TAX CREDITS TO HIRE THE DISADVANTAGED: WASTEFUL OR EFFECTIVE

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BEFORE THE

EMPLOYMENT, HOUSING, AND AVIATION SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

SEPTEMBER 20, 1994

Printed for the use of the Committee on Government Operations

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TAX CREDITS TO HIRE THE DISADVANTAGED: WASTEFUL OR EFFECTIVE

TUESDAY, SEPTEMBER 20, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EMPLOYMENT,
HOUSING, AND AVIATION,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:36 a.m., in room 2247, Rayburn House Office Building, Hon. Collin C. Peterson (chairman of the subcommittee) presiding.

Present: Representatives Peterson, Rush, Thurman, Zeliff, Shays, McHugh, and Lucas.

Staff present: Wendy Adler, staff director; Joy R. Simonson, professional staff member; June Saxton, clerk; and Judy Blanchard, minority deputy staff director.

Mr. PETERSON. The subcommittee will be in order. Today the Employment, Housing, and Aviation Subcommittee is holding a hearing on one of the most controversial programs we have considered. The staff tells me they've been lobbied harder on this than any issue that's come along for quite awhile, the Targeted Jobs Tax Credit Program, or TJTC.

Let me say at the outset that I support the goals, I think most of us support the goals of the TJTC, which is to encourage employers to reach out and hire people who are having a hard time finding work. These target groups include economically disadvantaged youth, ex-offenders, Vietnam era veterans, public assistance recipients, and vocational rehabilitation referrals.

The subcommittee's concerns are not with this mission, but with the question of how effectively the TJTC Program is functioning. The TJTC law was first enacted in 1978, and has been extended and amended frequently. Sometimes it has even been extended retroactively after its expiration. It is currently set to expire one more time at the end of 1994.

It has been the subject of much criticism and of fervent support. But never to my knowledge has there been as strong and as sweeping a critique as the latest report of the IG of the Labor Department. As we will hear this morning, the IG audited the program in nine States, and found that 92 percent of the Targeted Jobs Tax Credit workers would have been hired without the tax credit. Calling this a clear windfall for employers, the IG states unequivocally, "We are recommending that the TJTC Program be terminated on December 31, 1994." The inspector general is far from alone in viewing the Targeted Jobs Program as a windfall. Other studies reported from 55 to 95 percent of workers were hired without regard to the credit.

Of some half million of these workers in fiscal year 1992, the IG reported that over 50 percent were disadvantaged youth, and 20 percent were on the AFDC welfare rolls. They were employed in part-time, low-wage, and low-skill jobs, with few benefits. In other words, the TJTC Program provided the same type of jobs that these individuals were finding on their own, or through some of the other 154 Federal employment programs.

The Targeted Jobs Tax Credit Program allows an employer to claim 40 percent of the first $6,000 in wages paid, up to an amount of $2,400 per worker. He or she is required to retain the worker for at least 90 days or 120 hours, but is not required to provide training or other special services.

Congress has put no cap on the amount of tax credits employers may claim. Turnover in these entry level jobs is extremely high. For every success story of a McDonald's hamburger flipper who rises through the ranks and becomes a company executive, there are uncounted thousands who leave one job without training or skills and drift into other low-paid, unskilled jobs.

If the program provided incentives to employers to train, promote, and retain these eligible workers, that might justify the subsidies given by the taxpayers, but the maximum credit of $2,400 per worker and the minimum required retention period do not, it appears, lead to stable or upwardly mobile jobs in most cases.

Employers are free to hire a succession of workers and obtain a $2,400 credit for each. And the IG found that only 24 percent of the TJTC workers studied were with the same employer in the fifth quarter after they were hired. And this is similar to a comparison group. This program, we said, has been studied, analyzed, and reported on repeatedly over the years.

There are both positive and negative anecdotal reports of how it has affected individual workers or employers. We look forward to hearing some of these stories today, but the subcommittee's responsibility to Congress and to the disadvantaged workers and to the American taxpayer is to seek answers to some basic questions.

What is the net cost-benefit ratio of the TJTC Program? Are we paying employers to hire people that they would have hired anyway? Are we paying them to substitute some disadvantaged individuals, for others in a similar category? Does the program lead to increased employment and to better training and jobs for the target groups? And finally, how could the program be improved?

I know that some will argue that even though the TJTC program is an imperfect program, it does some good for the people that we want to help. But for me, saying that something is better than nothing is not enough, given the budget situation that we're in today. We must decide whether the faults of this program can be fixed, or whether we should end it and seek more effective solutions to the employment problems of these needy workers. With that, I will recognize the ranking minority member, the Honorable Mr. Zeliff, from New Hampshire, and for his opening statement.

Mr. ZELIFF. Thank you, Mr. Chairman. I appreciate your calling this hearing to examine the Targeted Jobs Tax Credit or TJTC Program. And we're all well aware that it is due to expire on January

1, and there are many questions of its merits and it's very timely that we do this review.

The program, again, as you stated was started in 1978 with the intention of encouraging employers to hire hard-to-employ individuals such as economically disadvantaged youth, the handicapped, and those on welfare. This is obviously a very worthy goal, but the recent report by the Department of Labor's Office of the Inspector General does cast doubt on whether the benefits of the program outweigh its high cost to the Government. And I'm certainly a believer that we need to review on a regular basis all of our programs to make sure that we retain those that are working on either revise, extend, or get rid of those that are not.

One of the principal findings of the OIG report was that very few hiring decisions were made on the basis of the availability of a tax credit. In other words, the tax credit was not the determining factor in the decision to hire the worker.

As a small businessman myself, I can testify from firsthand experience and I have participated in this program, and, again, I've been involved in the Private Industry Council and some of the things in New Hampshire that have managed some of these programs, and I basically have never made a hiring decision on the basis of one factor only. Like most employers, I look at a number of different factors when evaluating a job applicant before making a decision.

Perhaps we can conclude from the OIG report that the tax credit was not the determining factor in the hiring decision in most cases. However, if asked whether the tax credit was a factor in the hiring decision, I would believe that most employers would respond, yes. We need to carefully evaluate this and other questions over the TJTC Program raised by the OIG report. This hearing will provide the subcommittee with a forum for doing so.

I am looking forward to hearing testimony from our witnesses. Again, I've had the experience of working with this program as an employer, and hiring some of these individuals as an employer and getting that tax credit.

I would also like, with your approval, Mr. Chairman, I ask unanimous consent to enter into the record a letter from the National Restaurant Association that indicates, frankly, as they represent 730,000 food service establishments across the country, where they strongly disagree with OIG's findings, and they support TJTC, and in fact, urge its permanent extension. And, again, I want to keep an open mind, as you are.

We will have lobbying on both sides of the issue, and certainly if the program has gone astray and is not working and we have Federal dollars at stake, we need to make sure they're effectively used. So I appreciate the opportunity to hear the witnesses and I thank you, Mr. Chairman.

[The prepared statement of Hon. William H. Zeliff follows:]

STATEMENT OF THE HONORABLE
WILLIAM H. ZELIFF
BEFORE THE SUBCOMMITTEE
ON EMPLOYMENT, HOUSING, AND AVIATION
HEARING ON THE
TARGETED JOBS TAX CREDIT

September 19, 1994

Mr. Chairman,

Thank you for calling the Subcommittee together this morning to examine the Targeted Jobs Tax Credit or TJTC program. The program is scheduled to expire on January 1st, and questions over its merits make this hearing particularly timely.

The program was started in 1978 with the intention of encouraging employers to hire hard-to-employ individuals, such as economically disadvantaged youth, the handicapped, and those on welfare.

This is a very worthy goal, but the recent report by the Department of Labor's Office of the Inspector General casts doubt on whether the benefits of the program outweigh its high cost to the government.

One of the principle findings of the OIG report was that very few hiring decisions were made on the basis of the availability of a tax credit. In other words, the tax credit was not the determining factor in the decision to hire the worker.

As a small businessman, I can testify from firsthand experience that I have never made a hiring decision on the basis of one factor only. Like most employers, I look at a number of different factors when evaluating a job applicant before a making a decision.

Perhaps we could conclude from the OIG report that the tax credit was not the <u>determining</u> factor in the hiring decision in most cases. However, if asked whether the tax credit was <u>a factor</u> in the hiring decision, I believe most employers would respond affirmatively.

We need to carefully evaluate this and other questions over the TJTC program raised by the OIG report. This hearing will provide the Subcommittee with a forum for doing so, and I am looking forward to hearing the testimony from our witnesses.

Thank you, Mr. Chairman.

Mr. PETERSON. Thank you. Mr. McHugh from New York for an opening statement.

Mr. MCHUGH. Thank you, Mr. Chairman. I don't have an opening statement, other than to express my appreciation to you for convening this hearing and to welcome the witnesses. As has been said here this morning already, this is a vitally important question, one that is of no little controversy and I am looking forward to the exchange of information about to occur.

Mr. PETERSON. Welcome, Mr. Lucas. We will make the Restaurant Association testimony part of the record without objection.

[The information referred to follows:]

Leading the Foodservice/Hospitality Industry

1200 SEVENTEENTH STREET, N.W., WASHINGTON, DC 20036-3097 202/331-5900 FAX: 202/331-2429

NATIONAL RESTAURANT ASSOCIATION

August 25, 1994

The Honorable Bill Zeliff
224 Cannon House Office Building
United States House of Representatives
Washington, D.C. 20515

Dear Representative Zeliff:

The Department of Labor's independent Office of Inspector General (OIG) recently issued a report on the Targeted Jobs Tax Credit (TJTC), a federal tax credit that encourages employers to hire from among certain target groups, including economically-disadvantaged youth, AFDC recipients, and people with disabilities. In short, the OIG report suggests that the TJTC program be eliminated because it claims that many of the employees hired under the TJTC program would have been hired even if employers did not have the benefit of the tax credit.

The National Restaurant Association, which represents over 730,000 foodservice establishments across the country, strongly disagrees with the OIG's findings. We support TJTC and, in fact, urge its permanent extension. Over TJTC's fifteen-year history, foodservice operators have employed millions of TJTC-eligible individuals, most of whom have had little or no work experience and few basic work skills. Over and over again, we have seen that TJTC encourages employers to take a risk and to spend the extra resources needed to train these individuals, thereby giving them the skills necessary to become productive employees.

We take specific issue with the following findings of the OIG:

- Rather than asking employers whether TJTC was a <u>factor</u> in the hiring decision, the OIG asked employers whether they had hired TJTC-eligible employees <u>solely</u> because the employees qualified for the credit. Asking the question this way undoubtedly understates TJTC's impact, since no businessperson hires employees based on just <u>one</u> factor. Results would be more accurate if OIG had asked employers whether TJTC was <u>a</u> factor in the hiring process — not whether it was the <u>sole</u> factor.

- The OIG study found that, on average, TJTC employees stayed with their employers longer than non-TJTC employees who earned similar wages. But the OIG then questions TJTC's effectiveness because it says only 24% of TJTC employees are still with their employer after 15 months on the job. This is only logical: TJTC's objective is to provide targeted groups of workers with entry-level skills that will allow them to move on to other jobs or higher education.

THE NATIONAL RESTAURANT ASSOCIATION 75 YEARS 1919·1994

■ Doug Ross, DOL's Assistant Secretary for Employment and Training, alluded to other problems with the OIG audit. Ross said the OIG report was "not a scientific study," and noted that without "a carefully constructed methodology, it is impossible to either confirm or refute claims made about the impact of TJTC on participating individuals and firms." Ross said that the DOL is working with the Treasury Department to strengthen the TJTC program and plans to conduct a "scientific study on the program's overall effectiveness."

The National Restaurant Association strongly supports the Targeted Jobs Tax Credit. We urge that Congress extend TJTC permanently as part of the technical corrections legislation now pending (H.R. 3419), before TJTC expires on December 31, 1994.

Sincerely,

Elaine Z. Graham

Elaine Z. Graham
Senior Director, Government Affairs

Mr. PETERSON. We also received a statement from the chairman of the National Commission on Employment Policy, which will also be included in the record without objection.

[The information referred to follows:]

Statement on the Target Jobs Tax Credit by
ANTHONY P. CARNEVALE, Chair
NATIONAL COMMISSION FOR EMPLOYMENT POLICY

Thank you for this opportunity to submit for the record my own views and those of the National Commission for Employment Policy (NCEP) on the Targeted Jobs Tax Credit (TJTC). Although the Commission has not undertaken a recent study of TJTC, in the 1980s it sponsored two studies of the tax credit program that were conducted by Professor Edward C. Lorenz. NCEP staff members associated with those projects have sought to keep abreast of developments with respect to this credit.

The Targeted Jobs Tax Credit was designed to provide an incentive for private sector employers to hire certain classes of workers[1] that they might not otherwise hire because of the presumed issues of lower productivity and perhaps increased costs of bringing such workers up to accepted productivity levels. Most of the evaluations and analyses we have examined indicate that the original objective is not being met. Our Commission-sponsored studies, now several years old, and the DOL Inspector General's study, now only several weeks old, draw roughly the same conclusion: Employers are hiring workers they would ordinarily employ and are receiving tax credits for employing some of them. Moreover, these workers are being hired for low-wage, high turnover, jobs that offer no benefits.

In this brief paper, I will discuss two issues that seem to go to the heart of the TJTC problem. They are the administration of TJTC vouchering and the general lack of retention of employees for whom the credit is claimed.

TJTC was planned as a device (to increase employment opportunities for disadvantaged workers) that would involve little bureaucracy. Workers' eligibility would be determined by the Employment Service or other public employment agency; eligible workers would be given vouchers -- signifying the availability of the tax credit for employing them -- to use in marketing themselves to employers; and employers would be able to receive the credit at tax time. The worker with the TJTC voucher was to be his/her own job developer.

This idea of advance vouchering has not worked out in practice and a private bureaucracy has emerged to fill part of the void. Since TJTC was passed initially in 1978, budgets for the Employment Service have been reduced substantially and the resources simply have not been available for aggressive outreach and recruitment for the program. Similarly, the other agencies with authority to determine initial eligibility and to voucher job seekers have not had the resources to make

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[1] Nine groups of disadvantaged workers arc listed in the law. The credit is used most often for disadvantaged youth.

substantial use of the program.[2] This lack of resources (and perhaps lack of interest) in the public sector made possible the development of a new industry: The TJTC consultants.

The studies done for NCEP in the 1980s and the audits performed by the DOL Inspector General point to the central role played by these consultants. Employers who make use of the tax credit follow their normal recruiting methods and procedures for selecting employees. Once the workers are selected and the hiring decision is made, the worker's background is reviewed, frequently in a telephone call using an 800 number, to determine whether she/he is eligible. If so, the worker is sent or taken to the Employment Service and a voucher is issued retroactively. The voucher is returned to the employer who completes a brief form which is returned to the ES which in turn sends a certificate to the employer; this certificate entitles the employer to take the credit on its next tax return. If the worker is not TJTC eligible, she/he usually is sent on to work.

The process just described, shows how a windfall is made. It would not be worth the elaborate process for a single worker. But for a large employer of low-wage workers -- such as a large chain of retail stores or a chain of fast food restaurants -- taking advantage of the credit can amount to a considerable sum for both the employers and their consultants.

If TJTC is to be retained for any substantial period, we recommend that the vouchering process be returned to its original concept, i.e., vouchering in advance by a public agency: the ES, local JTPA entities, local social service agencies administering AFDC and JOBS, and state agencies serving persons with disabilities. Returning to vouchering in advance would provide a greater opportunity for the disadvantaged than appears to be the present case.

This suggestion for advance vouchering is made with an awareness of earlier studies suggesting that vouchers of this sort tend to stigmatize the bearer of the voucher making him/her less attractive to employers. However, it is not clear that there has been any concerted effort to use TJTC as a form of employment subsidy in placing persons who are completing training programs or some other sequence of services under JTPA or JOBS. We believe that an aggressive use of the credit should increase the possibility that TJTC can be made to serve more disadvantaged persons, the supposed beneficiaries of the credit.

The other issue is the matter of retention on the job for which the credit is claimed. Lorenz found in 1985 that TJTC workers who remained on their jobs for

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[2] One exception appears to be agencies that serve persons with disabilities.

at least 12 months experienced a significant increase in their earnings while those who stayed for only a few months did not have such an increase. He and other recommended at the time that the TJTC incentive be structured so as to encourage the retention of workers for longer periods.

The Inspector General's report showed some increase in starting and ending TJTC wages and a small increase in post-TJTC job wages. However, only a minority of workers were in their TJTC jobs for more than two quarters.

We recommend further that if TJTC if is to be retained, should be amended to encourage retention of the employee for a longer rather than a shorter period of time. The Tax Code should provide that in order for the employer to claim and receive the full tax credit under TJTC that the participant for whom the credit is claimed must have been with the employer for one year or more. This proposal increases the amount of wages on which the credit could be claimed and provides a sliding scale for credits for persons retained less than a full year: 20% of the first $10,000 paid to the employee for the first 6 months of employment; 25% of $10,000 for 6 to 12 months; and 40% of $10,000 for employment of one year or more. This kind of scheme would encourage retention and would still provide the employer with some credit for those who can not be retained for the full year.

