostly guard agencies, but including a hotel chain, a nursing home system, and a janitorial business, employed 30.7 percent; while restaurants hired 9.4 percent. Fifty-four percent of large employer jobs were service occupations, while 39 percent were in sales.

The greater proportion of rural and small city users of TJTC in Missouri resulted in less dominance by large users of the hiring process. In the central city of St. Louis and Kansas City, the 20 largest users accounted for 37 percent of all employment in 1987, down from 43 percent in 1985. In both 1985 and 1987 less than two percent of the urban jobs of large users were outside the retailing and service sectors.

These large employers tended to hire disproportionate numbers of persons from the youth and AFDC recipient categories, and relatively few from the other groups, particularly the handicapped and ex-offenders. Ten of the 23 large users in Maryland hired no handicapped person and eighteen hired no ex-offender.

- o As was recommended in the 1985 report, large users could be required to show how they will hire from all categories.

## LESSONS FROM THE HIATUS PERIOD

The experiences of the hiatus period provide policy makers with information about the design and administration of the Targeted Jobs Tax Credit.

- o In several important measures of impact, the TJTC program after the hiatus period was inferior to that before 1986.
- o The number of persons given vouchers for their job search has fallen since 1985.
- o The persons being hired have disproportionately been drawn from certain groups. Assuming Maryland data is typical, the program has shifted increasingly toward the employment of minority females and not from a cross section of eligible persons. In particular, minority males have declined greatly in participation rate, while most large employers of TJTC applicants do not hire handicapped persons or ex-offenders.
- o The employers using the program tend to be fewer in number and to hire more persons retroactively than in previous years.
- o The employers who hire large number of participants represent those industries with the poorest record of retention and stable wages.

There are three steps which could be taken to greatly reduce the possibility of these problems continuing.

- 1.) Any reenactment should be completed before the next expiration of the credit and should last a sufficient period to encourage companies to plan on using TJTC to reduce labor costs.
- 2.) The Department of Labor should vigorously support with funding, technical assistance, and, if necessary, financial sanctions, TJTC vouchering by Job Services and JTPA agencies.
- 3.) The changes in TJTC made in 1986 should be rescinded in favor of provisions that encourage long-term retention and high wages.

The 1986 amendments made three major changes in the credit.

- 1.) The second year credit was abolished,
- 2.) The rate of first year credit was lowered from 50 percent of the first \$6,000 in wages to 40 percent, and
- 3.) Retention for 120 hours (20 hours for qualified summer youth) was required before a credit could be received.

None of these changes significantly contributed to program performance. They each send the message that the credit is not related to long term retention or better paying jobs. Reenactment should include changes in all three areas.

The restoration of a second year credit should be seriously considered, if for no other reason than to remind employers that retention is a goal of TJTC. If the second year credit is seldom used, as earlier experience indicates, there will be little cost associated with its restoration. If the second year credit greatly encourages retention, then it will generate changes in personal income and transfer payment use among the disadvantaged to justify its additional cost.

If savings are to be made in the first year credit, the reduction should not be in the percentage of credit. To encourage retention and higher paying jobs for the disadvantaged, changes in the percentage of the credit should be linked to increases in the wages upon which the credit is computed, such that higher paying employers receive financial incentives proportional to their contribution to reducing poverty. Further recommendations are:

- o TJTC should be designed to encourage the return of stable, less skilled employment to areas with large eligible populations. It will not serve that purpose so long as the retention requirements and credit size are designed to provide a windfall for high turnover, low paying industries.
- o It should be made permanent, or extended for five or six years, to allow businesses to plan expansion in areas with large numbers of eligible workers.

## PART V

### QUALIFIED SUMMER YOUTH EMPLOYMENT UNDER TJTC

Beginning in the Summer of 1983, a special part of the Targeted Jobs Tax Credit became available to any business which employed economically disadvantaged 15 and 17 year old youth -- called "Qualified Summer Youth" in the tax law. The new credit differed from the regular TJTC in two ways:

1. It applied only to employment between May 1 and September 15, not to year around jobs, and
2. The amount of the credit was especially significant, 85% of the first \$3,000 paid in the first 90 days of employment between the above dates.

As with the regular TJTC, the subsidy for a particular youth would not normally equal 85% of wages, since the net savings are reduced by the add-back provisions of the law. That is, any credits received must be added back into income, in effect taxing the credits at the employers marginal tax rate. Nonetheless, the subsidy for most employers is at least half of each youth's wages, effectively reducing the minimum wage from \$3.35 an hour to about \$1.70.

One expectation was that this new subsidy would be used on a massive scale by employers. This was not the case in 1983. In Maryland, only 1,024 qualified summer youth were hired. This figure was just under half of the 2,003 youth vouchered. In Missouri 1,327 of the 4,177 vouchered were hired. Only California, Illinois, Michigan, New York and Texas vouchered more youth than Missouri. Fourteen states vouchered more than Maryland. Six states had more youth hired than Missouri and thirteen more than Maryland. With states such as Pennsylvania vouchering only 1,335 youth and reporting only 636 hired, the results were disappointing.

While the 1983 figures were disappointing, they were the peak of the summer youth program. In 1983, 33,538 summer youth were hired. The next year, 30,137 were employed; and in 1985, 26,923. The decline in certifications was not surprising since agencies had greatly decreased youth vouchering. Compared to the 87,308 youth vouchered in 1983, employment and training agencies vouchered 61,876 in 1984 and only 50,524 in 1985. Maryland increased hires in 1984 over 1983 and managed to keep 1985 hires above the 1983 rate. Missouri followed the national trend, reducing vouchering to 2,114 in 1984 and hires to 871. In 1985, Missouri vouchered 1,804 and certified 820. Only New York and West Virginia vouchered more youth in 1985 than in 1983, and West Virginia hardly counts, since it raised vouchering from 108 to 197!<sup>44</sup>

Two questions arise from these numbers:

1. Why were more youth not found eligible, and
2. Why were not more of those found eligible hired?

A complete evaluation of the impact of the summer TJTC credit must attempt to answer these two questions as well as the fundamental one of what impact participation had upon eligible youth. Answering these questions requires special methods, different from those used with adults.

## METHODOLOGY

In the evaluation of the impact of TJTC discussed in Part III, the incomes and job changes for participants over a several year time period were used to give some indication of program success, especially when compared to the experiences of the comparison group. However, for youth included in the summer program, the meaning of income gains over a post hire period would be extremely difficult to analyze. A youth, who was inspired by his summer job to actively pursue academic studies, who subsequently gained admission to college, and successfully completed four or more years of college, might be the greatest success of the program but would appear to have little or no earnings gain in the four or five years after participation. In contrast, the drop-out would be recorded as a modest earnings success. Measuring pre-employment earnings or work histories, which obviously would be minimal, would not help. 45

In consideration of the above, attention is being given to analyzing the wealth of demographic information both for TJTC youth and for all youth, particularly data available from the state work permit office. That information can show, at a minimum, how the TJTC jobs differed from those of all youth. The factors that are measured include:

1. Race and sex characteristics,
2. Starting wage and occupational classifications of TJTC youth jobs,
3. Industrial classifications of TJTC youth employers,
4. Place of residence of program participants, and
5. Characteristics of youth and employers served by the different youth employment and training programs.

The initial assessment of the summer youth program focuses upon youth hired in the Summers of 1983, 1985, and 1987. Placements in 1983 were greater than in 1984 and nearly as great in 1985. By focusing on 1983, some long term analysis of the impact of different programs on youth can be investigated. In 1983, the remnants of the old C.E.T.A. programs were still functioning. By 1985, those programs generally had declined greatly in staff size. The labor market opportunities were much greater in 1985 than in 1983, with lower unemployment rates.

This part of the study is divided into three sections: an analysis of the characteristics of youth who participated, a description of the employers hiring the youth, and a review of the role of the public employment and

training agencies vouchering the youth. The first section reviews information on all TJTC summer youth vouchered in Maryland and Missouri in 1983, 1985, and 1987. Unfortunately, since Missouri ceased gathering sex and race data after 1983, only Maryland data are used when considering those characteristics.

#### WHO WERE HIRED?

The demographics of the youth hired under the TJTC summer program are not surprising, knowing the Maryland disadvantaged population. Unlike the adult programs, those demographics have remained remarkably consistent since 1983. In that year 82 percent of participants were minorities, with more minority females than males. In 1987, the minority participation had risen slightly to 86 percent, but the male-female ratio had remained the same. Variation in wages also was minimal, with 85 percent of 1983 and 88 percent of 1987 participants earning between \$3.35 and \$3.99/hour. Minority males fared the worst in wage data, with 93 percent earning under \$4.00/hour.

The jobs of most participants were predominantly in food and other services, where 73 percent were employed in 1987. With the overwhelming majority of participants being minorities, there are so few white participants that racial differences in hiring patterns may be deceptive. However, it is interesting that the 1983 employment patterns by race continue in 1987. Most minority males, 80 percent in 1987 were in service jobs, while only 43 percent of white males were so employed. The difference was nearly as extreme among females, 76 percent for minorities compared to 44 percent for whites. In the period, these differences became more pronounced. In 1983, only 65 percent of black males were in service jobs compared to 56 percent of white males.

The greatest difference between 1983 and 1987 was the number of persons found eligible and hired under the summer program in the state. While the 1983 level of certification was low, at 1,027, the 1987 figure was worse at 404. As with the adult experiences after the hiatus period, this drop represented a major change from 1985 when 1,073 were hired. JTPA offices that had 613 placements in 1983 and 528 in 1985, had only 191 in 1987. The Job Service reduction in placements was not as consistent but still was dramatic, with placements rising from 411 in 1983 to 545 in 1985 before falling to 213 in 1987.

- o By 1987, the TJTC summer youth program had become a shadow of its 1985 self.
- o The reason for this decline lies partly with changes in employer utilization and with a change in employment program placement goals.

#### EMPLOYER UTILIZATION OF TJTC SUMMER EMPLOYEES

As with the adult TJTC programs, the hiatus period has greatly reduced the number of companies participating in the TJTC summer program. In 1983, 286 companies hired youth under the program in Maryland and 578 companies hired youth in Missouri. In 1987 only 123 companies were involved in Maryland



and 15<sup>7</sup> in Missouri. The biggest user in Maryland, a fast food chain, hired more eligible youth in 1987 than in 1983, employing nearly one quarter of all eligible youth in 1987. Six companies in Maryland accounted for half of all 1987 hiring, compared to eighteen in 1983. As a consequence of this concentration of employment in a few companies, the distribution of industries hiring TJTC youth diverged more and more from the pattern for businesses employing all 16 and 17 year old youth.

In 1983, the businesses employing TJTC youth had been more varied than those employing all 16 and 17 year old youth, a positive development which did not continue. Table 9 compares Maryland Work Permit data by industry with TJTC data for the summer of 1983. The comparison shows that TJTC employers were more frequently manufacturers or utilities or in the service and finance sectors than were the employers of all youth.<sup>46</sup>

By 1985, this pattern was already changing, as reflected in Table 10. The proportion employed in restaurants had risen to close to the norm for all youth, while manufacturing, service, and utility employment had fallen. Utility employment, in particular plummeted. By 1987, the process had continued further. Restaurant employment had soared far above the youth norm, services climbed, and other segments declined. Table 11 shows the 1987 comparison of work permit and TJTC data.

TABLE 9

YOUTH HIRED BY EMPLOYER CLASSIFICATION, 1983, ALL YOUTH COMPARED TO TJTC YOUTH  
(SOURCE: WORK PERMIT DATA, EXCLUDING GOVERNMENT EMPLOYEES,  
AND STATE TJTC RECORDS.) MARYLAND DATA ONLY

INDUSTRIAL CLASSIFICATION	WORK PERMITS		TJTC YOUTH HIRES	
	#	%	#	%
Construction	735	4.5	31	3.6
Manufacturing	731	4.4	139	16.1
Util/Comm/Transp	87	0.5	44	5.1
Trade (not incl. restaurants)	7,708	46.2	199	23.1
Restaurants	6,862	41.2	289	33.6
Service and Finance	496	3.0	159	18.4
Other	33	0.0	0	-
TOTAL	16,672	99.8	861	99.9

NOTE: 158 TJTC records are not counted because they were processed before current computer record system was installed. Records of their characteristics are not known. There is no reason why the records are not randomly distributed.

TABLE 10

YOUTH HIRED BY EMPLOYER CLASSIFICATION, 1985, ALL YOUTH COMPARED TO TJTC YOUTH  
(SOURCE: WORK PERMIT DATA, EXCLUDING GOVERNMENT EMPLOYEES,  
AND STATE TJTC RECORDS.) MARYLAND DATA ONLY

INDUSTRIAL CLASSIFICATION	WORK PERMITS		TJTC YOUTH HIRES	
	#	%	#	%
Construction	971	4.5	26	3.6
Manufacturing	768	3.5	122	12.1
Util/Comm/Transp	78	0.4	10	1.0
Trade (not incl. restaurants)	10,202	46.9	289	28.6
Restaurants	9,272	42.7	444	43.9
Service and Finance	421	1.9	120	11.9
Other	20	0.1	0	-
TOTAL	21,732	100.0	1,011	101.1

NOTE: 62 of the TJTC forms were not assigned a classification because the employer's industry could not be identified. They are not included here.

TABLE 11

YOUTH HIRED BY EMPLOYER CLASSIFICATION, 1987, ALL YOUTH COMPARED TO TJTC YOUTH  
(SOURCE: WORK PERMIT DATA, EXCLUDING GOVERNMENT EMPLOYEES,  
AND STATE TJTC RECORDS.) MARYLAND DATA ONLY

INDUSTRIAL CLASSIFICATION	WORK PERMITS		TJTC YOUTH HIRES	
	#	%	#	%
Construction	1,795	8.6	7	1.7
Manufacturing	868	3.7	32	8.0
Util/Comm/Transp	103	0.4	2	0.5
Trade (not incl. restaurants)	12,010	50.7	49	12.2
Restaurants	8,492	35.8	251	62.4
Service and Finance	415	1.8	61	15.2
Other	18	0.1	0	-
TOTAL	23,701	101.1	402	100.0

NOTE: 2 of the TJTC employers could not be assigned an industrial classification and are excluded from this table.

In Missouri the trend in industrial use of the summer youth credit was similar. While hiring under the program fell from 1,327 in 1983 to 820 in 1985, fast food employment held constant, changing from 445 in 1983 to 431 in 1985. Consequently, fast food employment changed from 37 percent of summer hires in 1983 to 60 percent in 1985. In 1987, despite a continued decline in participation, 57 percent of summer hires were employed in fast food restaurants. Manufacturing employment had fallen from 13 percent of the total in 1983 to eight percent in 1987. Construction jobs decreased from four percent to 0.4 percent.