We recommend that if TJTC is extended, that the Congress add a provision to be effective during the next tax year requiring longer retention of the TJTC participants and that a proviso be added to the effect that the program will expire at the end of the next Congress unless:

-- The legislation is revised to insure that there is advanced eligibility determination and vouchering by a public agency; and

-- There is a much clearer effort to tie the use of the credit to federal purposes.

It may very well be that the time for TJTC has come and gone. Many changes in the labor market have occurred since the New Jobs Tax Credit was passed in the late 1970s and later replaced by TJTC. Much of the low-skill work has been moved from the cities where so many of the disadvantaged reside and from rural areas as well. Many of the retailers who employ low-skill workers are now in the suburbs instead of the central city. There is some evidence that the big employer users of TJTC conduct their business in suburban locations -- locations that are not easily accessible to the most disadvantaged youth.

The growth in the number of contingent workers is no doubt a factor in the employment of young TJTC participants. Many young people just out of school (and some just out of college) are having a difficult time finding permanent, full-time jobs with benefits. It should not be surprising that the Inspector General found that substantial numbers of participants were in part-time jobs.

The organization of work has changed so much that it is entirely possible that the tax expenditures for TJTC would be better used if the credit were transformed into a training tax credit -- a credit to employers for structured training that would add to participants skills and thus position them to compete in the labor market more effectively.

If the Congress decides to move in a new direction with the Targeted Jobs Tax Credit, it will no doubt wish to have new information on the design of the credit. The National Commission stands ready to assist in any way the Subcommittee would deem useful.

Mr. PETERSON. And the record will remain open for other submissions for 1 week without objection.

Our first panel of witnesses today are Douglas Ross, who's once again with us. We welcome you back to the committee, Assistant Secretary of Labor, with the Employment and Training Administration. We have Maurice Foley, Deputy Tax Legislation Counsel, with the Department of Treasury, and Charles Masten, the Inspector General with the Department of Labor, who is accompanied by Joseph Fisch, Assistant Inspector General for Audit.

It is the custom in the Government Operations Committee investigative hearings to swear in all witnesses. Do you have any objection to being sworn in? If not, would you please rise and raise your right hands?

[Witnesses sworn.]

Mr. PETERSON. Thank you, please be seated. All of your written statements will be entered into the record, so you're welcome to summarize. I would like—the Treasury Department did not give us their testimony until just now, right? Which is in violation of the standing procedures, and written request and repeated staff calls.

I don't know exactly what the problem was, but it at least, to me, is not acceptable to be in this kind of a situation. The members and the staff have not had time to look at your statement when we're preparing and to be able to discuss it with other witnesses and so forth. So we, I guess, will take your statement as part of the record, but—well, I don't know what we can do about it, but, hopefully, this will not happen again. I don't know what the problem was, but it was something over in the White House or whatever, I guess it was being reviewed or something.

Mr. FOLEY. Right, we had to get it approved. It had to go through the regular review process.

Mr. PETERSON. So if it's regular, are we going to always be in such a situation?

Mr. FOLEY. We will definitely work to ensure that that doesn't happen again.

Mr. PETERSON. Well, I hope so. With that, Mr. Ross, again, welcome to the committee. We appreciate having you with us and look forward to your testimony.

STATEMENTS OF DOUGLAS ROSS, ASSISTANT SECRETARY OF LABOR, EMPLOYMENT AND TRAINING ADMINISTRATION; MAURICE FOLEY, DEPUTY TAX LEGISLATION COUNSEL, U.S. DEPARTMENT OF TREASURY; AND CHARLES MASTEN, INSPECTOR GENERAL, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY JOSEPH FISCH, ASSISTANT INSPECTOR GENERAL FOR AUDIT

Mr. ROSS. Thank you. Good morning, Mr. Chairman, members of the subcommittee. I am, in fact, pleased to be here once again, this time to talk about TJTC and the Office of the Inspector General's report on it. I would like to, per your request, provide a summary of the prepared statement that we have submitted.

As you mentioned, Mr. Chairman, the credit is scheduled to expire at the end of this calendar year. The administration has not sought its extension and has proposed no administrative funding for a TJTC extension in its fiscal 1995 budget.

Earlier this year, in fact before the OIG's report, Secretary Reich cited the TJTC as a program that was not working well enough and indicated his opposition to its extension in its current form. Nothing since that January 27 statement has changed the Department of Labor's position regarding the TJTC. We do not support the extension of the Targeted Jobs Tax Credit in its present form, period.

Although the current credit we think is flawed, its objective, to improve the job prospects of the least advantaged, remains, if anything, more important than ever.

In my prepared testimony, I attempted to cite a lot of the data showing that the groups toward which this tax credit is targeted in fact have not fared well since 1978. So the mission remains. Since 1978 when TJTC was first enacted, Congress, as you know, has repeatedly passed extensions of the program and legislation is currently pending before this Congress that would further extend the TJTC. We do not believe such an extension should be enacted unless Congress is able to provide meaningful changes to the current program that hold out the promise of increased effectiveness. And we'd certainly be willing to participate in such a process with Congress, given the urgent need to improve the employment prospects among the disadvantaged.

Now, let me just briefly describe the evidence that we have regarding the current effectiveness of the program. In addition to the study recently issued by the OIG, there have been 10 studies over the years on TJTC. The numerous other publications on TJTC have mostly reviewed the findings or data of these 10 studies. Now, while there are some major limitations of these studies that I'll reference in a second, they do provide some general indication of the program's effectiveness.

In general, the studies tend to reveal the following. First, there is little evidence that the TJTC is being used extensively by eligible employees or employers. For example, estimates of the proportion of eligible, disadvantaged youth who even use the program ranges from only 2.5 to 6.8 percent.

Second, there is evidence that the vast majority of the tax credits are windfalls to employers who would have hired disadvantaged target group members anyway. Existing studies estimate that anywhere from 70 to 90 percent of TJTC certifications go to individuals who would have found jobs even in the absence of the credit. And third, TJTC jobs are often low-wage and short term, with little or no lasting impact on productivity or earning power.

Now, I mentioned that although TJTC has been studied before, there are a variety of limitations to these studies and I think it's useful for the committee to know in its deliberations. Only 4 of the 10 studies actually try to estimate the overall impact of the tax credit on the employment and earnings of the disadvantaged. And all four of these impact studies rely on data from 1984 or earlier. And all four, frankly, have methodological difficulties. Because of the way it's designed, this is a tough program to rigorously evaluate.

Researchers in the field that we've consulted agree that none of the studies to date is a reliable estimate of the total impact of TJTC on employment and earnings of the disadvantaged. In fact, we contracted for a comprehensive literature review on this whole subject in 1991 that concluded, and I quote, "because of unavoidable design difficulties, none of the studies to date answers definitively the question of the net effects of the TJTC," end of quote.

Now, in addition to these outside studies, the TJTC Program has been audited by the Department of Labor's OIG. And I want to say clearly there's a good deal of useful information in the most recent OIG report that we are here to talk about. Its estimates of program costs and the average wages earned by TJTC participants are helpful additions to the dialog on the future of the program. However, we do not believe the audit methodology used in the OIG's report is a scientific means of determining the impact of TJTC, for reasons that I lay out in my written testimony and which we can discuss.

Now, I want to be very clear on this. I raise these research issues not because of any disagreement with the OIG over the desired fate of the TJTC as currently constituted, or because we believe another study is needed of the current program. We do not, a point that the IG appears to have misunderstood. Rather, I raise these issues to make clear that neither the OIG reports nor the other studies of the program that occurred over the past 15 years have demonstrated that employment tax credits are not a potentially effective approach to assist the disadvantaged.

In other words, I raise it because the IG has, while agreeing with us that the program should not be extended in its current form, has asserted that it is beyond reclamation, there is no way to make it work. Our argument is there is nothing in the research to support that second position. So in this context we think it's extremely important to recognize also that the TJTC was never intended to be a program that had no employer windfall whatsoever.

Because the Government ends up funding less than 30 percent of each new job created through TJTC, the program can be cost-effective. Really the top issue you raise, Mr. Chairman, can be cost-effective even if the great majority of TJTC voucher workers are hired for jobs they would have obtained even without the credit. So even with a 70-percent employer windfall, the TJTC would be a cost-effective program.

Let me take 1 minute on this, because this sort of at first is counterintuitive. Let's use a business analogy. Congressman, one you would be familiar with. And you're, I believe, Mr. Chairman, an accountant by trade, so you would also.

Businesses provide coupons as a way to bring in new business. They give a coupon to everyone who purchases the product. They know full well most of the people who purchase the product and use the coupon would have purchased the product anyway. That's not the issue. The issue is with the coupon can they get enough new customers whose spending outweighs the cost of the coupon? It's the same with this credit.

You give it to anybody who hires a disadvantaged person in this category. Clearly, we know that a lot of people who hire disadvantaged people already will use it. The issue is, "In cost benefit terms, do enough additional people hire low-income folks for these jobs, such that the benefits outweigh the costs?"

At a 70-percent windfall level, which means 70 percent would have hired them, it's quite cost-effective, it works. At 90 percent, it isn't very cost-effective. It doesn't work. And I would hope that you would ask Mr. Fisch, when you have a chance, at what level he believes this program would be cost-effective and what evidence does he have that no matter what we do to it, we can't get there. We've not been able to find that out.

I for one would like to know the answer to that. We believe that if Congress decides to pursue an extension of the TJTC, it should consider changes to the program that address the shortcomings I've addressed and discussed. Longstanding problem areas include the credit's low take-up rate, its administrative burden, the excessive windfall to employers who claim the credit without changing hiring patterns, and the focus on low-quality, high-turnover jobs. And we will be pleased to meet with the staff of this subcommittee and with the authorizing committees to further discuss our ideas if it appears that Congress is interested in exploring an extension.

Finally, we would recommend that if the program is extended by Congress in a modified form, because, again, we don't support extending it in its current form. We think it should be temporarily extended, rather than permanently reauthorized, and that a more scientific study of its impact be undertaken in conjunction with that.

We think using new techniques that have not been available to previous researchers, we should be able to determine much more definitively the total impact of the revised TJTC on improving the employment prospects of the disadvantaged. Mr. Chairman, this concludes the summary of my prepared remarks. And I, of course, would be pleased to answer any questions.

[The prepared statement of Mr. Ross follows:]

TESTIMONY OF DOUGLAS ROSS
ASSISTANT SECRETARY OF LABOR
FOR EMPLOYMENT AND TRAINING
BEFORE THE
SUBCOMMITTEE ON EMPLOYMENT, HOUSING AND AVIATION
COMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES

September 20, 1994

Good morning, Mr. Chairman and Members of the Subcommittee. I am pleased to once again have the opportunity to testify before you, this time on the Targeted Jobs Tax Credit and the recent audit report on the program by the Department of Labor's Office of the Inspector General (OIG).

The Targeted Jobs Tax Credit (TJTC) was enacted in 1978 to help hard-to-employ individuals find employment in the private for-profit sector. The credit is scheduled to expire at the end of this calendar year. The Administration has not sought its extension and proposed no administrative funding for a TJTC extension in its FY 1995 budget.

Earlier this year, Secretary Reich cited TJTC as a program that does not deliver, and indicated his opposition to its extension in its current form. Nothing since that January 27 statement has changed the Department of Labor's position regarding the TJTC. <u>We do not support the extension of the Targeted Jobs Tax Credit in its present form</u>.

Although the current TJTC is flawed, its objective -- to improve the job prospects of the least advantaged -- is vitally important. We have seen a steady decline in the economic prospects of less advantaged since the TJTC was enacted in 1978. The groups targeted by the TJTC, including disadvantaged youth, welfare recipients, and ex-convicts, are precisely the groups who have suffered most from this decline. Unemployment rates among young, out-of-school high school graduates have increased from 8.8 percent in 1978 to 13.3 percent in 1993 -- and the situation is even worse for high school dropouts. Even when the young can find work, their wages are typically very low. The median income of families (in constant dollars) led by young people aged 24 or under has declined by over one-third since 1978, and in 1992 was only $15,700 annually. And over 11 percent of the American population received welfare payments in 1993 -- a new record, up from less than 8 percent in 1978. This increase in welfare use has helped raise the problem of moving welfare recipients into lasting jobs to the top of the national legislative agenda.

Since 1978 when TJTC was first enacted, Congress has repeatedly passed extensions of the program and legislation is currently pending before this Congress that would further extend TJTC. We do not believe such an extension should be enacted unless the Congress is able to provide meaningful changes to the current program that hold out the promise of increased effectiveness. We would certainly be willing to participate in such a process with the Congress, given the urgent need to improve employment prospects among the disadvantaged.

Let me briefly describe the program and the evidence we have regarding its current effectiveness. TJTC is a nonrefundable tax credit that is available to employers who hire the economically disadvantaged, including youth aged 18-22; cooperative education students 16-19 years old; ex-offenders; Vietnam-era veterans; individuals receiving general assistance, Supplemental Security Income, or Aid to Families with Dependent Children; or vocational rehabilitation referrals. Economically disadvantaged summer employees aged 16-17 are also included. The program allows for a tax credit of up to 40 percent of any portion of the first $6,000 earned by a certified worker within a year of the hire, provided the worker is employed for at least 90 days or works at least 120 hours.

By reducing the cost of hiring workers from these disadvantaged groups relative to unsubsidized job seekers, TJTC seeks to induce employers to employ workers from some high-risk groups that they might not otherwise choose to hire. While there is no explicit training requirement under the credit, disadvantaged workers who receive jobs because of the credit may have an opportunity to demonstrate their competence and build work histories that will result in greater receipt of on-the-job training.

Administration of the TJTC is a joint responsibility of the Treasury Department's Internal Revenue Service and the Federal-State Employment Service system. The IRS is responsible for administering the tax-related aspects of the program, while the State Employment Service Agencies, funded by the Department of Labor's Employment and Training Administration, are responsible for documenting worker eligibility, vouchering and issuing certifications to employers.

In addition to the studies recently issued by the OIG, there have been ten studies of the results of the TJTC program completed over the past 15 years. The numerous other publications on the TJTC have mostly reviewed the findings or data of these ten studies. While there are major limitations to these studies that I will discuss shortly, they do provide some general indication of the program's effectiveness. In general, the studies and reports indicate the following:

1. <u>There is little evidence that the TJTC is being used extensively by eligible employees or employers</u>. Estimates of the proportion of eligible disadvantaged youth who even use the program ranges from 2.5 percent to 6.8 percent.

2. <u>There is evidence that the vast majority of the tax credits are windfalls to employers who would have hired the disadvantaged target group members anyway.</u> While TJTC-eligible groups do suffer from high rates of unemployment, a large fraction of the eligible population does work--mostly in the kinds of low-wage jobs subsidized by TJTC. Unless employers claiming TJTC subsidies hire workers with more significant barriers to productivity, or pay them more, retain them longer, or invest more in their development than other employers, participating firms collect a benefit with no corresponding gain to the public. Existing studies estimate that from 70 percent to 90 percent of TJTC certifications go to individuals who would have found jobs even in the absence of the credit. The most recent Inspector General's report projects that employers would

have hired 92 percent of the individuals even if the credit had not been available.

3. <u>TJTC jobs are often low-wage and short-term, with little or no lasting impact on productivity or earning power</u>. According to the OIG's report on the Alabama program, most TJTC jobs were low-skilled and entry-level, with an average hourly wage ranging from $4.24 to $4.42. A 1991 GAO report did not find substantial differences in earnings resulting from the TJTC work experience when compared with the experience of other eligible workers. The most frequent users of the TJTC program are retail stores and restaurants, accounting for approximately two-thirds of the certifications.

I mentioned that although TJTC has been studied before, there are many limitations to these previous studies. Only four of the ten studies actually attempt to estimate the overall impact of the TJTC on the employment and earnings of the disadvantaged. All four of these impact studies rely on data from 1984 or earlier, and all four have methodological difficulties. Because of its design, the TJTC is an extremely difficult program to rigorously evaluate. Researchers in the field agree that none of the studies to date is a reliable estimate of the total impact of TJTC on employment and earnings of the disadvantaged. A comprehensive literature review conducted for the Department of Labor in 1991 concluded that "because of (unavoidable) design difficulties, none of the studies answers definitively the question of the net effects of the TJTC."

In addition to outside studies, the TJTC program has been audited by the Department of Labor's OIG. There is a good deal of useful information in the most recent OIG report. Its estimates of program costs and of average wages earned by TJTC participants are helpful additions to the dialogue on the future of the program.

However, we do not believe the audit methodology used in the OIG's report is a scientific means of determining the impact of TJTC. The report claims that 92 percent of TJTC employers would have hired their TJTC employees even without the presence of a tax credit. This figure was determined using audit questions which asked employers to recall whether they would have hired their employees without the presence of TJTC. These questions were asked roughly a year and a half after the initial hiring decision was made. The report assumes that these employer responses are an accurate determination of the TJTC's effect on employment. We disagree with this assumption. Experts in the field of survey research consider retrospective recall of motivations to be an unreliable methodology. Research has shown that the reliability of this method declines even further if there is a long time lapse between the event to be recalled and the administration of a questionnaire about it. Again, it is important to note that the OIG's employer audit took place a year and a half after the hiring decision they were investigating.

Furthermore, response to the OIG audit questions -- like all such efforts -- was extremely dependent on the phrasing of the question. The OIG audit forced the respondent to choose between two sharp choices -- either the individual was hired because of the tax credit or they were not. Employers tend to make hiring decisions based on many reasons, and a tax credit is only one of them.

Responses to an earlier Labor Department survey show the difference that can be made by the design of a questionnaire. In this earlier study, employers were asked whether they knew of the possibility of TJTC eligibility for their applicants, and how much this possibility affected their chance of hiring the worker. Employers were then given a choice of four responses -- "a great deal", a "moderate amount", "not very much", or "not at all". Over 21 percent of employers stated that they knew their applicants were likely to be eligible for the TJTC and that this possibility affected their chance of hiring the worker by at least a moderate amount. This estimate is considerably higher than the OIG's 7.8 percent estimate of the effect of the TJTC.

We also find that the OIG's focus on employer motivation as the sole determinant of the TJTC's effect on hiring is misguided. The important question is not the subjective reasons that the employer hired a TJTC-eligible individual, but the actual impact of the TJTC on the employment of the target groups. There are several ways in which the TJTC could increase the employment of target groups even if the employer does not hire the applicant specifically because they are TJTC-eligible.

For example, the TJTC may change employer recruiting practices, exposing employers to more disadvantaged job applicants than they would otherwise encounter. Both a 1991 GAO study and a previous Labor Department study have found that a substantial number of large TJTC users change recruiting practices in response to the program. Even if the employers then hire disadvantaged applicants based mainly on their qualifications, these applicants might never have come to the attention of the employer without the recruiting efforts inspired by the TJTC.

The OIG report also finds several positive impacts of the TJTC, but surprisingly, does not take these impacts into account in determining the costs and benefits of the program. For example, the report finds that the TJTC is effective in increasing worker tenure with an employer. In addition, the OIG does not include the value of employer- provided fringe benefits in determining benefits of the program. Taking these findings into account would not change the OIG's conclusion that the program in its current form is not cost-effective, but would show the program to be considerably more effective than it is portrayed as being in their report.

I raise these research issues not because of any disagreement with the OIG over the desired fate of the TJTC as currently constituted or because we believe another study is needed of the current program. As I indicated earlier, we do not believe the TJTC should be extended in its current form.

I raise these research issues to make clear that neither the OIG reports nor other studies of the program have demonstrated that employment tax credits are not a potentially effective approach to assist the disadvantaged. I also want to go on record as arguing that should the Congress decide to try out a modified version of TJTC, a more effective impact evaluation should be required.

In this context, it is extremely important to recognize that the TJTC was never intended to be a program that had no employer windfall whatsoever. Because the government ends up funding less than 30 percent of each new job created through TJTC, the program can be cost-effective even if the great majority of TJTC-vouchered workers are hired for jobs that they would have obtained even without the credit. For example, if we use the OIG's estimates of costs and benefits per TJTC certification, but assume that 70 percent of employers would have hired their workers without the credit, instead of the 92 percent estimated by the OIG, we find that the program's benefits easily exceed its costs. In this case -- with 70 percent employer windfall -- the TJTC would in fact be a cost-effective program.

If the Congress decides to pursue an extension of the TJTC, we believe it should consider changes to the program to address the shortcomings I have discussed. We are analyzing possible changes that would increase the credit's low take-up rate, reduce its administrative burden, reduce the windfall to employers who claim the credit without changing hiring patterns, change the focus away from low-quality, high-turnover jobs, and increase the long-term effects of the credit on participants in the program. We would be pleased to meet with the staff of this Subcommittee and with the authorizing committees to further discuss our ideas if it appears that the Congress is interested in exploring an extension.

One caveat needs to be stated, though. Because of the uncertainty surrounding the effectiveness of the TJTC, it is extremely important that we do not cut other important programs for the disadvantaged in order to fund a reauthorization of a modified TJTC.

Finally, we would recommend that if the program is extended in a modified form, that it be temporarily extended rather than permanently reauthorized, and that a more scientific study of its impact be undertaken. Using new techniques that have not been available to previous researchers, we should be able to determine much more definitively the total impact of the revised TJTC on improving the employment prospects of the disadvantaged.

Mr. Chairman, this concludes my prepared statement. At this time I would be pleased to answer any questions that you or other Members of the Subcommittee may have.

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Mr. PETERSON. Thank you, Mr. Ross. Mr. Foley, let me give you 2 minutes to summarize what you said because you got to us late.

Mr. FOLEY. OK, all right. Mr. Chairman, and distinguished members of the subcommittee, I am pleased to have this opportunity to present the views of the Treasury Department with respect to the Targeted Jobs Tax Credit. The Targeted Jobs Tax Credit is a tax credit for employers which was enacted to promote private sector hiring of workers with special barriers to employment.

The TJTC is jointly administered by the Treasury Department through the Internal Revenue Service, and the Department of Labor through its Employment Service. The IRS is responsible for tax-related aspects of the program, and the employment—and the Employment Service, through the network of State employment security agencies, is responsible for defining and documenting worker eligibility.

I provided a table listing the estimated annual costs of the program in terms of foregone tax revenue from fiscal 1986 through fiscal 1994. And it is attached to my statement.

My written testimony sets forth the legislative history and the legislative history indicates that the TJTC was originally enacted in 1981, and it has been extended numerous times. Under current law, the TJTC is available to employers for up to 40 percent of the first $6,000 of wages paid to a certified worker in the first years of employment. This translates into a potential credit of $2,400 per targeted worker.

Let me go right to the Treasury Department's position. And if there are any questions about the structure of the credit or how the rules actually work, then I'd be happy to answer those.

The employment of economically disadvantaged and disabled workers is one of the administration's most pressing concerns. We realize, however, that the current version of the TJTC may not be the most efficient way to address this problem. The revenue loss from a 1-year extension of the credit in its current form is approximately $336 million over 5 years, while a permanent extension of the current law credit would lose approximately $1.4 billion over 5 years. Because we are very concerned about the efficient use of Government resources, we believe that the problems undermining the credit's effectiveness must be addressed before pursuing an extension of the credit.

The inspector general's report raises significant concerns regarding the effectiveness of the credit. As a result of the problems identified in the report, we are engaged in a policy review of the credit to determine whether legislative and regulatory modifications of the credit may improve its effectiveness.

Over the next several months, we plan to continue our work with the Labor Department. We also want to work with Congress to develop proposals that will address in a cost-effective manner the employment problems of economically disadvantaged and disabled workers.

In this process, we will be guided by the following principles, the need to increase the credit's effectiveness, the need to encourage the longer term employment so that the credit is an effective mechanism for enhancing basic job-related skills, and the need to accompany any changes with a more systematic study of the TJTC's effectiveness and administration.

We plan to complete our analysis of this issue prior to submission of the administration's budget proposal for fiscal year 1996. If we decide to support an extension of the credit, our recommendations will be reflected in that document. This concludes my remarks and I'd be happy to answer any questions.

[The prepared statement of Mr. Foley follows:]

For Release Upon Delivery
Expected at 9:30 a.m.
September 20, 1994

STATEMENT OF MAURICE B. FOLEY
DEPUTY TAX LEGISLATIVE COUNSEL (TAX LEGISLATION)
BEFORE THE
SUBCOMMITTEE ON EMPLOYMENT, HOUSING AND AVIATION
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Treasury Department with respect to the targeted jobs tax credit (TJTC). The TJTC is a tax credit for employers which was enacted to promote private-sector hiring of workers with special barriers to employment.

The TJTC is jointly administered by the Treasury Department through the Internal Revenue Service (IRS) and the Department of Labor through its Employment Service. The IRS is responsible for tax-related aspects of the program and the Employment Service, through the network of State Employment Security Agencies, is responsible for defining and documenting worker eligibility.

A table providing a listing of the estimated annual cost of the program in terms of foregone tax revenues from Fiscal 1986 through Fiscal 1994, is attached to my statement.

I. Background

The TJTC was enacted by the Revenue Act of 1978 as a substitute for what had been a broad-based new jobs tax credit. Congress concluded that the unemployment rate had declined sufficiently so that it was appropriate to focus employment incentives on individuals with high unemployment rates and other groups with special employment needs.

The credit initially was scheduled to expire on December 31, 1981 and applied to wages earned in the first and second years of employment. The first-year credit was equal to 50 percent of the first $6,000 earned by a TJTC-hire and the second-year credit was 25 percent of the first $6,000 earned.

The TJTC has been extended on a short-term basis numerous times over the years. Revisions also have been made by a number of tax laws to adjust the amount of the credit, close loopholes, and alter the targeted groups of individuals covered by the credit.

The TJTC was amended and extended for one year through December 31, 1982 by the Economic Recovery Tax Act of 1981. This Act eliminated retroactive certifications of worker eligibility. Using retroactive certifications, an employer could claim credits for TJTC-eligibles who already were on the firm's payroll, resulting in no new job creation. The 1981 Act also required that one targeted group -- cooperative education students -- be economically disadvantaged in order to be covered by the credit. Without this constraint, employers were able to receive subsidies for hiring individuals they likely would have hired in the absence of the credit. The 1981 Act also increased the number of targeted groups and reduced certain restrictions on eligibility within existing categories.

The TJTC was extended for two more years through December 31, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982. This Act extended the credit to employers hiring economically disadvantaged 16 and 17 year-olds for summer employment. The 1982 Act also deleted one of the targeted groups -- former public service employment participants under the Comprehensive Employment and Training Act.

The Deficit Reduction Act of 1984 extended the TJTC for another year through December 31, 1985, after which it expired. It was extended retroactively for three more years through December 31, 1988 by the Tax Reform Act of 1986. The 1986 Act reduced the amount of the credit to 40 percent of the first $6,000 earned and eliminated the second-year credit. Employees also were required to work for a minimum of 90 days or 120 hours to be covered by the credit (14 days or 20 hours for summer youths). A minimum employment period was imposed to limit the "churning" of employees by some employers. "Churning" involves maximizing the amount of credit by rapidly turning over workforce to hire additional targeted members.

The Omnibus Budget Reconciliation Act of 1987 eliminated the credit for wages paid to individuals who perform duties similar to those of workers who are participating in or are affected by a strike or lockout. The Technical Corrections and Miscellaneous Revenue Act of 1988 extended the credit for an additional year through December 31, 1989; reduced the summer youth credit from 85 percent to 40 percent of the first $3,000 earned; and eliminated 23 and 24 year-olds from the targeted group of economically disadvantaged youths.

The TJTC was extended for nine more months through September 30, 1990 by the Omnibus Budget Reconciliation Act of 1989. This Act also reduced the burden placed on local Employment Service offices of verifying worker eligibility. The 1989 Act required employers requesting certification of a job applicant for which there had not been a written preliminary determination of eligibility (a voucher) to specify at least one, but not more than two, targeted groups to which the individual might belong. The employer also had to certify that it had made a good faith effort to determine the individual's eligibility. The prior practice of asking local Employment Service offices to verify TJTC-eligibility of all new hires burdened these offices without creating new jobs. The employer firms already had decided to hire the individuals, although the individuals had not yet been put on the payroll.

The Omnibus Budget Reconciliation Act of 1990 retroactively extended the TJTC for 15 months through December 31, 1991. The conference agreement also clarified the definition of one of the targeted groups. This group -- "ex-convicts" -- was defined to include persons who are placed on probation by State courts without a finding of guilty. The TJTC was further extended for six months through June 30, 1992 by the Tax Extension Act of 1991.

Most recently, the credit was extended retroactively for 30 months by the Revenue Reconciliation Act of 1993. The 1993 Act extended the TJTC to cover individuals who begin work for an employer after June 30, 1992 and before January 1, 1995.

II. Current Law

Under current law, a TJTC is available to employers for up to 40 percent of the first $6,000 of wages paid to a certified worker in the first year of employment. This translates into a potential credit of $2,400 per targeted worker. The worker must be employed for at least 90 days or work at least 120 hours. (The credit for summer youth is 40 percent of the first $3,000 of wages, or $1,200, and these individuals must work for 14 days or 20 hours.) The employer's deduction for wages is reduced by the amount of the TJTC.

Certified workers must be economically disadvantaged or disabled individuals in one of nine targeted groups. These groups are (1) youth 18-22 years old; (2) summer youth age 16-17; (3) cooperative-education students age 16-19; (4) ex-offenders; (5) Vietnam-era veterans; (6) vocational rehabilitation referrals; and individuals receiving (7) general assistance, (8) Supplemental Security Income, or (9) Aid to Families with Dependent Children.

For purposes of the TJTC, a worker is economically disadvantaged if the worker's family income is 70 percent or less of the "lower living standard income level". This level is revised periodically to account for changes in the Consumer Price Index and varies by geographic and urban area.

To claim the credit for an employee, an employer must receive a written certification that the employee is a targeted group member. Certifications for employees are generally provided by State Employment Security Agencies. The employer must have received or filed a written request for a certification on or before the date a targeted member begins work. If the employer has received a written preliminary determination that the employee is a member of a targeted group, the employer may file a written certification request within five calendar days after the targeted member begins work.

III. 1994 Report by the Labor Department's Office of Inspector General

A recent report by the Labor Department's Office of Inspector General identified a number of problems with the TJTC. I will highlight some of these problems, but will leave most of the discussion of the report (and other studies on the credit's effectiveness) to Assistant Secretary Ross. The report recommended that the Secretary of Labor discourage further extensions of the credit.

The study examined the records of a sample of 1,150 individuals from 9 states who received eligibility certifications from July 1, 1991 to June 30, 1992. Interviews were conducted with both employers and participants. Employers were asked whether or not their firm would have hired the individual if the tax credit were not available. This question was the primary method of determining the effect of the TJTC.

Although the report notes that the TJTC provides some benefits, the report concludes that the TJTC provides a windfall to employers, does not promote long-term productivity or earning power, and is not cost effective. According to the report:

• Employers would have hired 92 percent of eligible workers without the credit.

• In general, TJTC jobs were entry-level, low-paying, low-skilled positions similar to jobs the individuals held both before and after their TJTC employment.

• The benefits of the program (measured as the gross wages paid to the 8 percent hired due to the credit plus estimated reductions in social program payments) were only 37 percent of the costs (measured as foregone tax revenues and administrative costs of the Department of Labor).

It is important to bear in mind, however, that the study was commissioned as an audit, rather than a scientific, study. Therefore, it cannot provide a definitive assessment of the effectiveness of the TJTC program. The study was not scientific in the sense that it did not compare results in its sample with results in a control group of individuals with similar characteristics who did not participate in the TJTC. The study made comparisons to other low-wage workers but did not control for differences in age, sex, type of industry, and other factors.

Other possible problems in methodology include the wording of the question asked of study participants (would the employer have hired the employee if there were no TJTC?). This wording may have biased results, since only yes or no answers were solicited. Even if the TJTC did not directly control a hiring decision, it may have indirectly influenced the hiring of TJTC eligibles by, for example, altering recruiting practices.

In summary, this report is a useful component of the process of monitoring the effectiveness of the TJTC. However, the report's conclusions need to be weighed along with its limitations before reaching a final determination as to the overall effectiveness of the TJTC program.

IV. Administration's Position

The employment of economically disadvantaged and disabled workers is one of the Administration's most pressing concerns. We realize, however, that the current version of the TJTC may not be the most efficient way to address this problem. The revenue loss from a one-year extension of the credit in its current form is approximately $336 million over 5 years, while a permanent extension of the current law credit would lose approximately $1.428 billion over 5 years. Because we are very concerned about the efficient use of government revenues, we believe that the problems undermining the credit's effectiveness must be addressed before pursuing an extension of the credit.

The Inspector General's report raises significant concerns regarding the effectiveness of the credit. As a result of the problems identified in the report, we are engaged in a policy review of the credit to determine whether legislative and regulatory modifications of the credit may improve its effectiveness.

Over the next several months we plan to continue our work with the Labor Department. We also want to work with Congress to develop proposals that will address, in a cost effective manner, the employment problems of economically disadvantaged and disabled workers. In this process we will be guided by the following principles: the need to increase the credit's effectiveness, the need to encourage longer-term employment so that the credit is an effective mechanism for enhancing basic job-related skills, and the need to accompany any changes with a more systematic study of the TJTC's effectiveness and administration.

We plan to complete our analysis of this issue prior to submission of the Administration's budget proposal for Fiscal Year 1996. If we decide to support extension of the credit, our recommendations will be reflected in that document.