## THE ROLE OF SUMMER YOUTH EMPLOYMENT PROGRAMS

The most important variables in understanding the decline of the TJTC summer program are vouchering and certification activity by agency. In Maryland, where data exist on vouchering by various agencies and on retroactivity, the decline in certifications corresponds to a decline in vouchering by JTPA programs, particularly the Baltimore City JTPA program, and to the relative increase in retroactive vouchering by the Job Service. In 1987, most of vouchers issued by Job Service offices outside Baltimore were to persons already hired or offered a job. Generally, the Job Service no longer vouchered large numbers of youth to allow them to conduct their job search. Thus, employment and training agency interest in summer employment played a crucial role in determining the number of youth vouchered.

If the job classifications and industrial employment patterns are reviewed in 1983, when placements were large enough to make inter-agency comparisons meaningful, placement rates by industry and occupation clearly vary by agency and location. In the suburbs of the nation's capital, 92 percent of youth placed by the Prince George's County JTPA program were in fast food establishments, while the region's Job Service offices placed only 40 percent of their youth in such businesses. The Office of Manpower Resources (OMR), the Baltimore City JTPA program, placed only 27 percent of its clients with fast food chains in 1983, while the Baltimore Job Service Offices placed 48 percent of its youth at such establishments.

- o The quality of agency services to youth appears to be a fundamental variable in the quality of the TJTC summer program.

Table 12 and Figure 8 show the change in these numbers in Maryland. Generally, JTPA programs reduced activity by about two thirds in the period, while the Job Service cut vouchering by three quarters. Only Job Service placements did not drop as much, but even these fell by 48 percent.

TABLE 12  
NUMBER AND PERCENTAGE OF TJTC YOUTH CERTIFIED BY  
AGENCY TYPE, 1983, 1985, 1987; MARYLAND DATA

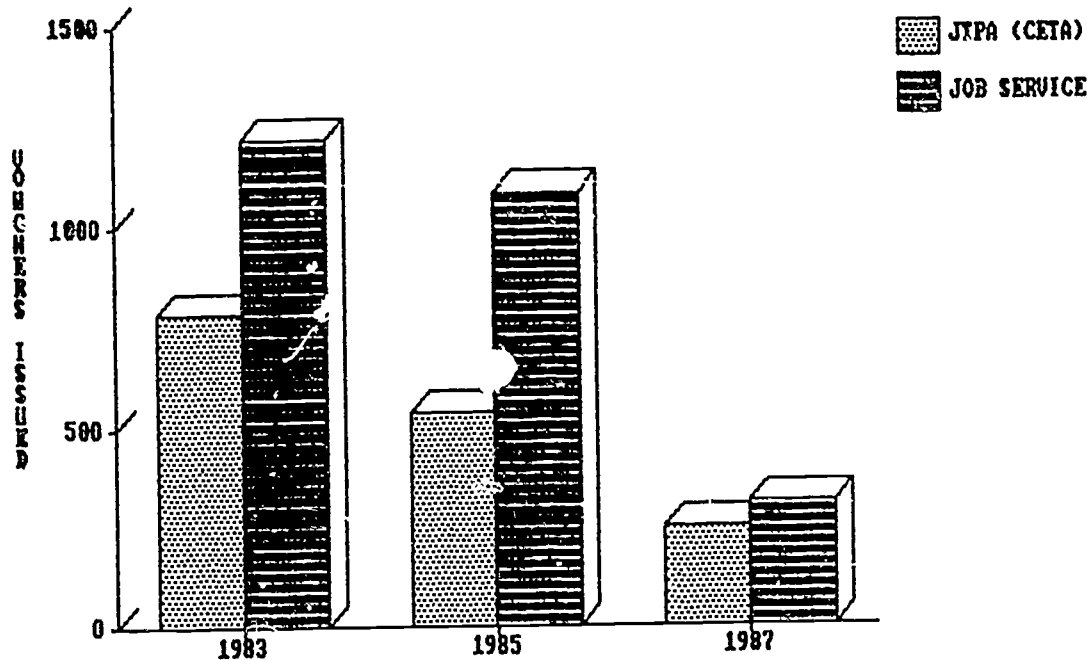
YEAR	CERTIFICATIONS				TOTAL
	JTPA DETERMINATIONS		JOB SERVICE DETERMINATIONS		
	#	%	#	%	
1983	613	59.7	411	40.0	1,027
1985	528	49.2	545	50.8	1,073
1987	191	47.3	213	52.7	404

YEAR	VOUCHERS				TOTAL
	JTPA DETERMINATIONS		JOB SERVICE DETERMINATIONS		
	#	%	#	%	
1983	781	40.0	1,215	60.0	2,003
1985	535	33.2	1,077	66.8	1,612
1987	252	44.6	313	55.4	565

FIGURE 8

VOUCHERING BY AGENCY TYPE, 1983, 1985, 1987; MARYLAND DATA



Job Service placements did not fall as greatly as other agency activity because a few large employers demanded that new youth employees be screened. With the concentration of TJTC employment among a few large employers in recent years, a minimum level of Job Service vouchering and certification is assured. In 1987, the Job Service vouchered less than one tenth the number of summer job seekers as in 1983. Most vouchering was for people attached to a job.

The large scale vouchering by the Baltimore JTPA program, the Office of Manpower Resources (OMR), directly contributed to the diversity of industrial employment in 1983. It had conducted an aggressive summer jobs campaign that year, "Blue-Chip Summer Jobs," which depended upon TJTC for its primary private sector hiring incentive. In that year the major utilities, banks, importers, insurance companies, and other leading private sector businesses provided TJTC jobs to city youth. Utilities, for example, hired 44 youths under the Baltimore Blue Chip program in 1983. One utility employed one youth in 1987 under the TJTC summer program. While the "Blue-Chip" program has continued, the number of private sector TJTC placements has decreased.

Compounding the decline in private sector jobs has been the short-fall in

the number of disadvantaged youth compared to the number of publicly funded summer openings. Blue Chip in Baltimore, SLATE in St. Louis, and the Full Employment Council in Kansas City appear to have faced the same problem in 1988, if not earlier. In St. Louis County, JTPA anticipated only 100 private sector jobs out of 1,200 positions in the Summer of 1988 and virtually none of these materialized. The St. Ann Job Service Office, which was to voucher all youth for the County JTPA summer program, had vouchered no one in the 16 and 17 year old category through the end of July. Virtually all the disadvantaged youth enrolled in Baltimore's Blue Chip in 1987 were placed into the 3,676 JTPA Title II-B openings. In 1988, 500 of 3,200 public sector jobs were unfilled at the end of July in Baltimore. The chance that a youth would be referred to a private job was minimal.<sup>47</sup>

The summer jobs programs in the three urban areas each have included job development activities for non-disadvantaged youth not eligible for JTPA or TJTC. These components of the summer jobs effort are run to build political support for summer employment programs. Because the non-disadvantaged cannot be placed in JTPA positions, all JTPA and TJTC eligible youths are placed in those positions. Private sector jobs and any non-JTPA public jobs are thus reserved for the non-disadvantaged. In 1988, the Blue Chip Program had 2,342 JTPA Title II-B positions and 858 privately funded jobs which could be given to non-disadvantaged youth. Without sufficient disadvantaged youth for the 2,342 public jobs, no private sector job would be reserved for TJTC youth unless the employer insisted on a credit. This policy resulted in few opportunities for private businesses to receive tax credits on youth employed through the summer program. It also denied the disadvantaged the opportunity to learn skills and develop personal contacts useful in securing permanent private sector jobs after graduation.

#### TJTC SUMMER PROGRAM IMPACT

Clearly there were major changes in TJTC summer program utilization between 1983 and 1987, with a drastic decline in the number of participants between 1985 and 1987. The decline meant the summer program's impact on poor youth in Maryland and Missouri, whatever it may have been in 1983, was negligible in 1987. In 1983, the 1,027 youth certified represented 6.2 percent of all youth hired in the summer in Maryland and about nearly half of the poor youth employed. With a larger number of participating youth, the Missouri penetration rate was at least as high. By 1987, the Maryland percentage had fallen to 1.7 percent of all youth and about 10 to 15 percent of poor youth employed. The Missouri figures were at least as low.

Unfortunately, there is probably no change in the TJTC program itself which can overcome this decline. Rather, the solution is to increase the interest and ability of youth programs to serve the placement needs of disadvantaged youth. With fairly tight youth labor markets, now is an ideal time to re-emphasize private sector summer jobs for disadvantaged youth as the primary summer employment strategy. Then funding could be applied to the summer remedial education programs which are in desperate need of financial support.

The Private Industry Council Chair in Baltimore has endorsed such a strategy. Despite practices to the contrary in recent years, he and city JTPA and educational officials want to devote scarce JTPA youth funds to a comprehensive summer remedial education program to help disadvantaged students reading below grade to continue learning while working at private sector summer jobs. There is not enough money in JTPA both to continue subsidizing summer employment and providing sufficient remedial education to the large numbers of potential drop-outs in urban America. The TJTC summer jobs program, if used vigorously to find employment for participants in such remedial programs, can contribute greatly to leveraging funds from employment to education.<sup>48</sup>

In the summer of 1988, Maryland decided to reimburse local Job Service offices for each voucher issued to a summer employee. TJTC administrative money was used for this purpose. There was skepticism that the reimbursement was not sufficient to gain major increases in vouchering. Preliminary data through early August 31, 1988, shows the decline in youth vouchering noted in 1987 is continuing. Summing up the summer jobs effort in Kansas City, one veteran staffer of the Full Employment Council's summer program noted that there still are plenty of youth "out there." A Maryland official agreed, noting many of the youth do not need to apply for the minimum wage jobs under the JTPA II-B program, since fast food and other retail establishments are paying above the minimum wage. She concluded, perhaps public jobs programs have become obsolete. What is needed is to concentrate JTPA resources on support programs for youth but not direct employment creation. If the youth currently placed in public jobs were available for private placement, there might again be a role for a summer TJTC program.

- o Systematic utilization of TJTC as a supplement to summer remedial education programs might be greatly helped if during the reenactment process specific language was included to describe the role of TJTC in freeing youth employment and training money for remedial education.
- o If that is not done, it would appear that the 85 percent summer credit is obsolete since the summer employment programs cannot attract sufficient youth.

## PART VI

### AGENCY PERFORMANCE

In 1984, in order to plan the Maryland TJTC summer youth campaign, a questionnaire was sent to TJTC coordinators in every state to ask about their 1983 experiences. Maryland concluded that it had not vouchered a sufficiently large number of summer youth and wanted to know the experiences of other states. One of the more interesting responses came from Missouri, where despite vouchering more than twice as many youth as Maryland, officials felt they had not vouchered enough. The most disappointing responses came from eleven other states which felt they had vouchered a majority of eligible persons. A few of these responses may have been correct; however, most seemed to reflect a failure to use TJTC to address youth employment problems. A review of the utilization of TJTC since 1979 indicates this failure may be more general than just the youth program.

Since its beginning, TJTC has been a program that does not have a single home among employment and training agencies. As a program to promote the employment of the disadvantaged, TJTC applies to the same client population of programs funded under the old Comprehensive Employment and Training Act (CETA) and its successor, JTPA. However, since two eligible groups under TJTC are handicapped, the program relates to the job placement role of vocational rehabilitation agencies. It also includes ex-offenders, often being placed into employment by prison pre-release programs, parole officers, and special ex-offender programs. TJTC includes Vietnam era veterans, often served by Veterans Administration and special veteran placement programs. Likewise, many areas have had special welfare employment agencies, such as the Work Incentive Program and others. There is even the cooperative education component of TJTC which is primarily administered by high schools. Then, each community has state Employment Security Agency (SESA), Employment Service, or Job Service offices which place members of all the above groups, as well as applicants not eligible for TJTC or JTPA.

Shortly after the passage of TJTC, in late 1978, the Department of Labor decided that the Job Service would have the lead role in each state under TJTC. The SESAs would be responsible at a minimum for the processing of completed TJTC vouchers. The Job Service would review every voucher submitted by an employer in the state and be responsible for issuing TJTC Certifications to employers entitling them to the tax credit. However, the Department of Labor urged the SESAs to reach agreements with any non-profit employment program in the state serving the eligible populations to allow those programs to participate in the vouchering process. In Maryland, for example, the Job Service allowed all CETA prime sponsors, Vocational Rehabilitation offices, Veterans Administration offices, welfare offices, prisons and other ex-offender programs, and a number of other agencies, such as Goodwill Industries to issue vouchers. Every voucher issued in the state, however, had the same return address. Every one submitted by an employer was certified by the same office in Baltimore. In Missouri, the Job Service issued nearly all vouchers, with only a few special arrangements to allow Vocational Rehabilitation staff and one JTPA program to voucher. Certifications in Missouri were issued by

the local office serving the area in which the employer submitting the voucher was located. Other states are fairly evenly divided between a Maryland and a Missouri model for cooperation with other agencies.<sup>49</sup>

In addition to working with agencies in the community, each state Job Service must submit its TJTC plans for the year to the Department of Labor, as well as have its records reviewed periodically. The Department of Labor is one of two federal departments with direct TJTC responsibility. The Internal Revenue Service has responsibility for developing taxpayer rules and, through its regular auditing process, for review of employer tax credit claims. For the employment and training community, however, the primary TJTC responsibility falls to DOL. In the early years of TJTC, DOL took a lead role in promoting the program, providing technical assistance to the states, and forcing those states reluctant to take on TJTC duties to do so. In more recent years, the DOL role has become minor. DOL has seldom updated its TJTC Handbook, even though it spells out the procedures states must follow in implementing the frequently changing law. For months following the end of the hiatus period, DOL did not even begin gathering data on the program. Only in the Spring of 1988 were TJTC data requested from states for 1986 and 1987.<sup>50</sup>

The rationale for assigning the TJTC certification role to SESAs was based on the fact that "SESAs have more contact with target group members seeking jobs than other participating agencies, and also have experience with job placement."<sup>51</sup> Many assumed that the SESAs would welcome TJTC, an incentive that would make the placement of the disadvantaged easier. Two problems surfaced almost immediately in 1979. First, turf battles began with CETA programs, some of which wanted to perform all certification themselves. Second, some Job Services welcomed CETA interest in the program, holding that CETA was to serve the disadvantaged and the Job Service was for the "job ready." Initially, some Job Services based their opposition to administering the program on the lack of funding to operate TJTC. The original DOL position mistakenly assumed that, since TJTC was going to make placement of clients easier and might lead many employers to the Job Service who previously had not wanted to use it little or no funding would be needed. Many Job Services were prepared to forfeit the benefits of TJTC if they could not get additional funding.<sup>52</sup>

Subsequent study of TJTC in Missouri and eleven other states found that in Missouri, in fact, the TJTC applicants, while using more services at the Job Service, such as counseling, had a better rate of getting a job, resulting in a coveted placement for the agency. TJTC applicants, consequently, cost the agency less for each placement than the average applicant. Perhaps because of the realization of this cost effectiveness, in 1981 the SESAs fought successfully to have their certification role defined in the tax law.<sup>53</sup>

Yet, SESAs have not always been enthusiastic about dealing with TJTC or with applicants eligible for the program. In 1982, a study of Maryland programs to increase welfare employment, quoted recipients as finding the job service of no help. One applicant stated, "They are prejudiced."<sup>54</sup> One key vocational rehabilitation official in Missouri said unequivocally that 'the Job Service hates TJTC.' That is not true of the state administration. The Job Service Director has been cited as a firm supporter of TJTC. He "commits



more resources to TJTC than is [sic] allotted by the program budget."<sup>55</sup> However, the regular Job Service budget has been greatly reduced since 1982 in Missouri. "Despite the recent increase in direct TJTC funding, local office staffing levels are reportedly no longer sufficient in many areas of the State to conduct pre-screening of TJTC eligibility."<sup>56</sup> In some offices, at least in the St. Louis area, job seekers are not offered a voucher unless sent by an employer or another agency. This policy is the one that has led vocational rehabilitation staff to question Job Service commitment to the program.