This concludes my prepared remarks. I would be pleased to respond to any questions you may have at the conclusion of Mr. Ross' testimony.

Attachment 1: Revenue Cost of the Targeted Jobs Tax Credit, 1986-1994 (in millions of dollars)

Fiscal Year	Tax Revenue Reduction*
1986	259
1987	197
1988	244
1989	273
1990	253
1991	261
1992	265
1993	208
1994	243

Office of Tax Analysis
U.S. Treasury Department
September 14, 1994

* The estimates for FY 1994 are based on current law under which the credit will expire on December 31, 1994.

Mr. PETERSON. Thank you. And now we'll have Mr. Masten. Are you going to testify for the IG, is that——

Mr. MASTEN. Yes, sir.

Mr. PETERSON. OK. We appreciate the work that you have done, and your being with us today.

Mr. MASTEN. Thank you, Mr. Chairman. Good morning, Mr. Chairman, and members of the subcommittee. Again, thank you for inviting me to testify before you this morning as the Inspector General of the Department of Labor. As you stated earlier, I have submitted a written statement for the record. I will give you a summary of that statement now.

Seated to my right is Mr. Joseph Fisch, who is the Assistant Inspector General for the Office of Audit. From the outset, I would like to emphasize that any views expressed here today are mine as the inspector general, and may not be the official position of the U.S. Department of Labor. As you are aware, Mr. Chairman, the Targeted Job Tax Credit Program was created in 1978 to induce employers to hire certain members of hard-to-employ target groups in exchange for Federal tax credits.

In total, my office has conducted four audits on various aspects of this program. The latest, a nationwide audit, was initiated following a pilot audit conducted in the State of Alabama. In that audit, employers interviewed were mostly large nationwide corporations, including fast food chains, discount retailers, hotel, motel chains, Poultry processors and the like.

During that audit, employers acknowledged that they would have hired 95 percent of the same individuals even if the tax credit had not been available. The audit also found that employers typically did not check for TJTC eligibility until after a hiring decision had been made. The Alabama audit concluded that the program was a windfall to employers in that State and of minimal value to participants.

These conclusions caused the OIG to launch its nationwide audit to ascertain if the results in Alabama were characteristic of the program nationwide. The nationwide audit sample covered a total 1,150 participants from nine States. The overall objective of the nationwide audit was to determine whether the program is an effective, economical means of helping target group members who would otherwise have difficulty finding employment.

The audit obtained answers to the following questions. First, would employers have hired the applicant without the tax credit?, second, what did the TJTC program cost and what were its benefits during the audit period?, and third, what impact did the program have upon target group members?

Does the TJTC Program work? Unfortunately, Mr. Chairman, the OIG audit determined that the TJTC Program had virtually no impact on the employer's decision to hire target group members. Based upon responses of both employer and participants regarding hiring procedures, the OIG projects that at least 92 percent of TJTC employees would have been hired even without the tax credit. That is, the tax credit caused the employment of members of the targeted groups in only 8 percent of the cases.

Equally disturbing, Mr. Chairman, is the fact that employers acknowledged they determine TJTC eligibility for 86 percent of the participants in our sample after a job offer was made. The audit found that in the majority of cases, following the hiring decision, employers directed employees to call a broker who, through telephone screening, made a preliminary TJTC eligibility determination for the employer. Employers then paid broker fees, based usually on the amount of the tax credit.

Ironically, my audit staff had some first hand experience with this post-hiring, TJTC eligibility screening. On two separate occasions, family members of two OIG audit employees were asked to call a TJTC screening broker after being hired for jobs at a major grocery chain and a nationwide discount retailer. Both were assured that the job was theirs and that in no way would the call affect their employment status.

In a nutshell, the tax credit makes virtually no difference in who gets hired. Since the effect of the tax credit is supposed to be the hiring of target group members, I can only conclude that the tax credit is a windfall for employers.

Is the TJTC Program worth its costs? The OIG audit estimates that for every dollar in outlays, this program returns only 37 cents in economic benefit; that is, wages and reduction in social transfer payments such as welfare benefits. The OIG projects that the Program costs about $374 million and that benefits total $140 million. Thus, the program costs some $234 million more than the economic benefits it generated.

Do participants benefit from the TJTC Program? The OIG audit determined for the most part TJTC employment includes jobs as fry cooks, order takers, waiters, waitresses, cashiers, retail clerks, maids and janitors. We found that these are the same type of low-wage, low-skill, high-turnover jobs that participants held before and after their TJTC work experience and which, in a majority of cases, offer no fringe benefits. Needless to say, this further compels us to question the value of the TJTC Program and whether better results should be expected of programs subsidized by the Government.

Mr. Chairman, I wish I could tell that you this program is helping members of the targeted groups as intended by Congress. I simply cannot.

For the most part, the only ones benefitting from this over $300 million a year program are the employers. After all, most employees would have been hired regardless of the tax credit, and most employers make the decision to hire before TJTC eligibility is established.

Mr. Chairman, I wholeheartedly believe that the Government needs to have programs to help the disadvantaged. However, they need to be programs that work, particularly in this era of budget constraints and diminishing resources. I regret to say that this tax credit program simply is not one of them. As a result, the OIG audit recommends that the Secretary encourage Congress not to reauthorize this program when it expires in December of this year.

I think it is important to stress that, while OIG audits usually recommend corrective action to improve weak or ineffective programs, this is the first time the OIG has ever recommended that a program be eliminated. Mr. Chairman, as is standard practice in the OIG, ETA was given the opportunity to comment on the audit.

In its response, ETA acknowledged that even prior to our audit there were disturbing indications that the effects of the program fall short of its intentions. However, ETA stated that the OIG conducted an audit and not a scientific study. It indicated that, "ways to strengthen achievement under this program, including the commissioning of a scientific study of the program's overall effectiveness," would continue to be examined.

I must say that I was both surprised and disappointed at ETA's response that yet another study of the effectiveness of this program is needed. We do not believe that this program needs further study. This program has been repeatedly studied and its problems have been widely documented.

Mr. Chairman, the Vice President's National Performance Review seeks to root out and eliminate wasteful, ineffective programs. Clearly, any program this ineffective has to be included on the list of programs that need to be eliminated. I am of the opinion that maintaining the TJTC Program would be inconsistent with the principles of the NPR.

Mr. Chairman, this concludes my prepared statement. Mr. Fisch and I would be pleased to answer any questions you or the subcommittee members may have. Thank you.

[The prepared statement of Mr. Masten follows:]

STATEMENT OF CHARLES C. MASTEN
INSPECTOR GENERAL
U.S. DEPARTMENT OF LABOR
BEFORE THE EMPLOYMENT, HOUSING, AND AVIATION SUBCOMMITTEE
COMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES

September 20, 1994

Good Morning Mr. Chairman and Members of the Subcommittee. Thank you for inviting me to testify in my capacity as the Inspector General of the U.S. Department of Labor. I am pleased to appear before you today to present the results of the OIG's recent nationwide audit of the Targeted Jobs Tax Credit Program. I am accompanied by Mr. Joseph Fisch, Assistant Inspector General for Audit.

The OIG audit was conducted under the authority of the Inspector General Act of 1978, as amended, and performed in accordance with Government Auditing Standards issued by the Comptroller General. As you know, Mr. Chairman, Congress created the Office of Inspector General (OIG) to:

> ...(1) conduct and supervise audits and investigations relating to the programs and operations [of the Department] ... and (2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud, waste, and abuse in, such programs and operations...[1]

From the outset, I would like to emphasize that any views expressed today are mine as Inspector General and may not be the official position of the U.S. Department of Labor.

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[1]Section 2, Inspector General Act of 1978, PL-95-452.

BACKGROUND

By way of background, the Targeted Jobs Tax Credit (TJTC) Program was created in 1978. The program was intended to encourage employers to hire certain members of hard-to-employ target groups in exchange for Federal tax credits. Currently, there are nine target groups including economically disadvantaged youth, economically disadvantaged Vietnam-era veterans, ex-felons, persons with disabilities, and public assistance recipients.[2]

Administration of the TJTC program is shared between Labor's Employment and Training Administration (ETA) and Treasury's Internal Revenue Service (IRS). ETA is responsible for administering the program through cost reimbursable grants to State Employment Security Agencies, which review and certify employee eligibility for the program. The IRS is responsible for monitoring the tax credits claimed by employers.

Currently, the program allows employers to claim a tax credit of up to 40 percent of the first $6,000 in annual wages paid to an employee, for a maximum tax credit of $2,400 per eligible employee. To claim this credit, the employer needs only to retain the worker for the lesser of either 90 days or 120 hours of employment. For disadvantaged summer youth, employers may claim 40 percent of the first $3,000 in wages paid to an employee, for a maximum tax credit of $1,200. For these

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[2]The target groups and our projections of their representation in the total certifications issued during our audit period are presented in Appendix 1.

individuals, the employer may claim the credit after retaining the employee for the lesser of just 14 days or 20 hours of employment.

The Joint Committee on Taxation estimates that this program results in annual revenue losses to the Treasury of about $300 million.

THE OIG NATIONWIDE AUDIT

In total, the OIG has conducted four audits on various aspects of this program. The latest, a nationwide audit, was initiated following a pilot audit conducted in the State of Alabama. Employers interviewed in the Alabama audit were mostly large, nationwide corporations, including fast food chains, discount retailers, hotel/motel chains, poultry processors and the like. During that audit, employers acknowledged that they would have hired 95 percent of the same individuals, even if the credit had not been available. The audit also found that employers typically did not check for TJTC eligibility until after a hiring decision had been made.

The Alabama audit concluded that the TJTC program was a windfall to employers in that state and of minimal value to participants. These conclusions caused the OIG to launch its nationwide audit to ascertain if the results in Alabama were characteristic of the program nationwide.

Objective

The overall objective of the OIG nationwide audit was to determine whether the TJTC Program is an effective, economical means of helping target group members who, without the tax incentive given to employers to hire them, would have difficulty finding employment.

Focusing mainly on activities for the period July 1, 1991 through June 30, 1992, we obtained answers to the following questions:

1) Would employers have hired the applicants without a tax credit?

2) What did the TJTC program cost and what were its benefits during the audit period?

3) What impact did the program have upon target group members?

Methodology

The audit sample was carefully constructed to allow us to project the sample results to the universe of TJTC certifications for the audit period and to project the program's costs and benefits nationwide.[3] The audit sample included a total of 1,150 participants. The audit process consisted of interviews with staff, participants, and

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[3]We used a stratified, two-stage statistical sampling design. First, we ranked all states according to the number of TJTC certifications in each state. The states were then placed into 3 strata, with each stratum comprised of approximately equal number of certifications. We then randomly selected 3 states from each of the 3 strata: California, Florida, Illinois, Maine, Michigan, Missouri, New Hampshire, Texas, and Virginia. Second, we drew random samples of 125 individuals from each state (150 in Illinois) who had been certified for TJTC during the audit period.

local employers; and reviews and analyses of documents, including TJTC participant records and Unemployment Insurance claim and wage files.

During the course of the audit, participants and their employers were asked questions about:

- How and when participants' eligibility for TJTC tax credits was determined;
- Whether employers would have hired the participants had the credit not been available; and
- What wage participants were paid, number of hours participants worked, and what benefits were offered.

In determining the program's impact upon participants, the OIG also collected and compared information from sampled employees regarding their TJTC jobs and the jobs they held immediately before and after their TJTC employment.

Program Effectiveness: Does the TJTC Program Work?

Unfortunately, Mr. Chairman, the OIG audit determined that the TJTC program had virtually no impact on employers' decisions to hire target group members. Based upon responses of both employers and participants regarding hiring procedures, the OIG projects that at least 92 percent of TJTC employees would have been hired even without the tax credit -- that is, the tax credit caused the employment of members of these targeted groups in only 8 percent of the cases.

Equally disturbing, Mr. Chairman, is the fact that employers we contacted acknowledged they determined TJTC eligibility for 86 percent of the participants in our sample after a job offer was made. The audit found that in the majority of the cases, following the hiring decision, employers directed employees to call a broker, who, through telephone screening, made a preliminary TJTC eligibility determination for the employer. Employers then paid brokers a fee, based usually on the amount of the tax credit.

Ironically, my audit staff had some first-hand experience with this post-hiring, TJTC eligibility screening. On two separate occasions, family members of two OIG audit employees were asked to call a TJTC-screening broker after being hired for jobs at a major grocery store chain and at a nationwide discount retailer. Both were assured that the job was theirs and that in no way would the call affect their employment status.

Based on the OIG audit findings, I can only conclude that the tax credit is a windfall for employers since the program is inconsequential in encouraging the employment of target group members. In a nutshell, TJTC makes virtually no difference regarding who gets hired.

Program Costs vs Benefits: Is the TJTC Program Worth Its Cost?

In addition to the ineffectiveness of the TJTC program, the OIG audit estimates that for every dollar in outlays, this program returned only about 37 cents in economic benefit -- that is, wages and reductions in social transfer payments, such as welfare and Supplementary Security Income (SSI) benefits. Nationally, for the 1-year audit period, the OIG projected that the program cost about $374 million and that benefits totaled $140 million. Thus, the program cost some $234 million more than the economic benefits it generated.

Program Impact: Do Participants Benefit from TJTC?

The OIG audit also examined the program's impact upon target group members by comparing information on individuals' TJTC jobs with jobs they held immediately before and after their TJTC employment. Information evaluated included: hourly wages paid, weekly hours of employment, fringe benefits offered employees, types of jobs, and length of time participants remained in the job.

The OIG audit determined that, for the most part, TJTC employment included jobs as fry cooks, order takers, waiters/waitresses, cashiers, retail clerks, and maids/janitors. We found that these are the same type of low-paying, low-skill, high-turnover jobs that participants held before and after their TJTC work experience.

Several disturbing facts disclosed by the audit included that:

- 37% of the employees in our sample were paid no more than the minimum wage;
- 61% of the employees worked only part-time;

- 65% of the employees were offered no fringe benefits;
- Little vocational education or formal skills training was offered by employers; and
- TJTC employees' average annual earnings were just above the Federal poverty level.

The audit found that 5 quarters after being hired, only 24 percent of workers in TJTC-covered positions were still with their TJTC employer. Furthermore, they were somewhat worse off than those who were no longer with their TJTC employer since the average wage of the TJTC job was, in fact, less than the average wage employees earned in subsequent non-TJTC employment.

Needless to say, these results further compel us to question the value of the TJTC program and whether better results should be expected of programs subsidized by the Government.

OIG Audit Conclusion: The Program Is a Windfall to Employers

Mr. Chairman, I wish I could tell you that this program is helping members of the targeted groups, as intended by Congress. I simply cannot. For the most part, the only ones benefitting from this $300 million a year program are the employers.

After all:

(1) **Most employees would have been hired regardless of the tax credit.** (Clearly, the applicant pool for the marginal jobs on which credits are being claimed does not change. These are the same people who have typically worked, and will continue to work, in these low-wage, low-skill, high-turnover jobs that offer no benefits); and

(2) **Most employers make the decision to hire before TJTC eligibility is established.** (This further confirms that, in most cases, the tax credit does not cause the employment of these individuals.)

<u>OIG Recommendation: The TJTC Program Should be Eliminated</u>

Mr. Chairman, I wholeheartedly believe that the Government needs to have programs to help the disadvantaged. However, they need to be programs that work, particularly in this era of budget constraints and diminishing resources. I regret to say that this tax credit program simply is not one of them. As a result, the OIG audit recommends that the Secretary encourage Congress not to reauthorize this program when it expires in December of this year.

I think it is important to stress that, while OIG audits usually recommend corrective action to improve weak or ineffective programs, this is the first time the OIG has ever recommended that a program be eliminated.

The Employment and Training Administration (ETA) Response

Mr. Chairman, as is standard practice in the OIG, we held an exit conference with ETA, the agency which administers the program at the Department of Labor, to present the OIG audit findings. ETA was then given the opportunity to comment on the draft report. In its response to the OIG audit, ETA acknowledged that:

> Even prior to the OIG's examination, there were disturbing indications that TJTC's effects fall short of its intentions. The [OIG] draft report adds to those indications and deepens our concern about the program's current design.

However, ETA stated that the OIG conducted an audit and not "a scientific study." It indicated that "ways to strengthen achievement under the program, including the commissioning of a scientific study on the program's overall effectiveness" would continue to be examined.

I must say that I was both surprised and disappointed at ETA's response that yet another study of the effectiveness of the program is needed. We do not believe that the program needs further study. This program has been repeatedly studied and its problems have been widely documented.[4]

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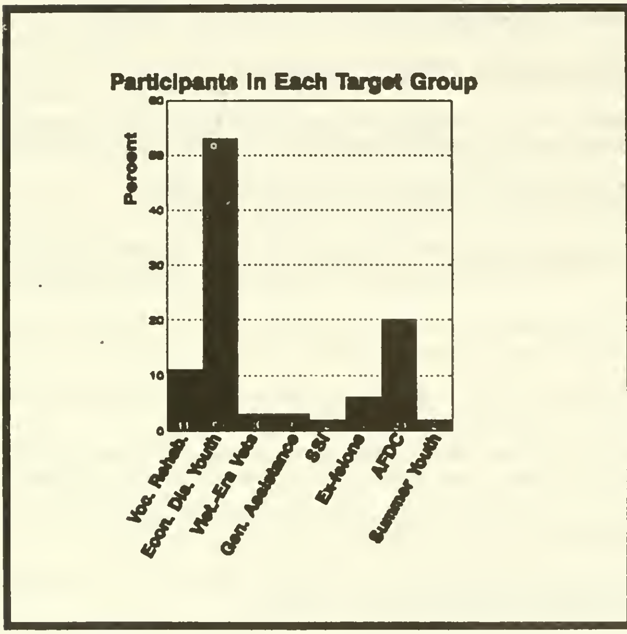
[4]See Appendix 2 for a list of studies of the TJTC program.

Conclusion

Mr. Chairman, the Vice President's National Performance Review (NPR) seeks to root out and eliminate wasteful, ineffective programs. Clearly, any program that is as ineffective as the TJTC program is, has to be included on the list of programs that need to be eliminated. I am of the opinion that maintaining such a program would be inconsistent with the principles of the NPR. Mr. Chairman, this concludes my prepared statement. Mr. Fisch and I would be pleased to answer any questions you or the other Members of the Subcommittee may have.

APPENDIX 1

TARGET GROUP REPRESENTATION



This graph depicts eight of the nine target groups and our projections of their representation to the total certifications which were issued during our audit period.[5] As evident from this chart, economically disadvantaged youth ages 18 - 22 years of age were the predominant target group certified. AFDC participants were also well represented. In contrast, the disabled, ex-felons, Vietnam-era veterans, and SSI recipients constituted only small percentages of the total certifications.

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[5]Economically disadvantaged youth ages 16 - 19, who participate in a cooperative education program, were excluded from our sample since their certifications are done by the Department of Education and not the SESAs.

APPENDIX 2

TJTC PROGRAM STUDIES

THE TARGETED JOBS TAX CREDIT: AN ASSESSMENT, by Edward Lorenz, National Commission for Employment Policy, August 1985

THE TARGETED JOBS TAX CREDIT IN MARYLAND AND MISSOURI: 1982-1987, By Edward C. Lorenz, for National Commission for Employment Policy, November 1988

DOES THE TARGETED JOBS TAX CREDIT CREATE JOBS AT SUBSIDIZED FIRMS? By John H. Bishop and Mark Montgomery, Industrial Relations, Vol. 32, No. 3, Fall/1993

TARGETED JOBS TAX CREDIT: FINDINGS FROM EMPLOYER SURVEYS, by John Bishop and Kevin Hollenbeck, National Center for Research in Vocational Education, Ohio State University, May 1985

TJTC: EMPLOYER ACTIONS TO RECRUIT, HIRE, AND RETAIN ELIGIBLE WORKERS VARY, General Accounting Office (GAO), February 1991

APPLYING FOR ENTITLEMENTS: EMPLOYERS AND THE TARGETED JOBS TAX CREDIT, Abstract, by John H. Bishop and Suk Kang, Journal of Policy Analysis and Management, Vol. 10, Winter, 1991

IMPROVING THE EFFECTIVENESS OF THE EMPLOYMENT SERVICE: DEFINING THE ISSUES, by Robert G. Ainsworth, National Commission for Employment Policy, October, 1991

FINAL PROCESS ANALYSIS REPORT ON THE IMPLEMENTATION AND USE OF THE TARGETED JOBS TAX CREDIT PROGRAM, Macro Systems, Inc. May 7, 1985

FINAL REPORT ON THE SHORT-TERM NET IMPACT OF THE TARGETED JOBS TAX CREDIT (TJTC) PROGRAM ON DISADVANTAGED POPULATIONS Macro Systems, Inc. July 1986

FINAL REPORT ON THE AGGREGATE EMPLOYMENT EFFECTS OF THE TARGETED JOBS TAX CREDIT PROGRAM, Macro Systems, Inc., September 1986

IMPACT STUDY OF THE IMPLEMENTATION OF THE TARGETED JOBS TAX CREDIT PROGRAM: OVERVIEW AND SUMMARY, Macro Systems, Inc., July 1986

A STUDY OF THE IMPLEMENTATION AND USE OF THE TARGETED JOBS TAX CREDIT: FINAL REPORT ON THE ADMINISTRATIVE COST-EFFECTIVENESS OF TJTC AS A PLACEMENT TOOL FOR THE EMPLOYMENT SERVICE, Macro Systems, Inc., July 1986

FINAL REPORT ON THE EFFECTS OF THE TJTC PROGRAM ON EMPLOYERS, Macro Systems, Inc., July 1986

ARE TARGETED WAGE SUBSIDIES HARMFUL? EVIDENCE FROM A WAGE VOUCHER EXPERIMENT, by Gary Burtless, Industrial and Labor Relations Review, October 1985

THE USE OF TAX SUBSIDIES FOR EMPLOYMENT, A REPORT TO CONGRESS BY THE U.S. DEPARTMENTS OF LABOR AND TREASURY, May 1986

CRS COMPARES COSTS OF THE TARGETED JOBS TAX CREDIT, Congressional Reports, Tax Notes, March 18, 1985

EMPLOYMENT TAX CREDIT PROGRAMS: THE EFFECTS OF SOCIOECONOMIC TARGETING PROVISIONS, by Dave O'Neill, U.S. Census Bureau, The Journal for Human Resources, 1982

REPORT ON THE VERIFICATION AUDITS OF TJTC CERTIFICATIONS, by DOL Secretary Lynn Martin, to Lloyd Bentsen, Chairman, Senate Finance Committee, August 16, 1991

TJTC: WHO DOES IT BENEFIT? Compiled by Jennifer A. Wells, TJTC Research Intern, New Hampshire Department of Employment Security, 1990

TARGETED JOBS TAX CREDIT PROGRAM, STATE OF ALABAMA, Office of Audit, Office of Inspector General, U.S. Department of Labor, August 20, 1993

FINAL SURVEY REPORT, TARGETED JOBS TAX CREDIT PROGRAM, STATE OF TENNESSEE, U.S. Department of Labor, Office of Inspector General, September 30, 1992

REVIEW OF THE TARGETED JOBS TAX CREDIT PARTICIPANT ELIGIBILITY PROCEDURES, Office of Audit, Office of Inspector General, U.S. Department of Labor, March 28, 1986

Office of Inspector General

U.S. Department of Labor
Office of Audit

TARGETED JOBS TAX CREDIT PROGRAM: EMPLOYMENT INDUCEMENT OR EMPLOYER WINDFALL?

Report No.: 04-94-021-03-320
Date Issued: AUG 1 8 1994

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

Reply to the Attention of:

AUG 1 8 1994

MEMORANDUM FOR: DOUGLAS ROSS
Assistant Secretary
for Employment and Training

FROM: GERALD W. PETERSON
Assistant Inspector General
for Audit

SUBJECT: Targeted Jobs Tax Credit Program:
Employment Inducement or Employer Windfall
Final Audit Report No. 04-94-021-03-320

The attached audit report contains the results of our audit of the Targeted Jobs Tax Credit (TJTC) program. The audit included program activities which occurred during the period July 1, 1991 through June 30, 1992, and was performed in seven ETA regional offices and nine states.

We found that the program is not an effective and economical means of helping target group members obtain jobs.

The program:

-- did not induce employers to hire members of target groups they might not otherwise have hired. We project that employers would have hired 92 percent of the individuals, even if the credit had not been available.

-- was not cost effective. For our audit period, we estimate that the TJTC program returned only about 37 cents of economic benefits for each dollar of tax credits and administrative costs.

-- provided the majority of participants entry-level, low-paying, low-skilled, part-time positions which do not offer benefits.

Consequently, we have recommended the Secretary of Labor discourage Congress from reauthorizing the TJTC program when it expires December 31, 1994.

We would appreciate your response to the findings and recommendation within 60 days.

Attachment

Working for America's Workforce

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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
CFR	Code of Federal Regulations
CY	Calendar Year
DOL	Department of Labor
DOT	Dictionary of Occupational Titles
ES	Employment Service
ETA	Employment and Training Administration
FY	Fiscal Year
IRC	Internal Revenue Code
IRS	Internal Revenue Service
LLSIL	Lower Living Standard Income Level
LOR	Letter of Request for Certification
OIG	Office of Inspector General
SESA	State Employment Security Agency
SSI	Supplemental Security Income
SSN	Social Security Number
TJTC	Targeted Jobs Tax Credit
UI	Unemployment Insurance
VR	Vocational Rehabilitation
WIC	Women, Infants, and Children Services

EXECUTIVE SUMMARY

The Targeted Jobs Tax Credit (TJTC) program was enacted in 1978 as a means of helping certain individuals find employment. In 1994, the TJTC program will cost taxpayers nearly $300 million.[1] For that outlay, it is intended the program will entice businesses into hiring members of hard-to-employ target groups--predominantly the economically disadvantaged--in exchange for Federal tax credits.

Our audit focused upon whether the TJTC program is an effective and economical means of helping target group members obtain jobs.

It is not. Consequently, we have recommended the Secretary encourage Congress to discontinue the program when it expires on December 31, 1994.

In arriving at our conclusion, we completed field work in nine states. A sample of 1,150 individuals was evaluated, upon whom employers had requested and received TJTC eligibility certifications during the period July 1, 1991 through June 30, 1992. We also analyzed TJTC program and unemployment insurance wage history data maintained by the states.

We asked and obtained answers to the following questions:

Would Employers Have Hired the Applicants Without a Tax Credit?

TJTC did not induce employers to hire members of target groups they might not otherwise have offered jobs. Nationally, we project that employers, for whom we could make a determination, would have hired 92 percent of the individuals even if the credit had not been available.

What Did the Program Cost and What Were Its Benefits During the Audit Period?

The costs of the TJTC program far exceeds its benefits. Nationally, for the period July 1, 1991 through June 30, 1992, we estimate that the costs of the TJTC program exceeded

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[1] Based upon the Joint Committee on Taxation's estimates of lost federal tax revenue which totals $282 million and nearly $16 million in U.S Department of Labor funds granted to states for them to administer the program.

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its benefits by over $234 million. That is, only about 37 cents of economic benefits were returned for each dollar in tax credits and administrative costs.

What Impact Did the Program Have Upon Target Group Members?

Overall, TJTC jobs were similar to jobs individuals held both before and after their TJTC employment - that is, entry-level, part-time, low-paying, low-skilled positions. TJTC participants' starting hourly wages averaged only $4.96, while one of three employees was paid the minimum allowed by law. Two of three employees worked part-time. Similarly, two of three employees were not offered any fringe benefits, such as health and life insurance, or participation in a retirement plan.

TJTC employees remained with their employers longer than employees in a comparison group with similar wages. Although somewhat better than the general work force, five quarters after being hired, only 24 percent of TJTC employees were still with their TJTC employers.

We also reviewed the program's administrative controls and identified weaknesses in eligibility verification procedures employed by the states. Also, quarterly reports of program activities, submitted by states to the Federal Government, contained inaccuracies. Our evaluation of the program's administration has been communicated to each state and is discussed in the section of this report titled, "Study and Evaluation of Internal Controls."

ETA's Response

ETA acknowledged that past studies had cast doubts on the TJTC program's effectiveness. ETA stated that OIG's report "deepens our concern about the program's design." However, ETA did not believe the OIG audit was sufficient and that a "scientific study" with a "carefully constructed methodology" is necessary to determine the program's long-term impact. ETA will continue to find ways to improve program administration and will commission a scientific study on the program's overall effectiveness.

We have included ETA's complete response to the draft report as Exhibit C.

OIG's Conclusion

We are disappointed by ETA's response. We believe continuing the program while funding another study of this extensively studied program will only add to its considerable expense, delay corrective action, and frustrates the objectives of the Vice President's National Performance Review.

Fewer than one person in ten owed their employment to the tax credits employers received. Since the program subsidizes hiring activities which occur regardless of the credit, we believe further study on long-term employment impact would be inconsequential and wasteful.

We reviewed the literature on TJTC and noted nearly 30 reports on the program. Conclusions in several of the past studies were consistent with those in our report. Recently, Secretary Reich cited the results of a study:[2]

> *. . .according to recent studies by Cornell University's John Bishop and Grinnel College's Mark Montgomery, at least 70% of these workers would have been hired even without their employers receiving a tax break.*
>
> *. . .This is a disturbing list. Investing scarce resources in programs that don't deliver cheats workers who require results and taxpayers who finance failure.*
>
> *So here is what we're going to do:*
>
> *We're going to recommend against renewing the targeted jobs tax credit.*

At a White House briefing, on February 2, 1994, the Secretary affirmed that past investigations have demonstrated the TJTC program is not working:

> *. . .all of the evidence shows that employers would have - in almost every case - employed those people [TJTC participants] anyway and, therefore, get a windfall.*

Over the past several years, numerous changes have been made to the program in unsuccessful attempts to correct its shortcomings. We believe the program should be

[2] The Secretary's speech before the Center for National Policy, on January 27, 1994, titled "Getting America to Work: What's Working and not Working in Workforce Policy."

ended and continue to recommend the Secretary of Labor encourage Congress to discontinue the TJTC program when its authorization expires on December 31, 1994.

INTRODUCTION AND BACKGROUND

INTRODUCTION

SESAs operate the TJTC Program. TJTC is one of several Federal programs enacted to reduce unemployment, stimulate economic growth, and provide job opportunities for groups needing special assistance. TJTC allows employers, engaged in a trade or business, to receive a Federal income tax credit for hiring and retaining individuals from specific target groups.

During 1993, Congress passed the Omnibus Budget Reconciliation Act of 1993, which extended the program through December 31, 1994. The Act also made tax credits retroactive on all eligible individuals whose employment start date was on or after July 1, 1992.

BACKGROUND

TJTC began under the *Revenue Act of 1978*, as an amendment to Section 51 of the *Internal Revenue Code of 1954*. TJTC replaced the New Jobs Tax Credit (NJTC) program created by the *Tax Reduction and Simplification Act of 1977*. According to the *Revenue Act of 1978*, Part I., Summary, Congress made the changes from NJTC to TJTC because of improved economic conditions:

> *. . . the unemployment rate has declined sufficiently so that it is appropriate to focus employment incentives on those individuals who have high unemployment rates, even when the national unemployment rate is low, and on other groups with special employment needs.*
>
> *. . . The groups have been defined on the basis of their low income or because their employment should be encouraged. . . . As a result of increasing employment among these groups, the committee hopes to lower outlays for these programs.*

Thus, TJTC focused upon specific target groups, in contrast to the NJTC, which focused upon creation of new jobs.

Since 1978, Congress has repeatedly amended program requirements through provisions of the:

- -- *Technical Corrections Act of 1979,*
- -- *Economic Recovery Act of 1981,*
- -- *Tax Equity and Fiscal Responsibility Act of 1982,*
- -- *Technical Corrections Act of 1982,*
- -- *Deficit Reduction Act of 1984,*
- -- *Tax Reform Act of 1986,*
- -- *Technical and Miscellaneous Revenue Act of 1988,*
- -- *Omnibus Budget Reconciliation Act of 1989,*
- -- *Omnibus Budget Reconciliation Act of 1990,*
- -- *Tax Extension Act of 1991, and*
- -- *Omnibus Budget Reconciliation Act of 1993.*

All participating parties must also follow the *Internal Revenue Code of 1986*, as amended. The changes resulting from the amendments relate primarily to groups which are targeted, minimum length of employment, amount of wages which are covered, eligibility determination procedures, and extensions of the program's duration.

The Employment and Training Administration, within the U.S. Department of Labor. administers the program through cost reimbursable grants to the SESAs. The U.S. Treasury Department, through the Internal Revenue Service (IRS), monitors the tax credits claimed by employers. ETA and the IRS have a "memorandum of understanding" concerning their individual and shared responsibilities.

PRINCIPAL CRITERIA

ETA administers the TJTC program following the guidelines in *ET Handbook 377, Targeted Jobs Tax Credit Program, 5th Edition, August 1991.* This Handbook rescinded an earlier edition, dated July 1988. ETA states that the Handbook provides "general guidelines" for those administering the TJTC program.

Currently, the tax credit allows employers to claim 40 percent of the first $6,000 in annual wages paid an employee or a maximum tax credit of $2,400. The employer must retain the worker for a minimum of 90 days or employ the worker for at least 120 hours before the credit can be claimed. For disadvantaged summer youth, TJTC allows a credit which is 40 percent of the first $3,000 in wages paid the employee or a maximum tax credit of $1,200. Summer youth must work a minimum of 14 days or be employed at least 20 hours before a credit is available. Tax credits may be claimed for the wages described over a total period of 1 year, except for summer youth who are limited to the period of May 1 through September 15.