JTPA programs have had their own mixed response to TJTC. It was assumed in 1979, for example, that PICs would include "marketing the Targeted Jobs Tax Credit as one of their primary goals."<sup>57</sup> Under CETA there was much interest in TJTC; however, one study found that since the end of CETA, about half the JTPA programs have had little interest in TJTC. In Missouri, SLATE staff say they view TJTC as a Job Service program and only try to arrange for a voucher to be issued by the Job Service if an employer expresses strong interest in TJTC.

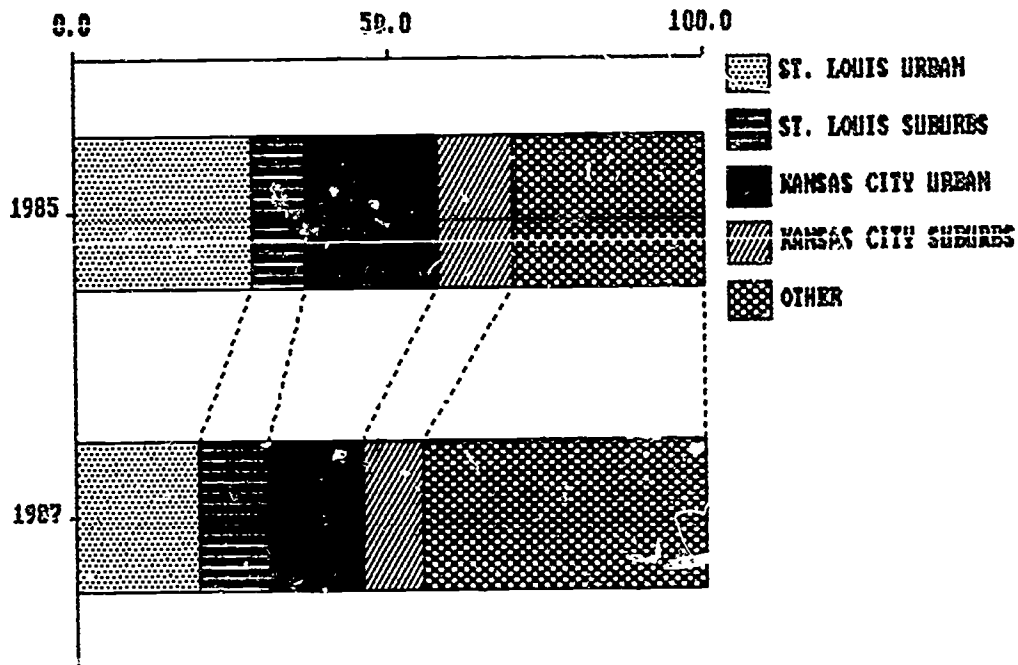
In Baltimore, by contrast, the JTPA program includes TJTC information in its promotional literature. The JTPA job placement office, called Starters, boasts in its brochure for business, "When you hire an eligible candidate from our pool, your company can receive up to \$2,400 in federal Targeted Jobs Tax Credits in the first year of employment." Likewise, the credit is promoted in brochures for the welfare employment program called "Working Solutions." In fact, with a decline in Job Service promotional efforts in Baltimore under a new state organizational structure, the JTPA program is the only source of TJTC promotional literature in the city.

In Kansas City, joint JTPA-Job Service staff still try to give vouchers to all eligible applicants, particularly if they have 'nothing else to offer.' The downtown Kansas City office manager believes the tax credit really helps the disadvantaged find employment at some firms offering good jobs. However, vouchering in offices in both St. Louis and Kansas City declined by 29 percent from 1985 to 1987. The vouchering increases in Missouri came from suburban St. Louis and rural and small city activity. Suburban St. Louis vouchering more than doubled from 1985 to 1987. Vouchering in offices outside the two large metro areas, increased by fifty percent from 1985 to 1987. This probably resulted from the different perspective of client services in the rural offices. A 1986 study of TJTC that included a review of activities in a small Missouri office, said "[The] office attempts to make eligibility determinations on all applicants . . ." This was at a time when urban offices had already determined that "No walk-in ES traffic is vouchered."<sup>58</sup> Figure 9 below shows the change in local office vouchering in Missouri from 1985 to 1987.

How much of the change in relative vouchering levels of urban and rural offices relates to administrative structure and how much to labor force factors is not known. The fact that, "Rural residents consistently suffer a higher rate of poverty than metropolitan residents despite the fact that poor heads of households in non-metropolitan areas are more likely to be employed," might explain why in times of falling unemployment rural offices would have higher rates of TJTC activity than urban offices.<sup>59</sup> However, at least some of the change must relate to the internal structure of smaller offices. Staff

FIGURE 9

SOURCE OF VOUCHERS, BY OFFICE LOCATION, MISSOURI 1985 COMPARED TO 1987



NOTE: SOURCE IS 4TH QUARTER SAMPLE DATA 1985 AND 1987

in such offices usually are less specialized and have more opportunities to see the full needs of those they interview. Staff in small offices would be more likely to see vouchering as a benefit to an individual and to take the time to issue a form. The large urban offices, that have been overwhelmed with retroactive determinations of TJTC eligibility have a more cynical view of TJTC. They accept the policy decision to only issue vouchers requested by employers or other agencies. The growth of suburban vouchering around St. Louis and in Baltimore county, is market driven, not a result of different agency policy in those areas. It is a response to the great growth in service and retail employment outside the central cities.

#### THE VOUCHER AS STIGMA

Interestingly, it was in the same small Missouri office that tried to voucher anyone who wanted a form that staff expressed concern with one of the negative features of vouchering. They were aware that "some [applicants] refuse to inform employers out of fear of stigmatization."<sup>60</sup> Gary Burtless has reported in several articles on a test of vouchering conducted in 1980 and 1981 in Dayton, Ohio. Quite simply, his conclusions were that "workers known to be eligible for targeted wage subsidies are significantly less likely to find jobs than were otherwise identical workers whose eligibility for subsidies was not advertised."<sup>61</sup> In fact the sweeping conclusion implied by Burtless is highly qualified by the experimental design.

Even before the publication of Burtless' work, there had been discussions of the potentially negative impact of employment subsidies. In 1978, John Bishop and Robert Haveman considered both sides of the stigma issue. First, they described how public assistance was a stigma. They noted that by comparison, "A subsidy paid to the employer is less likely to be perceived by the worker as demeaning charity than direct welfare benefits." However they admitted that, "While a subsidy received because one is working is inherently less stigmatizing than one received because one is not working, it is possible that an employment subsidy targeted on those in the greatest need may stigmatize as well."<sup>62</sup> In 1985, Bishop's report on the results of employer surveys regarding TJTC utilization found that the possibility of TJTC being a stigma correlated with the type business considering the TJTC applicant. "The pattern that seems to emerge from these results is that TJTC has a more positive impact at firms that were already hiring the least qualified workers . . . These firms were used to dealing with the types of workers they perceived TJTC eligibles to be . . ."<sup>63</sup> Others have also had misgivings about the findings of Burtless, such as Sar Levitan, who noted that Burtless' test had to be terminated prematurely because of budget cuts, preventing the gathering of ethnic and interview data which might have uncovered other reasons for the apparent voucher stigma.<sup>64</sup>

The variation by targeted group of income gains found in this study appears to show that the stigma may vary by group. The handicapped and welfare recipients, two groups who by their appearance or recent work history would have difficulty concealing their employment barrier, had especially large income gains. The average income gain for the handicapped and welfare groups from 1981 to 1982/83 was \$3,232. For the other groups, it averaged \$2,305. Unfortunately, the income gains of minority categories were lower, in all cases except one, than those of non-minorities. The only minority category to gain more was the minority Vietnam era vet group, which only surpassed the white category by \$39. This pattern would suggest that the TJTC voucher cannot overcome the latent racial discrimination in the labor market directed at blacks. Relatively, however, it can help those, whether black or white whose barrier to employment is a handicap or long term absence from the labor market.

The design of the TJTC voucher and the process of vouchering in theory minimizes the problem of stigma. First, the voucher does not tell why the person is eligible. It does not say whether the person is a youth or an ex-offender; is handicapped or a Vietnam era veteran. The process of issuing the voucher does not force the eligible job seeker to use the form. As the staff in Missouri observed, some job seekers may not want to do so. While the awareness of possible stigmatization is good, it should not result in employment and training staff unilaterally deciding not to issue vouchers. Bishop's 1985 survey found some evidence of this practice.

- o If TJTC is to be renewed, to encourage vouchering. Job seekers not employment and training staff should make the determination of whether the voucher is a stigma.

## RETROACTIVITY AS A BARRIER

The development of Management Assistance Companies (MACS), that assist businesses to receive retroactive credits, has raised another barrier to TJTC acceptance within the Job Service, if not within the entire employment and training community. The retroactive workload has undermined regular vouchering for at least three reasons:

- 1.) Because the MACS push retroactive determinations due to their own financial interest, there has been little or no decline in this type vouchering, despite changes in agency funding and unemployment rates. Consequently, urban and suburban Job Service offices feel inundated with requests for credits. With limited resources, the most direct response is the decision, such as in the St. Louis area, to voucher only persons referred by employers.
- 2.) The volume of retroactive determinations compared to non-retroactive has led most staff to feel that TJTC primarily provides a windfall tax benefit to businesses which had already hired the people being certified. A few staff see that the program may help job seekers given vouchers to take on their job search. But, staff support for the program is qualified by the knowledge that many Job Service certifications result from retroactive vouchers.
- 3.) The attempts to incorporate the vast amount of retroactive vouchering into the Job Service reporting system has led to cases of abuse, if not corruption.

A study of the Maryland Job Service by the University of Maryland's Institute for Policy Analysis and Research explained the agency's involvement with retroactivity as having positive results for agency placement goals. "The process obviously creates some additional paper work for the Job Service office but also helps them meet placement quotas."<sup>65</sup> While the study was correct that placement quotas could be helped in the Maryland system by determinations of eligibility of persons referred by an employer, the Maryland rules imposed several important restrictions on counting such activity as a "placement." First, credit received for vouchering persons referred by their future employer is suppose to equal half that of a regular placement. Second, even this half credit could only be claimed if the job seeker was not yet employed, but was merely being referred to the agency by an employer who had offered a job which had not yet begun. Since most retroactive determinations are on people already working, the Maryland procedures only allow credit for a limited number of employer originated vouchers.

That the University of Maryland researchers misunderstood the limited value of such vouchering for the achievement of placement goals is a good indication of the corruption of the Job Service performance system resulting from retroactivity. Retroactive TJTC vouchering can be extremely valuable, if offices erroneously convert retroactive determinations into pre-hire determinations. Then full placement credit can be received for what was an employer service with no effect on a person getting a job. The only detected case of this practice occurred in 1986. An office in the Maryland suburbs of

Washington, D. C., was forced to delete 2200 "placements" at one retailer that were in fact retroactive. While not all of the placements were of TJTC eligible persons, the office knew of the persons being hired because it provided special TJTC screening of all new employees for the firm. The office fell from having had the "best" performance in the state in 1985 to being mediocre in 1986, once the erroneous placements were dropped. As the report on the incident observed:

It has been alleged that the same type of procedure has been used for years by other offices and that placement credit for hires has been routinely taken. However, it also has been alleged that many offices, while following similar procedures [of helping screen applicants], have chosen not to take placement credits. The difficulty is that there is no clear-cut evidence of how widespread this bending of the definition [of placement] was or still is <sup>66</sup>

This incident raises two problems related to vouchering, the need to resolve issues related to retroactive vouchering and the need to adjust agency performance standards to not discourage vouchering but, rather, to prevent corruption.

A number of observers of TJTC have noted the problem of retroactive vouchers. As Sar Levitan noted, "The extent of this practice has not been determined because Congress and the Departments of Labor and Treasury have been negligent until recently in performing their reporting, oversight and monitoring responsibilities."<sup>67</sup> After 1981, reporting of retroactive determinations was ended when the letter of request provisions were added to the tax law. The Treasury Department has repeatedly mentioned the problem of retroactivity as one of its reasons for opposing TJTC.

There are at least four proposals for eliminating the problem of retroactivity, short of the Treasury's suggestion that the credit be abolished.

- 1.) Allow employers to claim the credit without certification;
- 2.) Allow employers to submit eligibility documentation by mail to a central processing unit not in a local office;
- 3.) Charge a fee for vouchering persons already employed; or
- 4.) Abolish retroactive determinations of eligibility.

Each of these has certain advantages and disadvantages. All can be implemented either as a substitute for current procedures or as a companion to them.

With vouchering having some stigmatizing affect, the first proposal may have some merit. This procedure however would seem to be open to gross abuse, either intentionally or by accident. Eligibility for TJTC is often quite difficult to determine, particularly for those groups whose family size and income are the key eligibility factors. If this procedure were begun,

employers or their agents would determine eligibility, with the check presumably being the IRS auditing process. Considering the high turnover of TJTC eligible workers, it would be extremely difficult for IRS to check most employer determinatio. , several years after the hire date. This procedure was more workable for the New Jobs Credit, where the only documentation related to total employment.<sup>68</sup>

The second alternative is already being tried in Maryland. In recent years, states such as Florida and Massachusetts have experimented with phone or mail vouchering. Massachusetts launched its system in 1987 to recover from a backlog of retroactive determinations which originated in the hiatus period.<sup>69</sup> Maryland adopted and modified the Massachusetts system for at least three reasons:

- 1.) MACS that operated in Massachusetts and other Eastern States requested that Maryland adopt the Massachusetts system,
- 2.) Removing retroactive vouchering from local offices would allow those offices to focus TJTC work on job seekers and employers not using the program retroactively, and
- 3.) The method allows for economies of scale.

Under the Maryland system, employers collect detailed eligibility documentation from new employees. This information is mailed to the central tax credit processing unit. That unit then checks appropriate eligibility verification sources. Some are obvious, such as calling the state vocational rehabilitation headquarters to verify vocational rehabilitation status. For those in the welfare categories, on-line access to welfare case load information is used. For those claiming to be economically disadvantaged incomes of all family members are checked, using unemployment insurance wage record files. Family size information is checked against records of the welfare programs in the state. While not every person has a record at the welfare offices in the state, most eligible persons have registered for some program. When discrepancies in eligibility information are found, the eligibility forms are returned to the employer. All participating MACS or employers are required to sign a cooperative agreement that includes a warning that the right to use mail vouchering will be terminated if excessive errors are detected.

The Maryland system has the advantage of removing most retroactive vouchering from the Job Service local offices. The system became fully operational in early 1988, and local offices experienced the expected decline in retroactive determinations. This change has not been welcomed by all offices. Several managers complained that the retroactives were a valuable means of forcing employers to cooperate with the Job Service. Now they have lost these contacts, since the employer deals with a central office by mail. Managers of these offices have failed to see that they can still offer to voucher job seekers before hire so that employers can make hiring decisions that include consideration of credits available on eligible job seekers.

Charging a fee for TJTC vouchering was an idea that surfaced in Wisconsin

in the aftermath of the hiatus period. On December 18, 1986, the Department of Industry, Labor and Human Relations announced it would charge a fee of \$50 per certification. The reason offered for this action was that:

Until the recent reauthorization of the TJTC Program, the Congress had always provided the special funding needed to cover the cost of TJTC certification and other program administration functions. But the Congress has now left it up to the State Employment Security Agencies to determine how to finance the provision of TJTC services.

The Department needs this emergency rule to generate the revenue necessary to make the benefits of the TJTC Program available to eligible employers and job seekers.<sup>70</sup>

The Department of Labor announced on February 10, 1987, that "There is nothing in the TJTC legislation barring fee-charging to employers, their representatives, or to applicants."<sup>71</sup> The goal of the Wisconsin fee may have been as much to pressure appropriation of TJTC funding as to really charge a fee for a certification. The state never went beyond billing employers. The program was halted after TJTC funding became available.

However, the idea of fee charging had some merits. After learning of the Wisconsin's plans, Maryland proposed charging a higher fee for retroactive determinations. Maryland would have charged also for letter of request processing. Such a fee structure would have encouraged employers to utilize TJTC in ways productive for the Job Service. Employers would have paid little or no fee for people hired through the regular placement process or if they hired a client vouchered before hire. The plan was put on hold, after Congress appropriated TJTC funds in 1987.

The fourth proposal for dealing with the problem of retroactivity is to forbid determinations after hire. A variation of this proposal, to allow for problems arising from hiring on weekends, on holidays, or in remote locations, would require that employers have employees vouchered within a short time after hire, such as one week. There would be no letter of request procedure. Employers, some MACS, and Job Services have supported this concept, which would save the high cost of processing requests, which last year totalled several million.

- o In the next reenactment, one of the above methods should be adopted to reduce retroactivity. The retroactive process clearly is an abuse of the intent of TJTC.

#### VOUCHERING AND PERFORMANCE STANDARDS

In recent years the Department of Labor has largely abdicated responsibility for JTPA and Job Service assessments of performance. However, there are standards imposed on JTPA programs by the act, and Job Service administrators in Maryland and Missouri have continued to hold local offices responsible for maintaining placements in some ratio to the number of applicants registered. The federal JTPA standards also include an entered

employment rate standard, as well as average placement wage and cost per placement standard. Except for perhaps the cost per placement standard, the other measures of performance conflict with mass vouchering of eligible populations. While the JTPA programs and the Job Service share common performance standard problems with TJTC, their different roles, one as a training agency the other as a labor exchange, make the impact of performance standards somewhat different.

Nationally, the Job Service problem with TJTC is more a result of tradition than current law. The Job Service for many years received its funding based primarily upon how many placements it achieved. While recent funding has been changed to reflect unemployment rates and other factors, Job Services have not adjusted to this change. In the study of TJTC by Macro Systems in 1985, they noted "Because of this budget allocation history, local office managers find it difficult to see the relationship between increasing their vouchering/outreach activity and their own effectiveness."<sup>72</sup>

In Maryland and Missouri officials still measure local office performance based upon placement rates. The standards have two impacts. First, they discourage registering too many applicants, since placements will need to be increased to keep the placement to applicant ratio stable. Second, they hamper service to the disadvantaged, since the disadvantaged are harder to place.<sup>73</sup> Vocational rehabilitation offices have managed to maintain vouchering levels for their performance system does not penalize them for providing a service to a client.

In every office, staff see a conflict between serving TJTC applicants and meeting performance goals. Managers cannot be blamed for seeing TJTC as a mixed blessing. As one suburban St. Louis manager noted, "TJTC hurts statistically, but its good for employer relations." In Maryland, an elaborate Performance Improvement Process (PIP) has incorporated the basic placement to applicant ratio problem into a complex set of local office assessment measures. One solution to the problem of TJTC skewing one's performance is to cheat by omission or commission. Some offices omit damaging TJTC work, only registering applicants when they obtain employment. One, if not more, have taken the route of commission, leading to the incident mentioned earlier of 2,200 erroneous placements.

As the primary administrative agency for TJTC, the Job Service faces an additional level of performance standard measures which affect vouchering. For many years the TJTC funding was distributed primarily on the basis of the number of persons certified. This system rewarded not vouchering, over which the state had control, but a factor which could be controlled more by MACS than by Job Services. Since most states with high vouchering rates, such as Missouri and Maryland, issued large numbers of certifications, penalties were more potential than real. Nonetheless, there was no reward for vouchering. Since the hiatus period, funding has been related to labor force factors, not TJTC activity, encouraging neither vouchering nor certification and rewarding most those who produce the least. Considering other barriers to vouchering, it seems doubtful that this problem is the fundamental obstacle to program performance.



The JTPA problem with performance standards is more complex than that of the Job Service. Not only is JTPA driven by placements but by the quality of the placements. Since there is no assessment of the earnings gains from the pre-employment period for each client, but only a measure of factors such as starting wage, it is better to work with the better educated or the more experienced among the eligible population than with the least educated or minimally experienced. As one Baltimore JTPA official noted, performance can be maximized by serving the least disadvantaged client and offering small amounts of counseling followed by a placement. Even if the job lasts only one day, if it pays more than \$4.20 per hour the JTPA goals are being achieved. Trying to place an illiterate worker with a poor work history will ruin the performance level. As was found in a study conducted under NCEP auspices, some officials are "concerned about the durability of results" of positions developed under these performance standards. This problem has a direct impact on the relationship of JTPA and TJTC.<sup>74</sup>

Job Service staff complain that while they try to serve the job ready, JTPA only serves the "training-ready," excluding a class of truly disadvantaged clients who fall beneath that standard. Representatives of SLATE readily admit, for example, that they have high standards which allow those who qualify to benefit from their programs. Baltimore JTPA officials offer some exemplary programs for persons with serious educational deficiencies but cannot help persons reading below a fourth grade level. As George Wendell and Allen Tomey at St. Louis University pointed out, creaming is essential at JTPA because it is trying to meet the needs of business, and business expects creaming. The NCEP sponsored study found that of the 25 JTPA programs studied, "Eighty percent of the field sites agreed that they were not attempting to define who those 'most in need' of services were, and had not intentions to do so." Echoing staff at SLATE, that study's authors perceived that local government and PIC officials "agreed that JTPA was 'not a poverty program' like CETA."<sup>75</sup> Gary Orfield, in his analysis of JTPA in neighboring Illinois, found the same attitude, "There is overwhelming agreement throughout all levels of the training system that these requirements strongly encourage the selection of the trainee with the fewest needs and the exclusion of people who need long-term training and support services."<sup>76</sup> Only one of the JTPA officials interviewed for this report, from the Full Employment Council in Kansas City, did not see the performance standards as a barrier to TJTC vouchering. As he noted, however, the Kansas City labor market was so tight that neither employers nor JTPA could afford creaming.

Quite simply, the negative impact of JTPA performance standards can be seen if TJTC productivity is compared to that under CETA. In the fiscal year ending on September 30, 1983, the last year of CETA, Maryland CETA offices vouchered 6,085 persons. In calendar year 1987, JTPA offices vouchered 1,647. A statement by Marvin Lazerson and Norton Grubb about youth jobs programs might be applied here. "The links between employment and training have been broken, and the opportunity to create more and better employment for youth has been undermined by the emphasis on training."<sup>77</sup>

The current performance standards have encouraged JTPA and Job Service to minimize services to a whole range of disadvantaged persons. In order to increase interest in serving the most disadvantaged, standards should look at

long term earnings gains of participants. Ironically, the standards which discourage employment and training programs from showing interest in TJTC are the very ones which have made TJTC one of the few subsidies available to any truly disadvantaged job seeker. Such jobs are welcomed at neither JTPA or the Job Service.

Basing performance assessments on net income gains of participants would have another beneficial result. It would penalize the vouchering of high income individuals. Job Service staff in Maryland and Missouri have mentioned abuses in the eligibility determination process related to family income. They particularly point to allowing suburban youth who claim independence from their families to qualify as disadvantaged youth or skilled military retirees, Vietnam era veterans. The retirees are eligible, for example, because their military pay is excluded under the DOL procedures, and they have yet to receive sufficient retirement payments, which do count as income, to exclude them. Yet, clearly they are not disadvantaged.

The review of the barriers to vouchering has implied that employment and training agencies do not show concern with the employment needs of the truly disadvantaged. In most offices, in fact, real concern was shown with the disadvantaged population. At the Baltimore Office of Employment Development, at SLATE and at the Full Employment Council, there appear to be exemplary efforts to deal with the employment needs of the urban poor. At the large downtown offices of the Job Service in the cities, there appears to be a constant flow of disadvantaged clients seeking assistance. Staff are aware of their needs and concerned with meeting them. Staff are also acutely aware of the contradiction between performance standards and the needs the unemployed public are asking them to meet. Some staff find ways to cheat the standards. That effort should be unnecessary. Standards should measure and reward quality service provided to those most in need.

## PART VII

### EMPLOYER UTILIZATION PROCESS AND PROBLEMS

Incorporation of the Targeted Jobs Tax Credit (TJTC) into the personnel and financial systems of American business has been one of the most fascinating parts of studying the program. The efforts of large businesses to systematize utilization of the credit has had the unexpected result of spawning an industry to assist companies claiming TJTC. To understand this development, the use of TJTC from a company perspective should be reviewed.

TJTC was designed so that a company might receive a credit in one of three ways. A job seeker who wanted to use the credit to secure employment might go to the Job Service or another authorized employment and training agency and secure a voucher. The job seeker would take the voucher on the job search, showing the form to every possible employer, indicating that if hired the company could receive a credit.

A second way to secure a credit would be for the company to ask an employment and training agency, such as a Job Service office, to refer someone to an opening at the company. There are several variations in how the contact between an employment program and an employer could result in a credit. The company could ask that only credit eligible job seekers be sent to the job opening. If the employer asked the agency to send anyone to the vacancy, the agency might send someone with a voucher. Lastly, the agency might try to develop job openings by making "cold" contacts with businesses, informing them of the availability of the credit. In recent years most TJTC promotion in Missouri has come through visits by Job Service employer relations staff who personally explain the credit to businesses.

The final method of securing a credit would be when a company, which was familiar with TJTC, sent a job applicant who had been hired "off-the-street" to the Job Service for an eligibility determination. Under the Revenue Act of 1978, the employer could send a eligible job applicant to the Job Service either before or after hire. Since 1981, the employer can only send someone who has already begun employment to the Job Service if on or before the first day of work, the company filed a written request for a tax credit. If the employer sends a letter of request, he still must send his new employee to the Job Service to get a voucher. The only times he would not send the new employee to the Job Service would be if he had sufficient new employees that the Job Service agreed to do on-site screening or if the business were in a state, such as Maryland, doing mail vouchering.

Management Assistance Companies (MACS) developed under the Revenue Act of 1978 to assist employers to determine eligibility of current employees to see who should be sent to the job service for vouchering. Their existence was sharply attacked at the time of the first extension of TJTC in 1981. One accountant in 1981 was quoted as saying, "If I were testifying before Congress about this, I'd say cut out retroactive certification, period. I think it's ridiculous."<sup>78</sup> In theory, the Economic Recovery Tax Act (ERTA) of 1981 ended retroactivity. No longer could a company request a credit on an employee days or months after hire. At a minimum, under ERTA, firms had to send a letter of

request (LOR) asking for a credit before the new employee's first day of work. Later, this requirement was changed to be on or before the first day of hire. The test of timeliness of such letters is the postmark. The letter must specify the name and social security number of the employee, the name of the company, and the hire date.

The problem from the Job Service perspective with the LOR requirement is that there is no rule that the letter be sent on someone who is likely to be eligible. Some firms send letters of request on every person hired. Only at a later date do they attempt to decide who might be eligible. At least one consultant in Missouri does not even screen workers at that point. Further, every person hired by their client is sent to the Job Service to be interviewed. While most do not qualify, the company does get every possible credit by this procedure.

The problem from the company perspective with the LOR procedure is that the company does not know at the time of hire whether the person is eligible. They may suspect the person is going to qualify them for a credit. In many cases, however, the hiring official is only vaguely aware of what he is doing when he requests a tax credit. The procedures established by the MACS often tell the manager nothing more than to have each new hire call a toll free number on the hire date. In that call, the MAC staff interview the new employee and prepare a letter of request. Often the LOR is no more than a computer generated postcard.

Many firms turn to MACS because TJTC creates a dilemma for them. Since personnel or line management staff must make the hiring decision which is essential to earning a credit, they must be convinced that the credit is of more value to the firm than other factors normally considered when hiring. If they are concerned primarily with retention or with hiring the most skilled applicant, they may see no direct benefit in hiring a TJTC applicant who they perceive to be a potential employment problem. Corporate finance staff are often those responsible for tax savings; yet, they may have little influence over personnel staff. This division of responsibility within business has created a marketing bonanza for MACS. The MAC may reach initial agreement to handle TJTC for the company by negotiating with accounting staff. When directions are sent to personnel or line managers about the agreement, it may be in non-threatening terms. Directions to McDonald's managers simply said, "Continue to hire the best people you can. [Then call the toll free number.]"<sup>79</sup>

Under the LOR procedure a company cannot maximize credits received under TJTC because it makes the hiring decision without knowledge of the employee's eligibility. The study by Joseph Arwady of Borg-Warner's efforts to maximize utilization of TJTC describes how a company can counter this trend. Borg-Warner reduced utilization of MACS, eliminating them from a number of locations. More importantly, whether or not it used a MAC, the company provided incentives and sanctions to increase use of TJTC. As at a number of other successful users of TJTC, managers were offered financial rewards for hiring TJTC eligible persons. In addition, reporting requirements were begun that allow corporate management to assess local use of the program.<sup>80</sup>

The procedures developed by Borg-Warner are ones that would be expected

of efficient American business. The procedures were taken to counteract the known disincentives to TJTC use. Arwady is familiar with John Bishop's survey of employer attitudes about TJTC. Bishop found that only one third of TJTC users would admit that the credit influenced their hiring decision. He even found that in 15 percent of cases employers did not request TJTC certifications on known eligible persons.<sup>81</sup> Borg-Warner was also aware that TJTC workers would be slightly less experienced or otherwise qualified than non-eligibles. In a sense, Borg-Warner saw the voucher as a stigma as had Burtless. But unlike many companies, Borg-Warner then adopted corporate policy to overcome the internal resistance to hiring TJTC eligible workers.