The targeted population consists of nine groups for which employers may claim the tax credit. The groups are as follows:

1. Persons with disabilities referred from state vocational rehabilitation or Department of Veterans' Affairs programs.

2. Economically disadvantaged youth, 18 - 22 years old.

3. Economically disadvantaged Vietnam-Era veterans.

4. Recipients of Federal Supplemental Security Income (SSI) benefits within the last 60 days preceding the hire date.

5. Recipients of state and local General Assistance for 30 days or more within the last 60 days preceding the hire date.

6. Economically disadvantaged youth, aged 16 through 19, who participate in a qualified cooperative education program and have not graduated from a high school or vocational school.[3]

7. Economically disadvantaged ex-offenders hired no later than 5 years from date of their prison release or their felony conviction.

8. Recipients of Aid to Families with Dependent Children (AFDC), who are eligible for AFDC at the date hired and who received AFDC payments continuously for the past 90 days or more.

9. Economically disadvantaged summer youth, 16 and 17 years old, employed between May 1 and September 15, and who have not previously worked for the employer.

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[3] Since the SESAs' only responsibility for this group is economic eligibility determination, the SESAs do not track certifications done by the Department of Education. Therefore, none from this group were included in our sample.

The "lower living standard income level" (LLSIL) determines whether an individual is "economically disadvantaged." The LLSIL is based upon the Consumer Price Index and varies by geographic area. Family income cannot exceed 70 percent of LLSIL, for those target groups whose eligibility is based upon "disadvantaged" status.

Employers may make a preliminary determination of an applicant's eligibility. However, the SESA or cooperating agency must make the final determination and the SESA must certify the same. The SESA or cooperating agency may provide individuals a "voucher" of eligibility determination, which may assist applicants when searching for a job.

Generally, the participant's start date must not precede the employer's request for certification. However, the start date may precede the request for certification date by up to 5 days, for persons already vouchered by the SESA or cooperating agency. A Qualified Cooperative Education program, such as those conducted in vocational schools, must certify that the applicant is eligible.

According to ETA's guidelines, the SESA should try to obtain documentation of each individual's eligibility. However, ETA allows the SESA to accept only the job applicant's attestations when his or her eligibility is unusually difficult to document. The SESA's determination of economically disadvantaged status is generally good for 45 days.

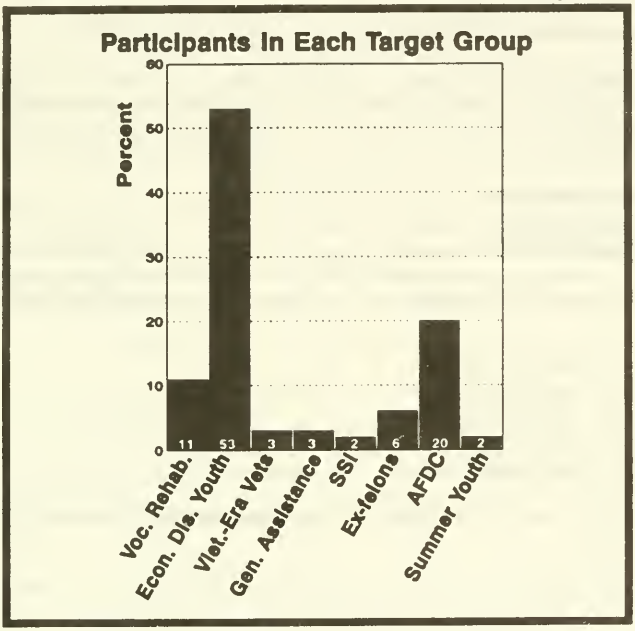
As a part of internal control, the SESAs must conduct "audits," involving in-depth testing to "establish the credibility and reliability of the eligibility determination and certification process." The SESA must retain records of eligible individuals for 5 years and records of individuals determined ineligible for 1 year. Other TJTC program requirements are periodically issued by ETA and contained in Federal regulation.[4]

PROGRAM CHARACTERISTICS

Economically disadvantaged youth were the predominant target group certified. AFDC participants were also well represented. The target groups and our projections of their representation to the total certifications which were issued during our audit period are presented in the graph in Figure 1.

[4] Additional criteria are contained in Field Memorandum No. 97-90, Change 1, dated January 3, 1991, which refers to the Wagner-Peyser Act, Section 7 (c) and the Code of Federal Regulations, Title 29, Parts 93, 97 and 98.

Figure 1



Little recruitment of these groups was done by the SESAs. In our sample, the SESAs assisted few TJTC applicants in obtaining employment.

For those TJTC employees on whom we could obtain the information, we determined:

- 8 percent found their jobs through the assistance of the SESA.
- 65 percent found their jobs "on their own."
- 27 percent found their jobs through the assistance of others, such as friends and relatives.

Typically, the SESAs' activities were limited to reviewing eligibility certification requests sent them by employers or contractors and completing other administrative activities related to the certification process.

We project employers used management consulting contractors, to make TJTC eligibility determinations and to assist them with other administrative requirements, for **67 percent** of the certifications.

PROGRAM COSTS

From 1980 to 1990, employers have claimed tax credits estimated at over $4.5 billion. The IRS estimated revenue losses due to TJTC of $180 million in FY 1992 and $160 million in FY 1993. Based on the current design of the program, the Joint Committee on Taxation has projected the following losses:

FY 1994	$282 million
FY 1995	$303 million
FY 1996	$357 million
FY 1997	$403 million
FY 1998	$444 million

DOL's appropriation was $19,518,000 for TJTC administration in FY 1991 and $20 million in FY 1992.

OBJECTIVES, SCOPE, AND METHODOLOGY

OVERALL OBJECTIVE

Our objective was to determine whether TJTC is an effective, economical means of helping target group members, who would otherwise have difficulty finding employment.

SUBOBJECTIVES

To satisfy our primary objective, we considered a number of subobjectives involving the program's operation. We designed procedures to answer the following questions:

- Would employers have hired the applicants without a tax credit?
- What did the TJTC program cost and what were its benefits during the audit period?
- What impact did the program have upon target group members?
- How well was the program administered?

SCOPE

Our audit focused on activities for the period July 1, 1991 through June 30, 1992--Program Year (PY) 1991. However, we reviewed program operations and supporting information for periods before and after these dates, when necessary, to complete our audit objectives.

Audit procedures included staff, participant, and local employer interviews, review of documents, evaluation of TJTC participant records, and analyses of UI claim and wage files. Hiring decisions were made by local employers. For this reason, our interviews were directed to these employers.

We also matched TJTC participant files with UI wage files, UI claim files, and SESA applicant files. The matches allowed us to confirm TJTC participants' employment, previous or subsequent involvement with the same employer, length of employment, wages earned, and UI claims activity.

We followed requirements for performance audits set forth in Government Auditing Standards, 1988 Revision, issued by the Comptroller General of the United States. Work was completed in seven ETA Regional Offices and in nine states: California, Florida, Illinois, Maine, Michigan, Missouri, New Hampshire, Texas and Virginia. In eight states, we selected a random sample of 125 certifications which had been issued during PY 1991. The sample size in Illinois was 150. (See Exhibit A.) Consequently, we reviewed a sample of 1,150 individuals from a universe of 505,418 TJTC certifications reported to ETA during our audit period. We identified the employees associated with the certifications, employers who hired the individuals and related contractors hired by employers to assist in TJTC program functions.

Our sample design allowed us to project the sample results to the population of individuals with TJTC certifications during the audit period. Our sample also allowed us to project the program's costs and benefits to the nation. Our sampling methodology is presented in Exhibit A of this report.

Field work continued from October 25, 1993, through March 31, 1994. Field work was followed by verification, evaluation, and statistical projection of the data we had collected. Typically, we were able to obtain complete files from the SESAs' headquarters locations. Consequently, our field work was usually completed at the SESAs' central offices. However, we visited many locations throughout each of the nine states in order to interview those individuals we could not contact by other means.

Audit findings related to each state's activities have been communicated in separate correspondence. Comments received from the states were considered in preparing this report.

METHODOLOGY

To determine the tax credit's effectiveness in encouraging the employment of individuals who would not otherwise have found a job, we evaluated responses solicited from our sample.

The information was obtained by contacting participants and the related employers. We asked how and when participants' eligibility for TJTC tax credits was determined, and whether employers would have hired the participants had the credit not been available. We also obtained information on wages paid participants, benefits they were offered, hours worked, and other information germane to our audit objectives.

In determining costs of the TJTC program, we included Federal appropriations for DOL's administration of the TJTC program and revenues lost due to tax credits. For Federal tax purposes, employers must reduce deductible wage expenses by the amount of the TJTC credits taken. Consequently, we reduced costs by an amount which represents the tax effect of the credits.

As benefits, we used the gross wages of those persons whom we concluded would not have been hired without the credit. Where identified, we also added savings to Federal, state and local governments from reductions in social transfer payments, such as public assistance.

We then compared costs and benefits. Our calculations included TJTC program administrative costs, eligible tax credits, tax deductions employers forfeited because they claimed credits, and financial benefits. Our computations were based upon sample projections. As with other components used in our calculations, projections relate only to PY 1991. Our methodology is discussed, at length, in Exhibit B of this report.

In determining the program's impact upon participants, we collected and compared information from sampled employees and their employers regarding their TJTC jobs and jobs they held before and after their TJTC employment. The information included employees' pay rates, number of hours they typically worked per week and the fringe benefits they were offered. We also compared the length of time individuals in our sample remained in TJTC jobs (retention) to that of a like population. The comparable population consisted of individuals in the work force whom we identified in the SESAs' employment data bases. We selected individuals who started jobs during our audit period and whose earnings were within two standard deviations of the mean earnings of individuals in our TJTC sample. Retention rates of individuals in our sample were compared to retention rates of the comparable population.

To determine if the program was being properly administered, we evaluated the existence, adequacy and functioning of internal control procedures for determining TJTC applicants' eligibility and reporting program activities. We evaluated procedures SESA staff applied in determining the eligibility of those individuals in our sample. We also reviewed documentation to determine whether other TJTC quality review procedures, mandated by ETA, were being completed. Finally, we evaluated the accuracy of quarterly reports, submitted by the SESAs to ETA. Our findings on the states' administration of the program are included in the following section of this report titled, "Study and Evaluation of Internal Controls."

STUDY AND EVALUATION OF INTERNAL CONTROLS

We evaluated the existence and effectiveness of the states' internal controls for verifying TJTC applicants' eligibility and for reporting the results of their activities.

CONTROL PROCEDURES

Control procedures prescribed by ETA[5] to ensure only eligible applicants are certified include:

- "Quality review," which involves an independent review of forms and other documentation that support the certification of eligibility. Reviews are to be performed at several points in the eligibility determination and certification process and are to be completed within 48 hours of the receipt or completion of key documentation.

- "Audit," which involves quarterly, post-issuance examinations of a random sample of certifications and the supporting documentation.

PROCEDURAL WEAKNESSES

We reviewed 1,150 TJTC participant files to determine whether a quality review was performed. ETA requires that SESAs test the validity of all certifications issued, including vouchers and other documentation which results in certifications. Quality reviews and audits are individual parts of the verification process. Verification should be done by someone other than the person who originally processed the actions.

We were often unable to determine if quality reviews had occurred because most key documents contained no evidence that a review had taken place. For example, 90 percent of the certification documents contained no information that suggested a review had been completed. We determined that seven of the nine SESAs did not document any quality reviews. Two of the SESAs' methodologies for selecting quarterly audit samples were not in accordance with the ET Handbook because items were not randomly selected.

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[5] Requirements are contained in *ET Handbook No. 377, Targeted Jobs Tax Credit Program, 5th Edition, August 1991.*

We did not develop specific procedures to identify ineligible individuals. However, through other data analyses, which included automated computer applications, we identified 39 ineligible participants. In 16 of the 39 instances, participants had previously worked for the employer not as a certified TJTC employee, and, according to the *Internal Revenue Code*, a tax credit should not have been claimed. In other instances, various program requirements were not met. We believe these problems were largely due to a lack of quality review.

REPORTING WEAKNESSES

We found some states submitted inaccurate reports to ETA identifying program activity. In seven of nine states, reported certifications did not agree with the records we reviewed at the SESAs. In most instances, the differences were minor; however, the State of Michigan materially overstated the number of vouchers and certifications in its reports, and the Illinois SESA had reporting problems in some local offices.

During PY 1991, the Michigan Employment Security Commission (MESC) reported processing 54,706 TJTC vouchers and 49,890 certifications. Based on our analyses of the TJTC data base, the correct numbers of vouchers and certifications were 21,101 and 18,907, respectively.

The errors resulted from Michigan reporting cumulative year-to-date totals on its quarterly reports. ETA instructions indicate quarterly reports should only reflect that period's activity. The overstatement could have resulted in ETA overfunding the state's TJTC activities since TJTC administrative funds are distributed by a formula based in part on numbers of vouchers and certifications.

We also identified reporting problems in Illinois. We reviewed certifications at ten local offices in the State of Illinois and found differences in seven. One local office significantly overstated total certifications. We were told the overstatement was largely due to misfiling by volunteer workers. The volunteers filed PY 1990 certifications with PY 1991 certifications. Another contributing factor was failure to observe requirements for proper separation of duties. At least four individuals were signing as the TJTC certifying official. This practice resulted in the creation of duplicate files. We identified one participant for whom four files existed.

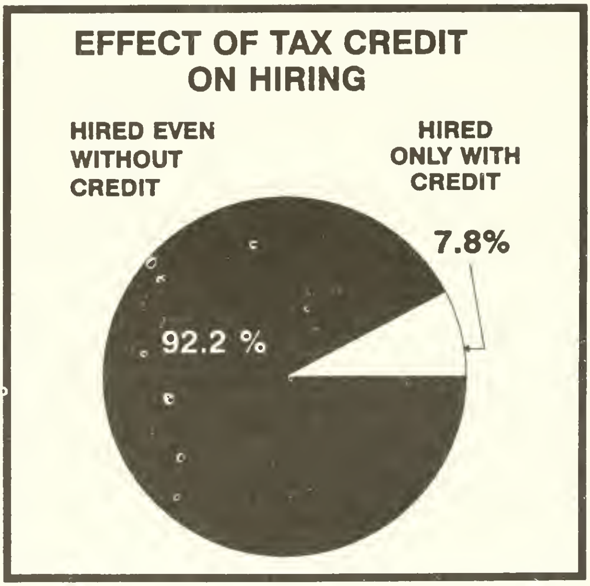
RESULTS OF AUDIT

I. PROGRAM EFFECTIVENESS: WOULD EMPLOYERS HAVE HIRED THE APPLICANTS WITHOUT A TAX CREDIT?

92 Percent of TJTC Employees Would Have Been Hired Without Tax Credits

We evaluated the TJTC program's influence on target group members' employment by determining if employers would have hired the applicants without TJTC incentives. We found the TJTC program had little impact on employers' hiring decisions.

Figure 2



Nationally, for our audit period, we project 92 percent of participants, for whom we could make a determination from our sample (908 of 983), would have been hired regardless of whether the tax credit was available. Conversely, only 8 percent of the participants were hired because of the credit. See Figure 2 on the previous page. Our conclusions were based upon the responses of both employers and participants regarding hiring procedures.

In some instances, employers told us they would have hired applicants without the tax credit, although applicants stated their eligibility was checked **before** they were hired. In other instances, employers affirmed they would not have hired the applicants without the tax credit, although applicants stated that eligibility was determined **after** they were hired. Regardless, in all such circumstances, we accepted the employers' representations. If we could not obtain a response from an employer, we accepted the applicant's answer regarding whether his or her TJTC eligibility was determined **before** or **after** a hiring commitment was made.[6]

Little variation occurred among industries or among large or small firms in their hiring practices. In those cases where we could obtain the information, 86 percent of employers said they determined TJTC eligibility after a job offer was made. In 77 percent of instances, employers indicated that they routinely completed TJTC eligibility determinations on all newly hired employees.

Following the hiring decision, employers either completed a preliminary eligibility determination or, more often, referred employees to a contractor. Typically, the employees were given a telephone number and directed to call the contractor. Through telephone consultation, contractors then made a preliminary TJTC eligibility determination.[7]

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[6] We assumed that the employer would not have hired the applicant without a tax credit if, in the absence of the employer's answer, the applicant said the employer checked for eligibility before offering the applicant a job. Consequently, we believe our estimate, of those hired regardless of the credit, is conservative. If we could obtain neither the employer's nor applicant's answer, we dropped the applicant from this procedure. Therefore, numbers and percentages in Figure 2 only reflect projected data on those TJTC applicants for whom we could obtain answers related to the decision to hire.

[7] Large regional, national, and international firms represented two out of three employers who obtained certifications allowing them to claim a tax credit. As previously discussed, contractors were typically hired by the employers to assist in eligibility screening and other program activities.