Borg-Warner also adopted policies to help facilitate improved relations between managers and employment and training programs. In Baltimore, for example, the two Borg-Warner divisional managers in the city have been to the large downtown Job Service office, even to recruit eligible workers at the office. They also are familiar with the JTPA placement program, Starters. In addition to addressing the hiring stigma issue, Borg-Warner realized a second obvious point about TJTC most other users ignore, that it is a retention incentive as much as a hiring incentive.

The company developed procedures to track eligible employees to encourage managers to seek to improve TJTC retention. Arwady notes, "As soon as the targeted worker is hired, the employer must take steps to maximize the duration of employment and the corresponding size of the subsidy."<sup>82</sup> While other companies have reportedly developed such a comprehensive TJTC system, it is surprising that so few have done so. It appears that few have rationally developed TJTC utilization plans; yet, the concept underlying TJTC and other employment subsidies assumes a subsidy will cause companies to rationally implement personnel policy changes that increase the employment of eligible workers.<sup>83</sup>

The implementation of rational TJTC policy in business is not necessarily incompatible with the work of MACS. While a number of TJTC Consultants seem to offer little more than a toll free number and a procedure for generating LORS, some provide valuable services to businesses. One in Maryland, for example, operates vans to take eligible employees to the Job Service for screening. It has even run vans from the inner city of Washington and Baltimore to suburban firms to allow TJTC eligible persons to be hired. If the credit amount were altered to encourage retention and, if retroactivity were eliminated, more MACS might become more involved in providing transportation assistance and promoting retention.

#### MANAGEMENT ASSISTANCE COMPANIES

When TJTC was created as part of the Private Sector Initiatives Program in the late 1970's, it was unanticipated that the legislation would spawn a private sector industry, TJTC Management Assistance Companies. The MACS provide an interesting contrast with the Private Industry Councils (PICS) consciously created by the Private Sector Initiatives legislative package and continued under JTPA. While PICS have evolved as local political institutions often allied closely to the local government, the MACS are a truly independent voice in employment and training. They have heavily promoted the use of TJTC,

probably more successfully than the Job Services or JTPA. They have served as truly independent forces in TJTC matters. They are not afraid to contest government decisions and have mounted successful lobbying efforts for TJTC. Unlike the PICS, the entire cost of MAC operations is borne by fees paid by companies to the MAC.<sup>84</sup>

While the MACS have done a good job of promoting TJTC in the private sector, it is in their interest to promote a view of TJTC that does not necessarily serve national employment and training policy. As one St. Louis Job Service employee, who happens to be an accountant, pointed out, the MACS capitalize on the fear of government interference or incompetence to sell their services.<sup>85</sup> In addition, they usually emphasize that utilization of the credit does not require changing personnel practices. Finally, they promote retroactivity. As Sar Levitan said, "Applying for TJTC after the hiring decision is made negates the program's intent."<sup>86</sup> As found in the study of barriers to vouchering, MAC activity floods employment and training agencies with work that distracts the staff from providing placement or training services to employers or job seekers who have not yet been matched. Likewise, MAC activity tempts staff to totally ignore valid services, substituting work that is unproductive and that has corrupted reporting procedures.<sup>87</sup>

- o Consideration should be given to encouraging retention through a completely revised credit formula. For example, the first year credit might be 30 percent of the first \$10,000 in wages. A significant second year credit should be offered and perhaps a third year credit. Since these would be little utilized, the cost would be minimal, yet the benefit would lie in the message sent to employers and MACS that rewards are in retention.
- o Retroactivity should be ended so that MACS will need to turn their attention to helping employers plan to maximize credit use and to stabilize the employment of the disadvantaged.

## PART VIII

### CONCLUSION

Having evaluated the impact of TJTC in Maryland and Missouri on eligible workers, as well as the role of public vouchering agencies, and employers in the utilization of the credit, the conclusion analyses the relevance of the credit to the employment problems of the disadvantaged populations of the two states. This section begins with a review of the employment and training needs of the disadvantaged, particularly in Baltimore and St. Louis. It then assesses the ability of TJTC to meet those needs. In particular, the relationship of TJTC to the states' Enterprise Zone subsidies is reviewed. From this analysis and from that in the preceding parts of the report, conclusions are reached regarding the value of TJTC in the two states and the changes that would increase the program's effect.

#### THE TAX CREDIT AND THE EMPLOYMENT PROBLEMS OF THE DISADVANTAGED

The Targeted Jobs Tax Credit is designed to improve the employment opportunities of disadvantaged persons entering the labor force. Therefore a review of relevant employment problems in Maryland and Missouri should focus on the problems of labor force entrants. Despite errors in eligibility determinations, TJTC is not a subsidy for skilled workers who want to change jobs. It is not a subsidy for affluent job seekers coming into the labor force. While both Missouri and Maryland have experienced large amounts of worker dislocation, of older workers losing their jobs due to plant closings, TJTC is not a subsidy for them to use to get new jobs. TJTC is a subsidy to increase the employment options of the disadvantaged, and both states have large disadvantaged populations that have not yet fully participated in the recent economic recovery.

While the disadvantaged populations of the two states are widely distributed, there are concentrations of the economically disadvantaged that can allow for a focusing of concern. Some TJTC groups, however, such as vocational rehabilitation clients, are fairly randomly distributed across the two states. Also, half of the poor in Missouri live outside Kansas City and St. Louis. Of Maryland's poor, only forty three percent live in Baltimore. Rural poverty problems in the lower Eastern Shore, Appalachia, or the Ozarks are of long duration and deserve attention. However, the poverty in the rural areas and small cities of the two states is diffused over wide areas. That TJTC utilization has continued at fairly high levels in these areas, whatever, its impact, shows that the program is still being tried as an aid to the non-metropolitan disadvantaged job seekers.

The concentration of large disadvantaged populations in Baltimore and St. Louis, both of which have more than one fifth of their populations living in poverty, make them an ideal focus for a review of the employment problems that TJTC should help solve. In both cities, the poor populations have educational difficulties and family pathologies that make entrance into the primary economy very difficult. These problems are compounded within the large minority communities by the lingering effects of employment discrimination.

While both Baltimore and St. Louis have shown increasing signs of urban revival in the Central Business District, the better jobs in those areas are not generally available to the cities' disadvantaged population.<sup>88</sup>

The disadvantaged unemployment problem has not always been present. In 1948, for example, minority youth 16 and 17 years of age had an unemployment rate less than that of their white counterparts. Generally, the labor force participation rate of the poor, particularly blacks, has fallen as urban manufacturing opportunities have declined.<sup>89</sup> In his 1913 study of blacks in St. Louis, William Crossland surveyed employer attitudes about minority employees in the cities nine brickyards, a major St. Louis manufacturing industry. The nine firms employed at the time 799 black workers. When asked, "How do they compare with white labor of the same grade?" all responded that blacks were the "same." In an era not notable for its racial tolerance, this is a significant response. To a follow-up question about promotion of blacks to higher jobs, only one, an employer with 300 black workers, responded favorably. Two others, employing 363 were more cautious. Six smaller firms, which employed the remaining 136 said that the black workers could fill no higher jobs.<sup>90</sup> The point of this review is to show that there were modest employment opportunities in manufacturing in the earlier era. There may have been a minority employment problem, reflected in the reluctance to promote blacks; but there was not a serious unemployment problem.

Accompanying these employment opportunities, and perhaps because of them, the city was one of hope for the poor. It is essential to remember the family structure of minority poor families of the era of Crossland's survey, a structure that survived through the 1920's. Poor families were largely two parent families, except for those headed by widows. The employment and family problems of the poor began to surface with the Great Depression. In 1938 a study for the Baltimore Urban League found alarming growth in the number of unwed mothers. As so often since, it called for attention to the problem without linking it explicitly to the decline in employment opportunities for poor males, particularly poor black males.<sup>91</sup>

With the coming of World War II and the post war recovery period, when America was the dominant world manufacturing nation, the employment opportunities of the city again appeared bright. The dawn of equal opportunity efforts in the era brought special hope to many poor urban residents. A subsequent assessment of the 1960's in St. Louis and elsewhere found, "In all industry, government programs [to help blacks] achieved much greater success than would otherwise have been the case because of high employment and tight labor markets."<sup>92</sup> But, as this analysis was written, the relative decline of manufacturing in St. Louis and Baltimore was well under way and the absolute decline was starting. At the same time large numbers of youth were coming of age and in search of stable employment that would allow the start of stable families.

Essentially, what has been lacking from St. Louis and Baltimore since the 1960's has been a source of stable jobs for relatively unskilled and under educated poor labor force entrants. Particularly, black males have lost access to a pool of jobs with the potential for pay adequate to support a family. The welfare employment problems that have received so much attention,



the growing problems of black single parent families, particularly relate to the problems of a lack of good jobs for black males. In the two cities, as in urban areas nationally, there is a shortage, as William Julius Wilson has noted, of marriageable males. This is the problem which TJTC or any other comprehensive employment program for the disadvantaged must address if it is to be of value. The findings of this study are that, thus far, its ability to deal with that problem has been minimal.<sup>93</sup>

The size of the credit is correlated with female welfare recipient success, especially in the early years after hire. The credit seems to help white handicapped individuals, a group deserving of assistance. But, black male youth do not do particularly well by many measures after TJTC participation. Reaffirming the findings of Croftland, one extremely positive finding, if only for a few individuals, was the correlation of income with the industry receiving the tax credit. Manufacturing and construction workers experienced major changes in earnings patterns after being hired by such industries. Yet, there are few job openings in these industries. Even if the credit helped these individuals, did they simply take jobs from other disadvantaged persons?

Most staff who work with the credit in Baltimore, Kansas City, and St. Louis are overwhelmingly supportive of it. They see it as one of the few benefits offered their clients. Helping an individual disadvantaged person is important and may even justify the continuation of the credit. However the local office staff of Job Service, JTPA or vocational rehabilitation agencies do not need to worry about substitution. One concern of observers of TJTC has been the meaning of the substitution of eligible workers for others.

The general TJTC data and other studies indicate substitution is inherent in the program. There is disagreement about the meaning or impact of substitution. Does substitution only mean that a worker who is persistent enough or lucky enough to get a voucher is substituted for another who would have been eligible but who did not get a form? If it does, then the substitution is having no net impact upon the general employment problem of a community. If however the TJTC eligible worker is substituted for a more advantaged worker -- one who would have been hired without the subsidy -- then TJTC may be having an impact. It would be presumed that the more advantaged worker found other employment at a firm that would not hire the TJTC eligible. Finally, if substitution is widespread, it would mean that the TJTC voucher is not a stigma.

The data in this report are mixed on this issue. There has been a persistent tendency for minorities to receive lower starting wages than whites, mirroring economy-wide relationships. The discrepancy has been particularly notable for males. In 1985, in Maryland, 63 percent of minority males received wages under \$4.00/hour. Only 47 percent of white males received those wages. While race data are not available any longer in Missouri, we know that race correlates very highly with clients of the North St. Louis Office, which serves mostly blacks, and the South St. Louis office which serves mostly whites. In 1987, 76 percent of the North office's TJTC hires began at jobs paying under \$4.00/hour. For the south office the figure was 56 percent. This information would support the findings of John Bishop

from employer surveys. He noted, "TJTC had a more positive impact at firms that were already hiring the least qualified workers . . . TJTC's impact was less favorable at firms that paid high wages, had low turnover rates, offered little general training . . . and concentrated their training on specific rather than general skills."<sup>94</sup> It appears the credit has not significantly changed employer hiring policies but rather has led to random substitution of eligible workers for non-eligibles in the low-wage labor market.

There have been some positive recent trends in credit use, such as the reduction between 1985 and 1987 of the number of persons, including minorities, receiving under \$4.00/hour. No doubt this change reflects changes in the labor market that have forced many retail and service industries in the two states to raise wages above the legal minimum. In fact the percentage of minority males receiving below \$4.00/hour has fallen faster than the percentage of white males doing so. Also, the percentage of minority females receiving under \$4.00/hour actually fell below that of white females. If nothing else, these changes demonstrate one virtue of employment under the credit, its responsiveness to the labor market.

While TJTC has had modest short term effects upon the earnings of eligible workers, those short term effects have not endured for most participants. That fact would indicate that TJTC has had only a modest impact upon the labor market. The modest impact is not surprising, considering the low utilization of TJTC by many agencies. The trend to reduce vouchering, primarily to satisfy the retroactive requests of MACS, has limited its impact even more. While it may not be possible, the only chance for TJTC to have a major impact on the employment options of the poor, particularly the urban poor, is if it is used on a much larger scale by employers. That can only be achieved if vouchering is greatly increased.

TJTC cannot substitute for quality training. Officials at SLATE particularly emphasize that point, while acknowledging that there are limits to how much training can be offered under JTPA. JTPA programs cannot hope to provide long-term highly complex training with the limited funding available. As two students of JTPA observed, "We may be making a mistake that we have made before --investing too little and hoping for too much."<sup>95</sup> On-the-job training (OJT) is one solution to this dilemma. OJT stretches training dollars since employers pick-up some costs in return for getting production from the trainee. In addition, OJT is the type training many disadvantaged persons need, since a wage is paid during training. Only welfare recipients or persons receiving other types of support have no problem with JTPA's restrictions on paying trainees a stipend.<sup>96</sup> Yet JTPA funded OJT has been difficult to sell to the private sector, particularly to that segment of the private sector that will provide the most valuable training. Because of its simplicity, TJTC has been more widely accepted.<sup>97</sup>

Reconciling these contradictory problems is possible, if TJTC's relationship to JTPA is clarified. Scarce JTPA resources could be targeted on short term class-room training, with TJTC being used to subsidize employment at businesses which will offer opportunities for advancement to the JTPA trainees. The Office of Employment Development in Baltimore has made limited use of this approach, with some modest success. Additionally, if TJTC is to

have a major impact upon the disadvantaged, it must be coordinated with other economic development strategies as well as with JTPA.