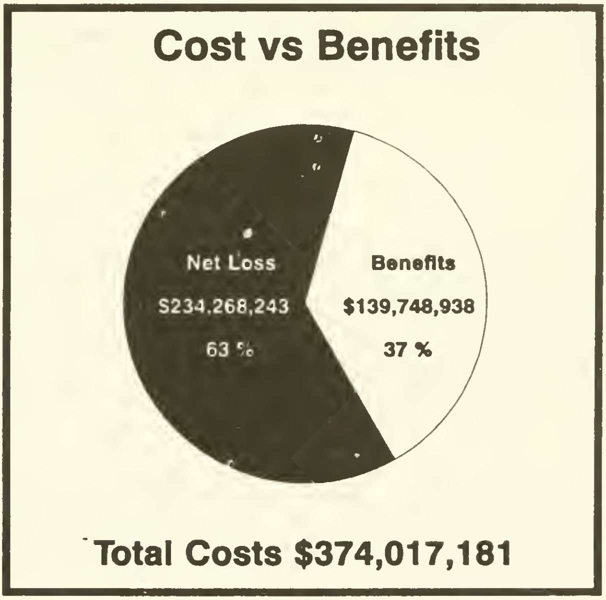
Our findings indicate that most of the individuals certified for TJTC would have been hired even without the incentive. Consequently, the program is a windfall for employers who hire participants they would have employed in the absence of TJTC.

II. PROGRAM ECONOMY: WHAT DID THE TJTC PROGRAM COST AND WHAT WERE ITS BENEFITS DURING THE AUDIT PERIOD?

Program Costs:	**$374 Million**
Program Benefits:	**$140 Million**
Net Loss:	**$234 Million**
$ .37 in Benefits Per $1.00 Spent	

We have estimated the TJTC program's costs and benefits. We found that for every dollar of outlays, the program returned only about **37 cents.** Nationally, for our audit period, we project the program cost about **$374 million** and benefits were **$140 million.** Consequently, the program cost some **$234 million** more than it generated in economic benefit.

Figure 3



We projected our sample results to the nation. We counted as "benefits" about $125 million in projected gross annual wages of those individuals who would not have been hired without the tax credit. We added to the benefits $15 million of projected reductions in social transfer payments resulting from the TJTC covered employment. Thus, total projected benefits were $140 million.

As costs, we projected a total of $537 million in tax credits could have been taken on employees who worked the minimum time required to qualify for a credit. Employers must reduce deductible wages by the amount of the tax credit claimed. Consequently, the total was reduced by 34 percent (the maximum corporate tax rate) to $354 million.

Finally, we added $20 million in DOL appropriations for TJTC during our audit period. Consequently, projected total costs were $374 million.

Combining the totals, we find the TJTC program's costs exceeded its benefits by $234 million. More specifics regarding our calculations may be found in Exhibit B of this report.

III. PROGRAM RESULTS: WHAT IMPACT DID THE PROGRAM HAVE UPON TARGET GROUP MEMBERS?

To evaluate the program's impact upon employees, we compared information on individuals' TJTC jobs with jobs they held before and after their TJTC employment. The information was obtained from employee interviews and questionnaires. We also determined the length of time TJTC employees remained in their jobs. We compared this measure with retention rates for a similar group of individuals in the general work force.

We asked how did TJTC employment compare to other jobs they had held regarding:

A. hourly wages paid,

B. weekly hours of employment,

C. fringe benefits offered employees,

D. types of jobs, and

E. length of time they remained in the job?

Five quarters after being hired, 24 percent of workers in TJTC-covered positions were still with their TJTC employer, while in the comparison group, only 16 percent remained with the same employer.

However, by other measures employees in TJTC-covered employment were somewhat worse off. For example, the average beginning wage for TJTC jobs ($4.96) was less than either the ending wage employees earned in the previous job ($5.22) or the beginning wage in their subsequent job ($5.52).

TJTC-covered employment was the first job for only 13 percent of the individuals we sampled. While variations existed among the jobs, the measures revealed more similarities than differences. The TJTC employment mirrored other low-paying, low-skilled positions in the employee's work history.

The TJTC program's legislative history does not indicate the Congress intended the program would improve individuals' wages, long-term employment prospects, or any of the other factors we have measured. However, data regarding jobs on which tax credits are being allowed cause us to question the value of the program. For TJTC jobs about:

- One of three employees (37%) was paid at or below the minimum wage prescribed by law; for all TJTC jobs in our sample, starting wages averaged $4.96.

- Two of three employees (61%) worked part-time.

- Two of three employees (65%) were offered no fringe benefits.

- One of four employees (25%) worked in eating and drinking establishments, often as counter help, fry cooks, waiters/waitresses, and order takers.

- Three of four employees (76%) were no longer with the TJTC employer five quarters after being hired.

TJTC employees' average annual earnings were $7,738 (*$4.96 average hourly wage X 30 average hours per week X 52 weeks*). That amount is only $928 more than the annual Federal poverty level guidelines of $6,810[8] for a family of one. We question whether better results should be expected of activities subsidized with public funds.

The sections on the following pages contain the comparisons and our conclusions regarding each measure.

[8] According to the U.S. Department of Health and Human Services Poverty Guidelines, published in the Federal Register, February 14, 1992, page 5456, which were applicable to the latter period of our audit.

A. How Much Were Employees Paid and How Did Their TJTC Wages Compare to Those of Previous and Subsequent Jobs?

Average Pre-TJTC Wage:	**$5.22**
Average Starting TJTC Wage	**$4.96**
Average Ending TJTC Wage:	**$5.36**
Average Post-TJTC Wage:	**$5.52**

On average, the program did not improve individuals' earnings. The beginning pay for TJTC jobs was lower than pay of jobs that persons held before TJTC. Small gains did occur for those who obtained work after their TJTC employment.

Beginning wages for TJTC jobs averaged only **$4.96** per hour. From our sample, we project **37 percent** of the individuals started at or below the minimum wage prescribed by law.

For those who had jobs in the year prior to TJTC, the average **ending** wage of the previous job was **$5.22.**[9] We compared this wage to the **beginning** hourly wage for TJTC of **$4.96**. We also compared the average **ending** hourly wage of TJTC employment **($5.36)** to the average **beginning** hourly wage of the job obtained **after** TJTC **($5.52)**.

The comparison of **average hourly** wages of individuals before, during, and after TJTC are shown in Figure 4 below:

Figure 4

AVERAGE HOURLY WAGE			
ENDING WAGE BEFORE TJTC	BEGINNING WAGE TJTC	ENDING WAGE TJTC	BEGINNING WAGE AFTER TJTC
$5.22	$4.96	$5.36	$5.52

[9]We project that 38 percent of the individuals did not have wages in the year prior to TJTC.

B. How Many Hours Per Week Did Target Group Members Work, and How Did These Hours Compare to Jobs Both Before and After TJTC Employment?

Ave. Pre-TJTC Hrs/Wk -	**32**
Ave. TJTC Beg. Hrs/Wk -	**30**
Ave. Ending TJTC Hrs/Wk -	**31**
Ave. Post-TJTC Hrs/Wk -	**34**

TJTC did not improve upon the number of hours individuals worked in a week. Most individuals worked nearly the same number of hours in their TJTC-covered employment as in their past job. Individuals worked slightly more hours in their subsequent jobs. The data indicates that in 61 percent of the hires, employment was part-time (less than 40 hours per week).

We determined the average number of weekly hours participants worked who had a job within one year prior to their TJTC employment. We also determined the average number of hours they worked when they started and when they left their TJTC employment. Finally, we determined the average beginning hours worked in their subsequent jobs. Figure 5 presents a comparison of the averages.

Figure 5

AVERAGE HOURS PER WEEK			
ENDING HOURS BEFORE TJTC	BEGINNING HOURS TJTC	ENDING HOURS TJTC	BEGINNING HOURS AFTER TJTC
32	30	31	34

The chart represents a continuum of hours worked by the individuals we evaluated. As shown, the averages are significantly less than a full-time 40-hour week.

C. Were Fringe Benefits Offered With the TJTC Jobs, and If So, How Did They Compare With Those Before and After TJTC Employment?

No Fringes, Pre-TJTC -	**79%**
No Fringes, TJTC -	**65%**
No Fringes, Post-TJTC -	**65%**

No fringe benefits were offered by **two out of three employers under TJTC.** The same was true for the job obtained after TJTC employment. These numbers reflect improvement over the jobs held before TJTC, of which 79 percent provided no job benefits. A higher proportion of TJTC jobs offered health insurance, life insurance, retirement (other than social security), or paid vacations than jobs individuals held before TJTC. Jobs individuals held after TJTC enjoyed a slight advantage in retirement and health insurance. A comparison of fringe benefits offered employees in their TJTC jobs and in previous and subsequent jobs is presented in Figure 6.

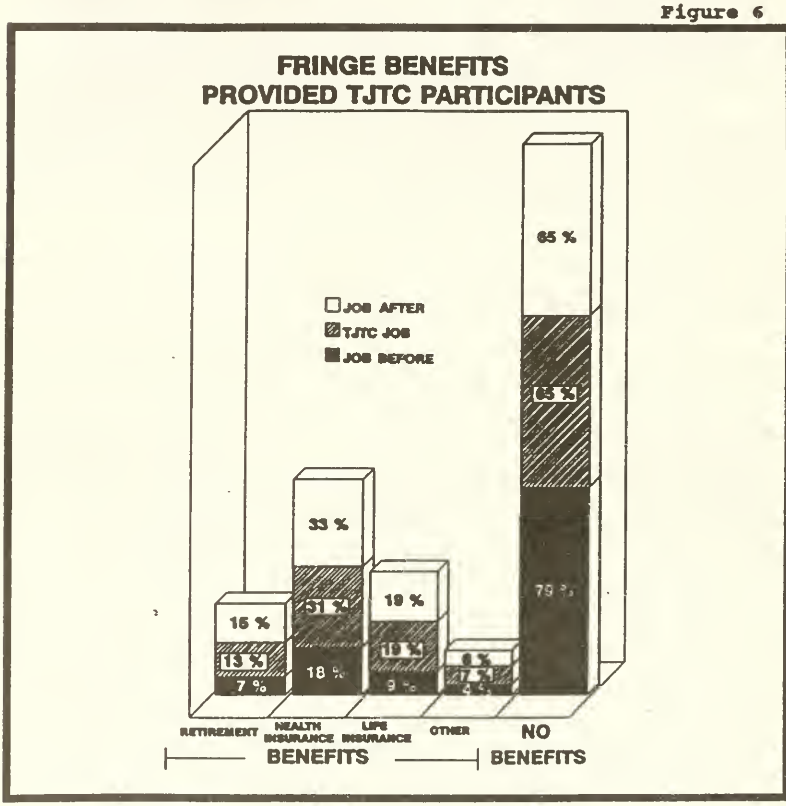
The "Other Benefits" category includes a wide range of perks, such as dental coverage, dining privileges, parking and paid leave.

We also gathered information on other job benefits such as pay raises, promotions and training. We project that 37 percent of TJTC participants received a pay raise or promotion in their TJTC-covered job, although average TJTC beginning and ending wages differed by only 40 cents.

Also, we project that 21 percent of the participants received training other than that obtained by doing tasks on-the-job (OJT). However, employer responses indicate much of the training was of a short-term nature, described as "orientation" which all new hires received. OJT aside, we were able to identify little formal skills training, vocational education or higher education training which was offered by employers.

It can be argued that the TJTC program helps those who are structurally unemployed because they lack the basic work skills or discipline to do such things as dress properly, follow instructions, or show up at work on time. However, the argument is not convincing. Arguably, any job exposes an individual to certain employment requirements. Some job requirements, such as a dress code, may help teach an employee useful information - for example, what attire is appropriate in a business setting. However, we believe TJTC applicants, like other employees, either conformed to an employer's expectations, or they were dismissed. Moreover, as noted earlier, TJTC was the first job for only 13 percent of the individuals we sampled.

Figure 6



D. What Were the Occupational and Industrial Categories Represented By the TJTC Jobs? How Did These Categories Compare to Those Before and After TJTC Employment?

TJTC Jobs Included Fast Foods, Fry Cooks, Other Service Jobs, Low-Skilled Clerical and Sales, Few Managers/Professionals

Employees' job histories typically consisted of entry level positions with minimum pay, low skills, and limited, part-time work hours. Management and professional jobs were in low supply. Clerical jobs were often retail cashier/checker occupations; and service occupations often consisted of grocery clerks, nurses aides, fry cooks, food cashier/order takers, restaurant waiter/waitresses, and hotel or other corporate janitorial housekeepers.

As shown in Figure 7, Professional, Technical, Managerial jobs under TJTC decreased from the jobs before but increased in the jobs after TJTC employment. Clerical and Sales jobs increased sharply under TJTC, then dropped sharply afterwards to near pre-TJTC levels. Service occupations joined Clerical/Sales in dominating TJTC employment, as was true for jobs both before and after TJTC. Figure 7 shows national projections from our sample of individuals who we could determine had jobs before, during, or after TJTC. The statistics are presented by broad Dictionary of Occupational Titles (DOT) categories.

Figure 8 illustrates the narrow range of predominant occupational categories which were accompanied by an equally limited range of predominant industry categories. Although all broad industry categories had some representation, Wholesale/Retail comprised two out of three TJTC jobs, followed by Services Industries with near one job in six, based on industry types in the *Standard Industrial Classification Manual*. Eating and drinking places comprised **25 percent** of the employers in our participant sample. Department stores were a distant **18 percent** in second place, followed by grocery stores, nursing and personal care, hotels/motels, and employment agencies.

Figure 7

DOT CAT.	JOB CATEGORIES	JOB BEFORE TJTC		TJTC JOB		JOB AFTER TJTC	
0/1	Prof/Tech/ Managerial	13,777	5.8%	15,123	3.2%	23,974	9.6%
2	Clerical/ Sales	69,230	29.3%	181,672	38.5%	69,493	27.8%
3	Service Occups.	97,818	41.4%	177,514	37.6%	88,386	35.4%
4	Ag/Forest/ Fishery	5,326	2.3%	748	0.2%	4,851	1.9%
5	Processing Occups.	4,979	2.1%	11,742	2.5%	7,509	3.0%
6	Machine Trades	4,914	2.1%	15,054	3.2%	8,290	3.3%
7	Benchwork Occups.	9,460	4.0%	22,613	4.8%	11,544	4.6%
8	Structural Occups.	11,418	4.8%	13,628	2.9%	14,602	5.8%
9	Miscellan. Occups.	19,099	8.1%	34,213	7.2%	21,247	8.5%
	Totals	236,021	100%	472,307	100%	249,896	100%

Figure 8 presents the projection of individuals by the SIC code group of the job held before, during, or after TJTC.

Figure 8

SIC DIV.	INDUSTRY NAME	JOB BEFORE TJTC		TJTC JOB		JOB AFTER TJTC	
0	Ag/Forest/ Fishing	4,404	1.8%	1,969	0.4%	6,405	2.4%
1	Mining/ Construct.	9,813	3.9%	5,799	1.2%	10,688	4.0%
2/3	Manufact.	20,224	8.1%	50,903	10.9%	14,936	5.6%
4	Transp/ Commun.Etc	6,085	2.4%	12,215	2.6%	22,846	8.5%
5	Wholesale/ Retail	137,501	54.9%	310,344	66.4%	110,903	41.3%
6	Finan./Ins Real Estat	2,322	0.9%	4,081	0.9%	6,883	2.6%
7/8	Services Industries	63,239	25.2%	82,065	17.5%	90,072	33.5%
9	Public Admin/Misc	7,034	2.8%	262	0.1%	5,809	2.2%
	Totals	250,622	100%	467,638	100%	268,542	100%

Individuals employed after leaving their TJTC jobs were employed in a wider variety of jobs than represented by TJTC employment. The data indicates TJTC employment is largely directed towards employment in jobs for which no special qualifications are needed or applicants already possess requisite skills.

E. Did TJTC Applicants Stay with the Same Employer Longer than Employees in the Comparison Group?

TJTC applicants stayed with the same employer longer than a population of individuals with similar earnings.[10] However turnover for both TJTC participants and the "comparison group" was high. For TJTC participants, 76 percent were no longer with the same employer five quarters after being hired. For the comparison group, the figure was 84 percent.

In calculating the percentages, we compared the retention rates for TJTC employees to that of all persons in the UI wage files of the states we audited, (1) with employment starts during our audit period, and (2) whose annual wages, with one employer, were within two standard deviations of the average annual wage of TJTC participants in our sample.