### TJTC AND ENTERPRISE ZONES

Enterprise zones provide an interesting test of the impact of targeted employment incentives linked to economic development.<sup>98</sup> Both Maryland and Missouri have enterprise zone programs. The programs offer large employment tax credits to businesses entering or expanding in areas of high unemployment. In Maryland, an enterprise zone employer can receive up to \$3,000 in tax credits for each additional new disadvantaged employee hired. In Missouri, the credits can total thousands of dollars per worker over the first ten years of employment, beginning with a \$1,200 first year credit for hiring an "unemployable" individual. St. Louis's Midtown Zone is one of the largest zones in the country, and Baltimore has several smaller zones, one of which includes a major portion of the city's west side.<sup>99</sup>

While there has been a considerable amount of new economic activity in the zones, such as a new shopping mall in the West Baltimore Zone, the results have not yet been dramatic. Most of the employment in Baltimore has been at service, retailing, and service businesses. Most of the Midtown hiring has been by small businesses, with large businesses in the zone continuing their long-term decline. As with TJTC, there have been problems with agencies responsible for promoting zones. Development officials have problems seriously urging new businesses to locate in the zones, since the officials inherently promote their cities and do not like mentioning distressed areas.

Essentially TJTC is like the enterprise zone employment incentives, except that TJTC can be earned in any location. The Northeast-Midwest Institute suggested in the early 1980's that TJTC might be targeted on distressed areas. However, others do not see an advantage in adding a geographic restriction to TJTC. One of TJTC's advantages over the enterprise zone program is in not being geographically targeted. Far more people are hired under TJTC in the distressed areas of the two cities than are hired under the enterprise zone program.

The importance of the enterprise zones are in the precedent they re-establish of seeing the concentration of low skilled workers in the city as an asset. In the early years of the century, those workers were an asset to cities such as St. Louis and Baltimore.<sup>100</sup> Many observers think "specific policies aimed at specific groups," such as TJTC and the enterprise zone incentives, cannot encourage general economic development.<sup>101</sup> But, one official in the St. Louis Office of Business Development suggested that the city should vigorously promote its large labor pool. A few of the early studies of wage subsidies thought that targeted subsidies could result in redistribution of economic growth back to areas with large eligible labor pools.<sup>102</sup> If TJTC is to have an impact on the urban underclass, it is necessary to stop seeing it as purely a program for individual job seekers. It should be redesigned and an attempt made to see if it can serve as a general incentive to bring jobs to urban or rural areas with large eligible populations.

The chronic labor shortages in the suburban areas around St. Louis, Baltimore, Kansas City and other urban cores are becoming severe enough so that businesses with labor shortages might be tempted to relocate closer to the large labor force in the urban core. Others might be tempted into non-metropolitan areas with large disadvantaged populations. Thus far, the great growth in the suburbia has not particularly helped the chronically poor in the cities.<sup>103</sup> The voucher might not be a stigma for such firms, if they understood that subsidies under JTPA and TJTC might allow them to prepare the disadvantaged to fill their vacancies.

### CONCLUSIONS

Essentially, there are two major conclusions from this study.

- 1.) TJTC has had only modest short run positive earnings impacts on a small segment of the eligible population, and
- 2.) There is a great need for TJTC, even though its potential is limited by its current design.

In order to have a widespread impact upon the disadvantaged, particularly in urban areas, several legal and administrative changes are needed. They include:

- 1.) Retroactivity needs to be ended, at least in cases where there is no barrier to having eligibility determined in advance of hire,
- 2.) The credit amounts should be adjusted to encourage retentions, and
- 3.) Large scale vouchering should be encouraged or mandated.

These goals might be achieved in several ways

Retroactivity should be eliminated by abolishing the letter of request option. At most, employers should be allowed a few days after hire in which to have eligibility determined. If a voucher were not produced in these few days, perhaps five days, no certification should be issued. The preferred option would be to forbid all retroactive issuance of vouchers.

Credit amounts to encourage retention could be offered with minimal cost to the treasury. In fact, most schemes that would increase total credit amounts but spread out the period over which the credit was earned might save tax expenditures. Most of the cost of the old two year TJTC was a result of a vast number of partial first year credits being earned by high turnover businesses. Relatively few firms received the second year credit. Lowering the percentage of the first year's credit would save most of these expenditures. A second or third year credit might be lightly used, but its availability would send the proper message to employers that TJTC was meant to encourage retention as well as employment. If a strong retention incentive were offered, MACS might shift their operations from helping companies get windfall credits to assisting firms to develop systems such as Borg-Warner's that encourage retention.

Vouchering could be encouraged or mandated by a combination of funding incentives and administrative changes. Care must be taken that performance standards do not discourage other desirable activities. State Job Service standards and federally mandated JTPA standards should be modified to not penalize, if not reward, large scale vouchering. Job Services should be encouraged to voucher applicants and to allow and encourage other employment and training agencies to issue vouchers. The U. S. Department of Labor should be supported and encouraged in efforts to promote TJTC among employers, eligible job seekers, and employment and training agencies.<sup>104</sup>

While the present low unemployment era may not seem to require continuation of TJTC, a period of low unemployment is an ideal time to offer improved incentives for developing employment opportunities for the disadvantaged. As Lee Rainwater observed following the study of Pruitt-Igoe, the subsequently demolished St. Louis housing project, "Employment of the poor at decent wages requires full employment in the total economy." Policies that have weighed employment growth heavily "toward creating demand for relatively skilled workers" should be reversed.<sup>105</sup> The Tarrytown Group, likewise called for policies to be "thought out in advance and consistently pursued" "to achieve the goal of full employment at a decent wage."<sup>106</sup> TJTC may be one of those policies but only if it is carefully modified.

- o Reenactment with no changes to discourage abuse, reward retention, and to encourage employment and training utilization will achieve little, while continuing a largely ineffective tax expenditure.
- o Reenactment with the abolition of retroactivity, revised credit amounts that encourage retention, and coordination with other employment and economic development initiatives could make TJTC a key to returning job opportunities to the disadvantaged.

## NOTES

1. Michael G. H. McGeary and Lawrence E. Lynn, Jr., eds., Urban Change and Poverty (Washington: National Academy Press, 1988), p. 6.
2. See for example: U. S. Department of Labor, Employment and Training Administration, The New Business Look in Employment and Training Programs (Washington: U. S. DOL, 1979), pp. 10-11; on the early discussion of tax credits as part of the Carter economic program see testimony of F. Ray Marshall in U. S. Congress, House Committee on Ways and Means, Tax Aspects of President Carter's Economic Stimulus Program: Hearings before the Committee, 95th Congress, 1st Session, 1977, p. 143; not all groups favoring PICs also supported the use of tax credits, for example the Committee for Economic Development (C. E. D.), while supporting PICs favored use of OJT not tax credits, see: C. E. D., Jobs for the Hard-to-Employ (New York: C. E. D., 1978), pp. 39-51; C. E. D., Training and Jobs Programs in Action (New York: C. E. D., 1978), pp. 13-18, 49-78;
3. Nicholas Kaldor, Essays on Economic Policy, vol. I (New York: U. U. Norton, 1964), p. viii, discusses the German credit; Dewey B. Larson, The Road to Full Employment (Portland, Oregon: North Pacific Publishers, 1976), pp. 146-147, has a critique of Kaldor's view of this credit
4. Gerald J. Robinson, "Unemployment and Taxes - Tax Credit as a Selective Economic Stimulant," Subcommittee on Employment and Manpower, Readings in Employment and Manpower, 88th Congress, 2nd Session, 1963, 1963, vol. III, 1965; and Ragnar Frish, Price-Wage Tax Subsidy Policies as Instruments in Maintaining Optimal Employment (Geneva: UN Economic and Employment Commission, 1949).
5. Testimony of Albert B. Ellentuck, U. S. Congress, Tax Aspects, pp. 508-509; and Henry Levin, "A Decade of Policy Developments in Improving Education and Training of Low Income Populations," in A Decade of Antipoverty Programs, ed. Robert Haveman (New York: Academic Press, 1977), p. 175; Daniel S. Hamermesh, "Subsidies for Jobs in Private Sector," in Creating Jobs: Public Employment Programs and Wage Subsidies, ed. John L. Palmer (Washington: The Brookings Institution, 1978), pp. 94 and 110.
6. On New Jobs Credit utilization see: Arnold Packer, "The Surprising Impact of the Jobs Tax Credit," Business Week, August 21, 1978, p. 23 and John Bishop and Robert Haveman, "Targeted Employment Subsidies: Issues of Structure and Design," in Increasing Job Opportunities in the Private Sector, Washington: National Commission for Manpower Policy, 1978), Special Report No. 29, p. 79; on development of targeted credit, see Robert Eisner, "Tax Credits to Increase Employment and Reduce Inflation," U. S. Congress, Senate, Finance Committee, Sub-Committee on Administration of the Internal Revenue Code, Hearing on Administration of the Existing Jobs Tax Credit and Policy Alternatives for the Future, July 18, 1973, 95th Congress, 2nd Session, 1978; and Peter Gottschalk, "U. S. Labor Market Policies Since the 1960's - A Survey of Programs and Their Effectiveness," in Public Policies to Combat Unemployment in a Period of Economic Stagnation, ed. Knut Gerlach, Wilhelm Peters, and Werner Sengenberger (Frankfurt: Campus Verlag, 1984), pp. 130-131;

on contrast of NJTC and TJTC type credits, see: Linda Legrande, "Other Nation's Experience with Categorical Employment Subsidies: Are There Options Suggested for the United States?" (Washington: Congressional Research Service, 1985), p. 3.

7. There were critics of wage subsidies before TJTC, including: Irwin Garfinckel, "A Skeptical Note on 'The Optimality' of Wage Subsidies," American Economic Review LXIII (June 1973): 452; and Michael C. Barth, "Market Effects of a Wage Subsidy," Industrial and Labor Relations Review XXVII (July 1974): 585; an following enactment, such as Dave M. O'Neill, "Employment Tax Credit Programs: The Effects of Socio-economic Targeting Provisions," The Journal of Human Resources XVII (Summer, 1982): 449-459; and Sean Sullivan, "Youth Employment," Meeting Human Needs: Toward a New Public Philosophy, ed. Jack A. Meyer (Washington: American Enterprise Institute for Public Policy Research, 1982), pp. 232-233.

8. Henry J. Schmandt, George D. Wendel, and E. Allan Tomey, Federal Aid to St. Louis (Washington: The Brookings Institution, 1983), p 36.; on St. Louis PSE program; on OJT use see: Hamermesh, Subsidies, p. 94; Levin, pp. 145, 175-179; Iver E. Bradley, Garth L. Mangum, and R. Thayne Robson, "A Comparative Analysis, Metropolitan Impact of Manpower Programs: A Four City Comparison, ed. Mangum and Robson (Salt Lake City: Olympus Publ. Co., 1973), p. 281; and Sar A. Levitan, Garth L. Mangum, and Ray Marshall, Human Resources and Labor Markets (New York: Harper and Row, 1972, . . . 356; and Marcus Alexis, "The Economically Disadvantaged in the Mature Metropolis," The Mature Metropolis, ed. Charles L. Leven (Lexington, Mass.: Lexington Books, 1978), p. 299.

9. NJTC provided by Tax Reduction and Simplification Act of 1977; TJTC by The Revenue Act of 1978, amended by ERTA and TEFRA, and extended most recently by the Tax Reform Act of 1986.

10. On vouchering see: John Bishop, Vouchers for Creating Jobs, Education and Training, (Madison: Univ. of Wisconsin, n.d.) Institute for Research on Poverty Special Report 17 and Bishop, "The Design of Employment Subsidies - Lessons of the U. S. Experience," unpubl. paper presented at 36th Congress on Public Finance and Public Employment, Jerusalem, August 25-29, 1980, p. 16; on earlier vouchering experience with the GI Bill see Dave M. O'Neill, "Voucher Funding of Training Programs: Evidence from the GI Bill," The Journal of Human Resources XII (Fall 1977): 425-445.

11. Arnold Cantor, AFL-CIO, statement before U. S. Senate, Committee on Finance, Subcommittee on Economic Growth, Employment and Revenue Sharing, Hearings, March 2, 1984, 98th Congress, 2nd Session; Gary Burtless, "Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment," Industrial and Labor Relations Review XXXVIII (October, 1985): 113, found vouchering to have been a stigma; O'Neill, "Employment Tax Credit Programs," focuses on low utilization; Sar A. Levitan and Frank Gallo, "The Targeted Jobs Tax Credit: An Uncertain and Unfinished Experiment," Labor Law Journal (October, 1987): 641, has a good summary of administration opposition to TJTC.

12. Statement of Mikel M. Rollyson, Tax Legislative Counsel, U. S. Dept. of Treasury, U. S. Congress, House of Representatives, Committee on Ways and Means, Subcommittee on Select Revenue Measures Hearings on Extension of the Targeted Jobs Tax Credit, March 19, 1985, 99th Congress, 1st Session, pp. 18-20, discusses substitution, low utilizations well as potentially vast increase in the numbers being certified.

13. M. Ross Boyle, Speech at Baltimore Regional Planning Council, Regional Economic Development Committee meeting, July 14, 1988, stated that the decline in the labor content of products makes subsidies less attractive; John Bishop, Targeted Jobs Tax Credit: Findings from Employer Surveys (Columbus: National Center for Research in Vocational Education, 1985), pp. xvi, discusses twisting of labor market to favor more low skilled jobs; Gary C. Fethke and Samuel Williamson, Employment Tax Credits as a Fiscal Policy Tool, U. S. Congress, Joint Economic Committee, Subcommittee on Economic Growth, 94th Congress, 2nd Session, pp. 12-13, discusses how employment credits can help labor intensive industries.

14. Fethke and Williamson, pp. 1-3; L. V. Watkins, "Why the Human Investment Tax Credit," in U. S. Dept. of Commerce, Economic Development Administration, A Human Investment Tax Credit Program (Washington: GPO, 1977), p. 35; Jonathan Kesselman, Samuel H. Williamson, and Ernst R. Berndt, "Tax Credits for Employment rather than Investment," American Economic Review LXVII (June 1977): 339-341; "Of Men and Machines: The Outlook for Jobs," OECD Observer, No. 142 (Sept., 1986), pp. 4-7

15. Levitan and Gallo, p. 646, discusses weaknesses of vouchering studies; Joseph W. Arwady, Wage Subsidies and Jobs for the Disadvantaged: Applying the Targeted Jobs Tax Credit in an Operating Environment (Philadelphia: Wharton Schools, Univ. of Pennsylvania, forthcoming), Executive Summary, p. 21; The Tax Foundation, Tax Credits: Past Experiences and Current Issues (New York: The Tax Foundation, 1969), pp. 27-28, discussing the advantages of tax credits to achieve social purposes, said, "The champions of tax credits argue that even though in some cases tax credits may be less efficient than a direct expenditure program, tax incentives have at least one great advantage: they grant more freedom to the company or individual in the use of knowledge about conditions of particular time, place, and combination of circumstances and in the choice of ways and means to deal with each problem."

16. Bishop, Findings from Employer Surveys, p. 116.

17. Bishop, Findings from Employer Surveys, p.9, ignores role of retroactivity; however Macro systems, Final Process Analysis Report on the Implementation and Use of the Targeted Jobs Tax Credit (TJTC) Program (Washington: U. S. Dept. of Labor, Employment and Training Admin., 1985), pp. v-vi, has a good review of MAC role.

18. Rollyson, p. 19.

19. Richard A. Lacey, "The Targeted Jobs Tax Credit in the Workplace: Applying Lessons from a Decade of Experience 1978-1988," unpubl. Report to the



U. S. Congress, June 15, 1988, p. 7, states, "TJTC was not designed to create jobs . . ."; Bishop, Findings from Employer Surveys, p. 37, emphasizes that TJTC is not a retention subsidy but a hiring subsidy; Macro, Final Process, pp. 1,2-1,3, emphasizes retention as a goal.

20. U. S. Department of Commerce, Bureau of the Census, State and Metropolitan Area Data Book, 1986, (Washington, GPO, 1986); Unemployment rates from Bureau of Labor Statistics, 1984 data refers to unemployment rate estimates in September, 1984, the end of the TJTC fiscal year; 1988 data is for April, the most recent month for which data were available at the start of this study, unemployment rates for mid-town St. Louis and Park Heights from Susan A. Jones, Allen R. Marshall, and Glen E. Weisbrod, Business Impacts of State Enterprise Zones (Cambridge: Cambridge Systematics, 1985), pp. 4,0-5,13.

21. Missouri 1974 Statewide Data and 1980's state and municipal data from University of Missouri - Columbia, Statistical Abstract for Missouri, 1985, (Columbia: Univ. of Mo., College of Business and Public Admin., Research Center, 1985); for Maryland, Department of Economic and Community Development, Maryland Statistical Abstract 1986-87, (Annapolis: Dept. of Economic and Community Devel., 1987); for 1970 urban data from two states, U. S. Dept. of Commerce, Bureau of the Census, State and Metropolitan Area Data Book, 1979 (Washington: G P O, 1980).

22. Poverty rates from U. S. Dept. of Commerce, State and Metropolitan Area Data Book, 1986; TJTC data from sample of 1,000 persons determined eligible in each state in 4th quarter (October-December), 1987.

23. U. S. Dept. of Commerce, State and Metropolitan Area Data Book, 1986.

24. On conditions in Baltimore see: Dewayne Wickham, Destiny 2000: The State of Black Baltimore (Baltimore: The Urban League, 1987) and Peter L. Szanton, Baltimore 2000: A Choice of Futures (Baltimore: The Morris Goldseker Foundation, 1986). For a good review of the economies of two cities, see: James E. Dilisio, Maryland (Boulder, Colo.: Westview Press, 1983) and Milton D. Rafferty, Missouri (Boulder, Colo.: Westview Press, 1983). A difference in the two cities is the number of major firms headquartered in each, Nine of the "Fortune 500" are headquartered in St. Louis but only three in Baltimore. Five of the 100 largest are headquartered in St. Louis, and none in Baltimore. On recent redevelopment, see Edmund Faltermayer, "How St. Louis Turned Less into More," Fortune CXII (Dec. 1985): 44-47; McGeary and Lynn, p. 21.

25. In 1920, for example, less than 25 percent of the population of cities such as New York, Chicago, and Boston were native born whites of native parents, and less than 10 percent of each were non-white. In Kansas City, and Baltimore, there were as many or more blacks than foreign born persons. Only Washington, Atlanta, and New Orleans shared that ratio. In St. Louis there were nearly as many blacks as foreign born whites. For a study of the fascinating mix of peoples in Baltimore, see: James B. Crooks, Politics and Progress: The Rise of Urban Progressivism in Baltimore 1895 to 1911 (Baton Rouge: Louisiana State University Press, 1966) and on St. Louis see: Selwyn K. Troen and Glen E. Holt, eds., St. Louis (New York: New Viewpoints, 1977), a documentary history of St. Louis.

26. Troen and Holt, p. xxiv; DiLisio, p. 150, said, "Manufacturing became the leading activity in Baltimore by 1910. exceeding the value of foreign commerce."

27. William A. Crossland, Industrial Conditions Among Negroes in St. Louis (St. Louis: Washington Univ., 1914), Studies in Social Economics, Vol. 1, p. 22.

28. Toen and Holt, pp. xxiv-xxviii; Bernard Axelrod, A Statistical Survey and Reference Guide to the St. Louis SMSA, 1900-1960, (St. Louis: Washington Univ. Economics Dept., 1964), Working Paper 6403, pp. 8, 13, 20-21; Charles L. Leven, "An American Transformation," unpubl. paper presented at Birmingham Settlement Future Studies Centre Conference, Birmingham, U. K., April 24, 1987; Sandra Perlman Schoenberg and Patricia L. Rosenbaum, Neighborhoods That Work: Sources for Viability in the Inner City (New Brunswick, N. J.: Rutgers Univ. Press, 1980), pp. 43-44.

29. Sandra Schoenberg, "Community Stability and Decay in St. Louis: The Ethnic Factor in Two Urban Neighborhoods," Ethnicity VII (1980): 410; see also Lee Rainwater, Behind Ghetto Walls: Black Families in a Federal Slum (Chicago: Aldine Publishing Co., 1970).

30. Schoenberg, "Community Stability," p. 410, see also pp. 411-412.

31. Asa E. Martin, Our Negro Population: A Sociological Study of the Negroes of Kansas City Missouri (Kansas City: Franklin Hudson, 1913; reprint ed. New York: Negro Universities Press, 1969), pp. 32-56; for an explanation of the role of black workers in blocking organizing drives by labor unions in the meat packing industry in Kansas City, see: Daniel R. Fufeld and Timothy Bates, The Political Economy of the Urban Ghetto (Carbondale: Southern Illinois Univ. Press, 1984), pp. 20-21.

32. Fufeld and Bates, pp. 128-129, focuses on Baltimore, but also reviews trend for all older cities, p. 96, and says, p. 87, "Blacks . . . enjoyed upward mobility only . . . when manufacturing industries were rapidly expanding . . ."

33. Maryland Department of Economic and Community Development, Maryland Statistical, p. 149; Univ. of Missouri, Statistical Abstract, pp. 35, 45-64, 77-80

34. Joint Center for Political Studies, A Policy Framework for Racial Justice (Washington: Joint Center for Political Studies, 1983), p. 5.

35. City of Baltimore, Baltimore Metropolitan Manpower Consortium, Job Training Plan, Program Year 1986/87, Appendix E; State of Maryland, Department of Employment and Training, First Annual Plan-1984 (Baltimore: Dept. of Employment and Training, 1984), Table 9.

36. The wage records of the state agency include at least 80 percent of the employed, major exclusions from the records being federal employees, railroad employees, certain farm employees, employees of some non-profit

institutions, private household workers, and the self employed.

37. Orley Ashenfelter, "Estimating the Effect of Training Programs on Earnings," Review of Economics and Statistics LXIII (February 1978): 51, has a good discussion of this problem; see also Howard S. Bloom, "Estimating the Effect of Job-Training Programs, Using Longitudinal Data: Ashenfelter's Findings Reconsidered," The Journal of Human Resources XIX (Fall 1984): 542-555; and Laurie J. Bassie, "The Effect of CETA on the Postprogram Earnings of Participants," The Journal of Human Resources XVIII (Fall 1983): 542-548. Laurie J. Bassi and Orley Ashenfelter, "The Effect of Direct Job Creation and Training Programs on Low-Skilled Workers," in Fighting Poverty: What Works and What Doesn't, ed. Sheldon H. Danziger and Daniel H. Weinberg (Cambridge: Harvard Univ. Press, 1986), pp. 138-139, reviews problems of creating comparison groups.

38. The incomes found here can be compared to several studies: Marc Bendick, Jr. and Mary Lou Egan, Jobs: Employment Opportunities in the Washington Metropolitan Area for Persons with Limited Employment Qualifications, Washington: Greater Washington Research Center, 1988), pp. 23-36, has an analysis of a low wage labor market, finding many jobs paying at a rate above the annual earnings found here; however, Bendick and Egan note that many jobs are part-time; Bassi and Ashenfelter, pp. 133-151, discusses modest earnings gains from many programs; see, for example, Westat Inc., Postprogram Experiences and Pre/Post Comparisons for Terminees Who Entered CETA During Fiscal Year 1976 (July 1975-June 1976) (Rockville, Md.: Westat, 1979), pp. 1-18, and Katherine P. Dickinson, Terry R. Johnson, and Richard W. West, "An Analysis of the Impact of CETA Programs on Participants' Earnings," Journal of Human Resources XXI (Winter 1986): 87; Levitan and Gallo, p. 647, point out that TJTC jobs provide little OJT and David Shapiro, "Wage Differentials among Black, Hispanic, and White Young Men," Industrial and Labor Relations Review XXXVII (July 1984): 570-571, shows the long term earnings problems of minorities result from this lack of OJT.

39. William Julius Wilson, The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy (Chicago: Univ. of Chicago Press, 1987), pp. 83-92, 95-106, 145-146.

40. Encouraging retention is the key to improving minority male incomes, see: Ronald Ferguson and Randall Filer, "Do Better Jobs Make Better Workers? Absenteeism from Work Among Inner-City Black Youths," in The Black Youth Employment Crisis, ed. Richard Freeman and Harry J. Holzer (Chicago: Univ. of Chicago Press, 1986), p. 293.

41. Crossland, pp. 17-19.

42. The reenactment of TJTC in December 1985 was blocked by disagreements over tax reform and the budget. Congress adjourned on December 22 without extending the program, and on December 23, 1985, the Department of Labor issued field instructions closing the program. Some states continued to maintain operations in 1986 but others stopped processing any TJTC paperwork. The Department of Labor in Field Memo No. 31-86, in January 1986 reminded states that they had to process paperwork on any outstanding TJTC eligibility

determinations on persons hired before January 1986. Nonetheless, Congressman Charles Rangel wrote to the Secretary of Labor on February 24, 1986, "It has come to my attention that several states have begun to dismantle that part of their job service . . . that processes . . . (TJTC) certifications. . . . It would be very helpful . . . if your office could write to the several states . . . to tell them that they should not dismantle their programs . . ." Once the credit was reenacted, many states restarted their TJTC program, however, on December 18, 1986, at least five states were not yet vouchering, and twenty were not clear on their status (unpubl. survey by Committee for Employment Opportunities).

43. U. S. Department of Labor, Employment and Training Administration, unpubl. calendar year 1987 TJTC data. Data for several states was missing, including: Delaware, Illinois, Indiana, Massachusetts, and Wisconsin.

44. U. S. Department of Labor, Employment and Training Administration, "Targeted Jobs Tax Credit Program Vouchers and Certifications," Fiscal Years 1983, 1984, and 1985, mimeo.

45. For a discussion of these points see: Brian E. Becker and Stephen M. Hills, "The Long-Run Effects of Job Changes and Unemployment Among Male Teenagers," The Journal of Human Resources XVII (Spring 1983): 197-199.

46. Work permit data from monthly reports of State of Maryland, Department of Licensing and Regulation, Division of Labor and Industry, "Certificates (Work Permits) Issued Minors."

47. Private Industry Council of Baltimore, Program Year 1986 Annual Report July 1, 1986-June 30, 1987, p. 7, points out that jobs are limited to youth with "certain attendance and academic criteria."

48. On proposed summer program, see: James Eckenrod and Carl Wheeler, "Innovative Technology Gives Potential Dropouts a New Lease on Learning," American School Board Journal, March, 1987, pp. 41-42; and Public/Private Ventures, Summer Training and Education Program (STEP); Executive Summary (Philadelphia: Public/Private Ventures, 1987).

49. U. S. Department of Labor, Employment and Training Administration, Field Memo. 112-79, January 18, 1979, pp. 2-3, refers to cooperative vouchering anticipated with other agencies.

50. Levitan and Gallo, pp. 648-49; a Handbook was issued in August 1988.

51. Mary Fitzpatrick, Putting the Targeted Jobs Tax Credit Back to Work (Washington: Northeast-Midwest Institute, 1980), p. 33.

52. See National Governor's Association Memo from Joan Wills to State Employment and Training Administrators, July 18, 1979, reviewing CETA interest in TJTC; see letter from Eugene Wiegman, Commissioner, State of Washington Employment Security Department to Jess Ramaker, U. S. Dept. of Labor, Employment and Training Administration, Regional Administrator, February 5, 1979; Bishop, Findings from Surveys, p. xviii.

53. Robert L. Crosslin, Final Report on the Administrative Cost-Effectiveness of the Targeted Jobs Tax Credit (TJTC) Program as a Placement Tool for the Employment Service: A Study of the Implementation and Use of the Targeted Jobs Tax Credit (Washington: U. S. DOL, Employment and Training Administration, Office of Strategic Planning and Policy Development, 1985), vol. III, pp. ii-iv and Exhibit III.

54. Terence F. Kelly, Carol Adolph, Catherine Born, and Sam Yaffe, An Evaluation of the Workfare Program in the State of Maryland: Final Report (Baltimore: Univ. of Maryland, School of Social Work and Community Planning, 1982), pp. a,8-a,20; on Job Service resistance to change and service for disadvantaged, see: U. S. Dept. of Labor, Employment and Training Administration, The Employment Service: An Institutional Analysis (Washington: G. P. O., 1977), p. 40; Peter M. Blau and Richard A. Schoenherr, The Structure of Organizations (New York: Basic Books, 1971), pp. 113-122.

55. Macro Systems, Final Process, Exhibit III-1.

56. Ibid., p. III-13.

57. U. S. DOL, The New Business Look, p. 10.

58. Macro Systems, Final Process, Exhibit IV-1, and Exhibit VI-2 and 3.

59. Harrell R. Rodgers, Jr. and Gregory Weiker, "The Rural Poor in America: A Statistical Overview," Policy Studies Journal XV (Dec. 1986): 282, found in 1983 that 59 percent of the rural poor worked compared to 43 percent of the urban poor.

60. Macro Systems, Final Process, Exhibit III-4.

61. Gary Burtless and John Cheston, "The Montgomery County (Dayton) Ohio Wage Subsidy Voucher Experiment: Initial Findings," (Washington: U. S. Dept. of Labor, Asst. Secretary for Policy Evaluation and Research, 1981), mimeo, draft July 30, 1981; Burtless, "Manpower Policies for the Disadvantaged: What Works?" The Brookings Review III (Fall 1984): 20-21; and Burtless, "Are Targeted Wage Subsidies Harmful?"; see also Stephen Nordlinger, Job Subsidies Jackfire, Study Finds," The (Baltimore) Sun 17 March 1986, p. 13c.

62. John Bishop and Robert Haveman, Targeted Employment Subsidies: Issues of Structure and Design (Madison: Univ. of Wisconsin, Institute for Research on Poverty, 1978), pp. 6-7.

63. Bishop, Findings from Employer Surveys, p. xix, 57-64.

64. Levitan and Gallo, p. 646.

65. Allan Rosenbaum et al., The Maryland State Job Service: Transition and Renewal Final Report 1985 (Baltimore: Univ. of Maryland at Baltimore County, Maryland Institute for Policy Analysis and Research, 1985), p. 56.

66. Memo from Fred Schroeder to James Callahan, Assistant Secretary Maryland Department of Employment and Training, August 20, 1986, p. 3.

67. Levitan and Gallo, p. 641.

68. John M. Barron, John H. Bishop, and William Dunkelberg, "Hiring Costs and Employer Search: Theory and Evidence," in Subsidizing On-the-Job Training: An Analysis of a National Survey of Employers, Bishop, ed. (Columbus, Ohio, and Madison, Wisc.: National Center for Research in Vocational Education and Institute for Research on Poverty, [1981]), p. 92.

69. The Department of Labor announced on February 10, 1987 (Federal Register, Vol. 52, No. 27, p. 4202), that "The employer or his representative may complete the applicant identification blocks on a form the State agency designates. . ." Massachusetts and New Jersey adopted "mail-in" vouchering shortly after that point.

70. State of Wisconsin, Department of Industry, Labor, and Human Relations, "Finding of Emergency," December 18, 1986.

71. Federal Register, Vol. 52, No. 21, pp. 4202-4203.

72. The Job Service has had a problem for many years with placement goals discouraging service to hard to place applicants; see comments of F. Ray Marshall in U. S. Department of Labor, Employment and Training Administration, A Symposium Commemorating the Fortieth Anniversary Observance of the United States Employment Service, ed. Peter Petro (Washington: U. S. DOL, 1973), p. 106, and Macro, Final Process, p. v, and III-16.

73. For example, in July 1988, both states sent local offices updated placement data to evaluate performance. In Maryland such communication is sent monthly. See Memo from Missouri Division of Employment Security, Assistant Director, ES Operations to All Local Office Managers, July 20, 1988, which lists individual placement goals for each office based upon staff distribution and Memo from Maryland Department of Economic and Employment Development, Executive Director for Employment Services to Local Office Managers, July 5, 1988, "Program Year (PY) 1987 Monthly PIP Report." PIP is the Performance Improvement Process and measures local office performance based on nine performance indicators, including Total Placements, Job Openings Received, Openings Filled, Placements as a ratio of registrants, veteran placements, registrants, ratio of registrants terminated with service to all registrants, and the average wage at placement. Each of these standards can be improved by reducing services to difficult to place applicants.

74. Gary Walker, Hilary Feldstein, and Katherine Solow, An Independent Sector Assessment of the Job Training Partnership Act: Phase II: Initial Implementation (Washington: National Commission for Employment Policy, 1985), p. 41; for a review of the performance problems with JTPA, see Stephen Nordlinger, "Job-training Aid to Cities Dwindles in Quayle Plan," The (Baltimore) Sun, 5 September 1988, pp. 1 and 3, who wrote, "Local officials were said to be mainly selecting for training those with relatively greater chance of landing jobs rather than selecting hard-core disadvantaged

individuals so that figures on job placement could be high." Marion Pines, the former Director of the Baltimore JTPA program disagrees with this assessment. She said, according to Nordlinger, "It was a 'myth' that the program has avoided training the people who appear least able to find work.

"More than a third of the people in the Baltimore program are on welfare.' she said. 'The program provides the flexibility to meet a lower performance standard if you are training people most at risk.'" However, Sar Levitan, according to Nordlinger, is critical of the short training offered to participants, "which he said fails 'to deal with the real problem' of education and training the disadvantaged." For example, Baltimore's primary JTPA welfare employment program, run by the private Human Development Institute, provides eight weeks of training, most of it in interviewing and interpersonal skills followed by placement in retail positions, particularly with fast food establishments. See Jesse Glasgow, "Betty Merrill: Her Jobs is Jobs," The (Baltimore) Sun, 11 April 1988, pp. 11c-12c.

75. Ibid., p. 31.

76. Gary Orfield et al., Job Training Under the New Federalism: JTPA in the Industrial Heartland (Chicago: Univ. of Chicago, Illinois Unemployment and Job Training Research Project, 1985), pp. 455-456; Orfield recommends, pp. 458-461, assessing performance using information on income gains. "There are important ways of judging the program and they are not met by the current performance standards."

77. W. Norton Grubb and Marvin Lazerson, Broken Promises: How Americans Fail Their Children (Chicago: University of Chicago Press, 1988), p. 173.

78. Jane Carmichael, "The Bounty Hunters," Forbes, July 21, 1981, p. 82; Macro Systems, Final Process, Exhibit V-1, found at least 30 MACS operating in Missouri; there were 21 which regularly sent letters of request to Maryland during 1986. Even in the midst of the hiatus period, in the first six months of 1986, the 21 firms sent 11,941 letters for 816 different business locations. In the same period, 402 businesses sent 4,240 letters for their own employees, without using consultants.

79. Gerstenhaber, Jacks and Co., "Targeted Jobs Tax Credit . . . How to . . .," [this is a flyer given to McDonald's managers to explain the MACS procedures]; Bishop, "Findings from Employer Surveys," p. xviii, found many employers did not lower hiring standards to employ TJTC eligible workers.

80. Arwady, pp. 8-9.

81. Bishop, Findings from Employer Surveys, p. 26.

82. Arwady, p. 18.

83. Lacey, p. 7, says many companies have developed procedures such as those of Borg-Warner.

84. Macro Systems, Final Process, pp. v-vi, and Lacey, pp. 5-6, refer to the role of MACS in promoting TJTC.

85. Bishop, Findings from Employer Surveys, p. 24, found 8.5 percent of firms do not like the Job Service, in addition to others who fear paperwork.

86. Levitan and Gallo, p. 648.

87. Macro Systems, Final Process, pp. v-vi; Bishop, Findings from Employer Surveys, pp. 9 and 126, raise issue of corruption of system by MACS coaching applicants.

88. Alexis, p. 293; Bendick and Egan, p. 34; and David T. Ellwood, "The Spatial Mismatch Hypothesis: Are There Teenage Jobs Missing in the Ghetto?" in Freeman and Holzer, p. 149 discuss the role of discrimination in wage differences of minorities and whites; two of Bishops TJTC studies have looked at the selectivity of employers in hiring TJTC workers that could relate to "discrimination," see: Bishop, Findings from Employer Surveys, p. xiii, and Bishop and Barron, p. 23; McGeary and Lynn, p. 21, on educational prerequisites of jobs.

89. U. S. Department of Labor, and Dept. of Health Education and Welfare, Employment and Training Report of the President 1976 (Washington: G. P. O., 1976), p. 242; Freeman and Holzer, p. 19, relates rise of unemployment rate among minorities to rise in proportion of minorities living in urban areas. move to urban areas; David T. Ellwood and Lawrence H. Summers, "Poverty in America: Is Welfare the Answer or the Problem?" in Fighting Poverty: What Works and What Doesn't, ed. Sheldon H. Danziger and Daniel H. Weinberg (Cambridge: Harvard Univ. Press, 1986), pp. 99-101, discusses possible factors in high unemployment rate.

90. Crossland, p. 81.

91. Ira D. Reid, The Negro Community of Baltimore: A Social Survey (Baltimore: Urban League, 1938), p. 97; on the impact of the Depression upon minority families, see Herbert G. Gutman, The Black Family in Slavery and Freedom, 1750-1925 (New York: Pantheon Books, 1976), pp. 455-456; Ellwood, "Spatial Mismatch," p. 148, considers devastation of movement of jobs to the suburbs of Chicago.

92. Herbert R. Northrup, ed., Negro Employment in Basic Industry: A Study of Racial Policies in Six Industries, (Philadelphia: Univ. of Pennsylvania, Wharton School of Finance and Commerce, Industrial Research Unit, 1970), Studies of Negro Employment, Vol. I, p. 741.

93. On urban black male employment problem, see: Wilson, pp. 145-146; Daniel Patrick Moynihan, Family and Nation (New York: Harcourt, Brace Jovanovich, 1986; Harvest/HBJ Edition, 1987), p. 142; Tom K. Pollard, "Changes Over the 1970's in the Employment Patterns of Black and White Young Men," in Borus, pp. 74-76; Saul Schwartz, "Earnings Capacity and the Trend in Inequality among Black Men," Journal of Human Resources XXI (Winter 1986): 44 and 58; Schoenberg, Perlman, and Rosenbaum, p. 131, refers specifically to



the problem in North St. Louis; Fusfeld and Bates, p. 113, shows decline in labor force participation rate between 1969 and 1983; Martin Feldstein and David T. Ellwood, "Teenage Unemployment: What is the Problem?" in The Youth Labor Market Problem: Its Nature, Causes, and Consequences, ed. Richard B. Freeman and David A. Wise (Chicago: Univ. of Chicago Press, 1982) p. 58, points out race is not only factor which correlates with high unemployment rates among urban teenagers; but Michael E. Borus, "A Description of Employed and Unemployed Youth in 1981," in Youth and the Labor Market: Analyses of the National Longitudinal Survey, ed. Borus (Kalamazoo: W. E. Upjohn Institute for Employment Research, 1984), pp. 50-51, finds most income differences of minority and white youth can be related to discrimination; John Ballen and Richard B. Freeman, "Transitions between Employment and Nonemployment," in Freeman and Holzer, p. 99, sees problem of minority incomes to relate to dead end jobs in urban areas [these are the type jobs TJTC largely has subsidized]; for a traditional focus: see Lazerson and Grubb, p. 206, who criticize the lack of employment opportunities for female welfare recipients, without looking at the related male employment problem.

94. Bishop, Findings from Employer Surveys, p. 64.

95. Bassie and Ashenfelter, p. 150; see also, Lazerson and Grubb, p. 171.

96. Orfield, p. 454; The Roosevelt Centennial Youth Project, A Policy Blueprint for Community Service and Youth Employment (Washington: Roosevelt Centennial Youth Project, 1984), p. 8; U. S. General Accounting Office, The Job Training Partnership Act: An Analysis of Support Cost Limits and Participant Characteristics (Washington: GAO, 1985), pp. 32-37.

97. Robert B. Hill and Regina Nixon, Youth Employment in American Industry (New Brunswick: Transaction Books, 1984), p. 58, found TJTC more popular than OJT; however, p. 92, they worry that "special educational and training efforts must be adopted to prevent young workers from being largely confined to [unskilled jobs]." John Bishop and Suk Kang, "Why Do Employers Underinvest in On-the-Job Training," in Bishop, ed., Hiring and Training Workers, pp. 93-94, suggests a training tax credit, to subsidized long term training. On earlier problems with OJT acceptance in business, see: Henry Levin, "A Decade of Policy Developments in Improving Education and Training of Low Income Populations," in A Decade of Antipoverty Programs, ed. Robert Haveman (New York: Academic Press, 1977, pp. 145, 175-179; and Daniel S. Hamermesh, "Subsidies for Jobs in the Private Sector," in Creating Jobs: Public Employment Programs and Wage Subsidies, ed. John L. Palmer (Washington: The Brookings Institution, 1978), p. 94, Nordlinger, "Job Training Aid," p. 3a, quotes Demetra Nightingale of the Urban Institute, who found JTPA "has benefited by being more closely linked to the private sector. . . , but she said it 'had gone too far in serving the business community rather than people needing training.'"

98. Fitzpatrick, pp. 36-37, suggested linking TJTC to enterprise zone targeting; see also statement of the Hon. Fortney (Pete) Stark, in U. S. Congress, Committee on Ways and Means, Hearing on Extension of TJTC, p. 10.

99. Jones, Marshall and Weisbrod, pp. 4,0-5,13.

100. Industrial Club of St. Louis, "The Factory Labor Situation in the St. Louis Industrial District [ca. 1930]," in Troen and Holt, pp. 145-146; Marc Bendick Jr. and David W. Rasmussen, "Enterprise Zones and Inner-City Economic Revitalization," in Reagan and the Cities, ed. George E. Peterson and Carol W. Lewis (Washington: The Urban Institute Press, 1986), p. 113.

101. Gottschalk, pp. 134-136, believes any employment gains in enterprise zones will result in displacement elsewhere; Marc Bendick, "Employment, Training, and Economic Development," in The Reagan Experiment, ed. John L. Palmer and Isabel Sawhill (Washington: The Urban Institute Press, 1982), p. 253, is skeptical that companies will move to cities; Royce Hanson, ed., Rethinking Urban Policy: Urban Development in an Advanced Economy (Washington: National Academy Press, 198 ), pp. 112-118, is also skeptical; Richard B. McKenzie, Fugitive Industry: The Economics and Politics of Deindustrialization (Cambridge: Bollinger Publ. Co., 1984), pp. 163-170, finds giving enterprise zone subsidies to attract industries to one area are unfair; Charles L. Leven "The Emergence of Maturity in Metropolis," in Leven, ed. The Mature Metroplis, pp. 9-11, suggests following English policy of encouraging unemployed to relocate away from metro areas, Leven has not been impressed with British enterprise zone experience. St. Louis heavily promoted a tax credit for rehabilitation of historic structures and secured large amounts of new investment as a result; the historic credit was successfully targeted, by definition, on old communities, see: "Tax Credits Revive St. Louis," Economist, CCXCVI (September 7, 1985): 22.

102. D. Metcalf, "Special Employment Measures: An Analysis of Wage Subsidies, Youth Schemes and Worksharing," Midland Bank Review, Autumn/Winter, 1982, p. 12; and Watkins, p. 35.

103. Neal Peirce, "Suburban Job Hunt," The (Baltimore) Sun, 15 August 1988, p. 11-a, discusses problem (not focusing on Baltimore); Gordon Berlin, "The New Permanence of Poverty," The Ford Foundation Letter XIX (June 1988): 8.

104. See Levitan and Gallo, pp. 648-649; of course many are skeptical of impact of agencies and of mass vouchering, see: Bishop, "Why Do Employers Prefer Informal Recruitment Mechanisms?" in Bishop, Hiring and Training Workers, pp. 30-32, he sees many employers prefer to not deal with Job Service, but he fails to distinguish between impact of Job Service on minorities compared to whites; Crossland, p. 66, found work of black job placement agencies had helped make the employment opportunities of Kansas City minorities greater than those of St. Louis blacks; John Palmer, "Improving Private Sector Job Opportunities for Select Target Groups," in NCEP, Increasing Job Opportunities, p. 21, emphasizes benefits of permanence in any subsidy if employers are to plan utilization. Other changes in TJTC to make it more appealing to businesses would be to make it refundable or a credit against payroll taxes (Fethke, p. 18, and Fitzpatrick, p. 34) and removing add-back rules to equalize value for all firms (Fitzpatrick, p. 35).

105. Rainwater, p. 419; and Watkins, p. 35, favors policies to favor investment in labor not capital; on policies that have favored investment in capital and not in urban labor see: Schoenberg, p. 413, and Schoenberg

Perlman, and Rosenbaum, pp. 101-102; National Commission on Urban Problems, Hearings before the National Commission on Urban Problems, Vol I, Baltimore, New Haven, Boston, Pittsburgh (Washington: GPO, 1968), p. 207; Leven, "The Emergence of Maturity," pp. 8-9; and Fufeld and Bates, p. 90.

106. Joint Center for Political Studies, p. 6.

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