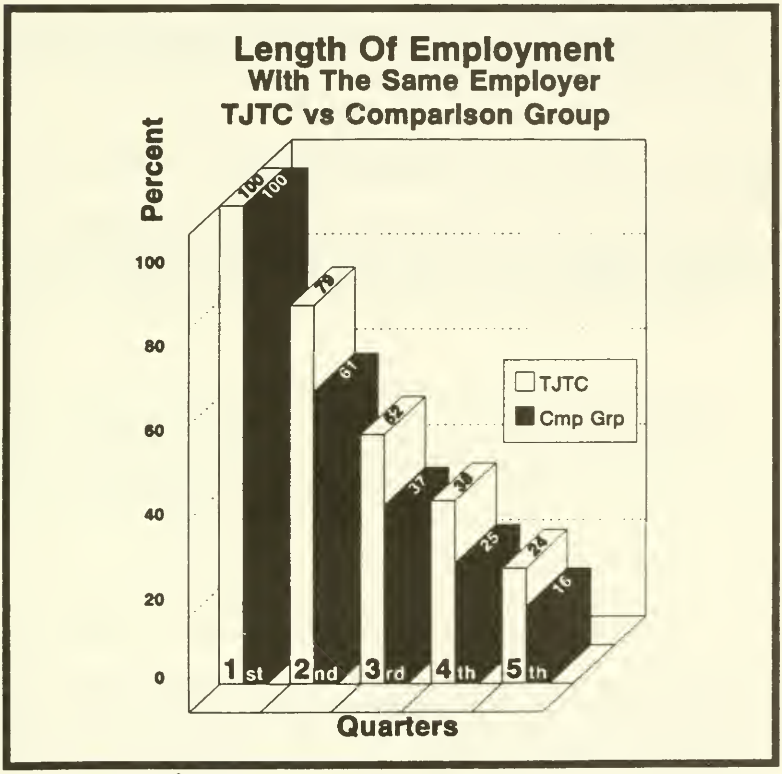
The length of employment for each group, with the same employer, by quarter, is presented in Figure 5.

Regarding those individuals on whom we could make a determination, we identified the following reasons they left their TJTC employment:

- 75 percent voluntarily quit their TJTC job,
- 12 percent were laid off, and
- 13 percent were fired.

[10] Information which was available allowed us to determine the percentage of individuals in each group that remained in jobs with the same employer. The reader is cautioned that the data does not infer members of either group, who left their jobs, became unemployed. It is likely many left for other positions.

Figure 9


Length Of Employment
With The Same Employer
TJTC vs Comparison Group
Percent
100
80
60
40
20
0
100
100
79
61
62
37
38
25
24
16
1st
2nd
3rd
4th
5th
TJTC
Cmp Grp
Quarters

We also attempted to learn the employment status of those in our sample at the time we were completing field work. From those on whom we could make a determination, we project:

- 65 percent were employed (including those employed and in school), and

- 35 percent were not employed (6 percent in school)

The 35 percent of individuals not currently working compares to 38 percent who had not worked during the year prior to TJTC employment.

This data raises questions of whether TJTC employment improved individuals' long-term employment prospects. It is of particular concern that youth represent over 50 percent of the target population on which tax credits are taken.

CONCLUSION

Congress created the TJTC program to provide employers incentives to hire individuals from groups who typically experience high unemployment and who may receive public benefit payments. Although tax credits were to provide incentives for employers to hire members of the targeted groups, employers would have hired most of the participants, regardless of the tax credit.

The TJTC jobs were usually near minimum wage, low-skilled, and often part-time work. Only about one job in three offered any fringe benefits to the employee.

Although Congress designated nine target groups, the TJTC program was heavily dominated by economically disadvantaged youth. Because of their age and inexperience, the applicants are among the most heavily represented TJTC target groups. They are usually candidates for employment which requires few job skills and little education or experience. We found employers did not need financial incentives for hiring these individuals.

The TJTC program's costs are hidden, because little Federal money is spent on the program. Rather, a majority of the program's costs are the result of lost tax revenue. Nonetheless, the program's costs are substantial and have the same financial impact as programs requiring Federal appropriations. We estimate that for every dollar in program cost, 63 cents is lost. Nationally, we estimate the program resulted in a loss of nearly **$234 million** during our audit period.

The *Revenue Act of 1978*, I. Summary, indicated that Congress wanted the program to:

> *focus employment incentives on those individuals who have high unemployment rates...andon other groups with special employment needs....*

We do not believe the program has met this objective. In most cases, the tax credit was not the incentive which caused employers to hire members of the targeted groups. Rather, we believe target group members were hired because there was a match between the employers' needs for inexpensive labor in high-turnover occupations, and willing individuals - who are often members of the target groups - to work for low wages in jobs which require little education or skill. Consequently, employers **seldom targeted** TJTC group members because it was unnecessary.

RECOMMENDATION

The TJTC program will expire on December 31, 1994. We recommend the Secretary encourage Congress to not continue the program when it expires.

ETA'S RESPONSE

On August 5, 1994, ETA responded to our report. ETA commented that past studies have cast doubt on the TJTC program's effectiveness and that this audit report, "... adds to those indications and deepens our concern about the program's current design." ETA also advised they shared OIG's concern that the program "does not effectively provide incentives for employers to hire individuals in the target groups" and will "continue to examine ways to strengthen achievement."

However, ETA suggests the audit is insufficient and a "scientific study" with a "carefully constructed methodology" is necessary to determine the program's long-term impact.

OIG'S CONCLUSION

We are disappointed by ETA's response. We believe continuing the program while funding another study of this extensively studied program will only add to its considerable expense, delay corrective action, and frustrate the objectives of the Vice President's National Performance Review.

We do not believe a study of the program's long-term impact would be illuminating. As we previously discussed, most TJTC employment is of a short-term nature. We found fewer than one person in ten owed their employment to the tax credits employers received. Again we emphasize, **the program subsidizes hiring activities which occur regardless of the credit**. Consequently, the long-term impact of employment that would have occurred without a tax subsidy is inconsequential.

A multitude of studies, analyses, audits and surveys of TJTC program activities has been completed. In preparing for the audit, we reviewed the literature and identified nearly 30 reports on the program completed by a number of credible sources.

Conclusions in several of the past studies were consistent with those in our report. For example, a 1991 report[11] concluded:

> *Because employers find it relatively cheap to certify after the fact eligible new employees who would have been hired anyway, this passive mode of participating in TJTC predominates....*
>
> *In summary, the evidence clearly indicates that the predominant mode of participation in TJTC is passive, and therefore that the windfall element of the program is probably quite large.*

Our audit revealed that employers' decisions to hire are based on tax credit incentives in only a minuscule number of cases. The decision to continue TJTC subsidies while spending additional funds on further studies is inconsistent with the objectives of the National Performance Review.

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[11] John H. Bishop and Suk Kang, *Applying for Entitlement: Employers and the Targeted Jobs Tax Credit*, Journal of Policy Analysis and Management, Winter, 1991.

Recently, Secretary Reich cited the TJTC as a program that did not work. His speech before the Center for National Policy, on January 27, 1994, titled "Getting America to Work: What's Working and not Working in Workforce Policy," described the program's failings:

> *. . . according to recent studies by Cornell University's John Bishop and Grinnel College's Mark Montgomery, at least 70% of these workers would have been hired even without their employers receiving a tax break.*
>
> *. . . This is a disturbing list. Investing scarce resources in programs that don't deliver cheats workers who require results and taxpayers who finance failure.*
>
> *So here is what we're going to do:*
>
> *We're going to recommend against renewing the targeted jobs tax credit.*

The Secretary echoed the same thoughts in a White House briefing on February 2, 1994:

> *. . . all of the evidence shows that employers would have - in almost every case - employed those people [TJTC participants] anyway and, therefore, get a windfall.*

A number of amendments have unsuccessfully attempted to "fix" the program since its inception 16 years ago. During that time it has been "business as usual." We believe the program should be ended and continue to recommend the Secretary of Labor encourage Congress to discontinue the TJTC program when it expires on December 31, 1994.

EXHIBIT A
(Page 1 of 2)

SAMPLING DESIGN AND PROCEDURES

The sample design used was a stratified (three strata), two-stage design. Stage one was the selection of the states within the three strata.

STRATA	STATES & TRUSTS	CERTIFICATIONS	STATES SELECTED	CERTS SELECTED
1	38	161,027	3	375
2	10	155,937	3	400
3	5	188,454	3	375
TOTALS	53	505,418	9	1150[12]

The states were ranked according to the number of TJTC certifications in each, with approximately equal number of certifications per stratum. The table above shows the overall sample design.

The states within the strata were selected probability proportional to size and the variable determining the size was certifications within each state of the strata. Stratum 1 States included in our sample were Maine, Missouri, and New Hampshire. Stratum 2 States were Florida, Illinois, and Virginia. Stratum 3 States were California, Michigan, and Texas.

We drew random samples of 125 individuals from each State who were certified for TJTC employment during the period of July 1, 1991, through June 30, 1992, with the exception of Illinois. In Illinois, a sample of 150 participants was selected.
Extensive efforts were made to locate and interview sampled participants and the related employers. Our success rate was over 75 percent. The non-responses are assumed to be comparable to the responses obtained.

[12] For Illinois, procedures were slightly altered because the State's TJTC files were maintained in local offices rather than in a central location. The local offices were selected after the State's selection, then the certifications were selected within the local offices. Ten local offices were selected and 15 certifications were chosen in each office. In total, 150 certifications were selected for Illinois, resulting in a national sample of 1,150 certifications.

EXHIBIT A
(Page 2 of 2)

The major statistics for this report have a sampling error of 15 percent for the variables estimates and 3 percent for the attributes estimates, based upon a 90 percent confidence level. The projections in this report are point estimates.

EXHIBIT B
(Page 1 of 3)

COMPUTATION OF TJTC PROGRAM COSTS AND BENEFITS
JULY 1, 1991 - JUNE 30, 1992

Program Costs

We determined the costs of the TJTC program by:

- Calculating DOL's appropriations[13] for the audit period;
- Estimating costs to the U.S. Treasury resulting from employers taking tax credits; and
- Estimating the savings to the U.S. Treasury from tax deductions foregone by employers who could have taken tax credits instead.

Our computations were as follows:

Administration		
FY 1991 TJTC Appropriation ($19,518,000) X .25 (July - September 1991) (FM No. 97-90, Change 1)	$4,879,500	
FY 1992 TJTC Appropriation ($20,000,000) X .75 (October, 1991 - June 1992) (FM No. 88-91)	15,000,000	
Total Administration		**$19,879,500**
Tax Credit Revenue Losses to U.S. Treasury		
Eligible Tax Credits on Projected 386,087 indvs. for Whom Employer Could Claim Tax Credit	$536,572,244	

[13]We were told that the Treasury Department does not charge administrative costs to the program.

EXHIBIT B
(Page 2 of 3)

COMPUTATION OF TJTC PROGRAM COSTS AND BENEFITS
JULY 1, 1991 - JUNE 30, 1992

Tax Deductions on Wage Expenses Foregone by Employers Because of Tax Credit Option (34%)[14]	<182,434,563>	
Total Adjusted Revenue Losses from Tax Credit		**$354,137,681**
Total Program Costs		**$374,017,181**

Program Benefits

Gross Wages of Individuals Hired Because of TJTC

Projected Wages of Persons Employers Said Would Not Have Been Hired Without Tax Credit; in the Absence of Employers' Answers, the Employers Who Said They Checked Applicant Eligibility Before the Hiring Decision; in the Absence of Employer Response, Employees Who Said Employer Checked Their Eligibility Before They Were Hired [Projected Number of Individuals - 31,809 out of 406,812 (7.8%)]	$110,925,823	
Projected Wages of Persons for Whom We Could Not Obtain an Answer From Either Employer or Applicant as to Whether or Not the Employer Would Have Hired the Applicant Without TJTC. These Wages Were Prorated at the Same 7.8% Rate Cited Above X $182,151,334 Earned by 59,577 Projected Individuals	14,207,804	
Total Relevant Employee Wage Benefits		**$125,133,627**

[14] The estimate of tax deductions foregone is generous because 34 percent was the maximum corporate income tax rate.

EXHIBIT B
(Page 3 of 3)

COMPUTATION OF TJTC PROGRAM COSTS AND BENEFITS
JULY 1, 1991 - JUNE 30, 1992

Savings to Federal and NonFederal Governmental Entities Resulting From TJTC Employment

Social Agency Transfer Payments Reduced or Eliminated Because of TJTC Employment of Persons Employers Would Not Have Hired Without TJTC (Including 7.8 Percent of Those on Whom We Could Not Obtain Answers as to Motives for Hiring)	$14,615,311	
Total Relevant Transfer Payment Savings		**$14,615,311**
Total Program Benefits		**$139,748,938**

Total Costs Versus Program Benefits

Program Loss (Costs - Benefits)	**<$234,268,243>**

Program Benefits Per Dollar Spent

$\frac{\$139,748,938 \text{ (Benefits)}}{\$374,017,181 \text{ (Costs)}} = \$\,.37$

Note: We measured payment eliminations or reductions in the following programs: Unemployment Insurance (UI); Women, Infants, and Children Services (WIC); Aid to Families with Dependent Children (AFDC); General Assistance (GA); Food Stamps (FS); Supplemental Security Income (SSI); and Vocational Rehabilitation (VR).

We were able to obtain all payment savings pertaining to UI, all but Texas and part of California relating to FS and AFDC, and information on GA except part from California. We obtained no VR data from Michigan and only part from California. SSI data was received from all States except Florida, Maine, and Michigan. We determined that WIC payments would have been virtually unaffected by TJTC employment. Because of these limitations, program benefits may be understated. However, we do not believe the amount of understatement is significant.

EXHIBIT C

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D C 20210

AUG 5 1994

MEMORANDUM FOR: GERALD W. PETERSON
Assistant Inspector General
for Audit

FROM: DOUG ROSS
Assistant Secretary
for Employment and Training

SUBJECT: Office of Inspector General Draft Report:
Targeted Jobs Tax Credit Program: Employment
Inducement or Employer Windfall

We have reviewed the subject draft report issued on July 13 as Report Number 04-94-021-03-320.

The issuance of the report is timely because it coincides with consideration to extend the Targeted Jobs Tax Credit (TJTC) program after December 31, 1994. I particularly appreciate the diligence the Office of the Inspector General (OIG) has displayed in its audit of the TJTC program in selected States. Even prior to the OIG's examination, there were disturbing indications that TJTC's effects fall short of its intentions. The draft report adds to those indications and deepens our concern about the program's current design.

It is important to note, however, that the OIG -- in keeping with its mandate and its expertise -- has undertaken an audit, and not a scientific study. Without a carefully constructed methodology it is impossible to either confirm or refute claims made about the impact of TJTC on participating individuals and firms.

This type of study is outside the mission of the OIG, yet critical to any decision to pursue reforms in the TJTC program. Clearly, more information on the program's long-term effects would be helpful to us as policy-makers in pursuing necessary restructuring of the program, since the employment of citizens who face the greatest barriers to full participation in the workforce must be a continuing objective for the Department's employment and training programs.

The specific reporting problems cited in the draft report have been addressed and amended reports have been submitted for the periods in question and to date. States have taken appropriate corrective action to strengthen the administration of the program and these actions have been verified by regional office staff.

Regarding the OIG's recommendation, the Employment and Training Administration shares the concern expressed in the draft report that the present TJTC program does not effectively provide incentives for employers to hire individuals in the target groups. The Departments of Labor and Treasury continue to examine ways to strengthen achievement under the program, including the commissioning of a scientific study on the program's overall effectiveness.

Mr. PETERSON. Thank you very much. We appreciate your testimony. Mr. Rush, did you have a statement for the record?

Mr. RUSH. Mr. Chairman, not at the present time.

Mr. PETERSON. OK. We're going to abide by the 5-minute rule here for questions, and we'll take more rounds if we need them.

First of all, Mr. Ross, apparently the administration initially took the position that this should be eliminated, the program. Now I hear you saying that it should be eliminated unless it's modified. Is that a change in position or what?

Mr. ROSS. No change in position. What was said in January by the Secretary was that as it existed, this program does not justify continuing it as it exists.

Mr. PETERSON. Now, here we sit, it's September 20th or whatever it is, and we're going to be out of here in 2 weeks. And I don't see in your testimony or any place what you're recommending we do to fix this. So how are we going to decide if we're going to extend this program? I mean if we don't extend it before we leave, then we're going to be in the next year, the program is going to be eliminated, employers are going to be making decisions without knowing whether it's there or not. It's going to be even less effective.

Mr. ROSS. It won't exist, so it simply won't exist.

Mr. PETERSON. Yeah, but I mean people are out there making decisions thinking that we are going to extend it, because we always have. Why, if you think it should be improved, how come you don't have a plan to improve it?

Mr. ROSS. I'm not arguing. All I have said very clearly are the following. No. 1, the existing program should not be continued, period. There has been interest, there are bills before Congress right now currently to extend it.

Mr. PETERSON. Right. Would you oppose those bills?

Mr. ROSS. No, my position—to extend it in its existing form.

Mr. PETERSON. You oppose the bills then.

Mr. ROSS. I don't believe any of them—actually, I'm not totally familiar with all of them. I said we would oppose extending it in its existing form.

Mr. PETERSON. But isn't that what the bill does?

Mr. ROSS. Actually, no, they provide modifications, at least the ones I have seen. But whether or not those would be satisfactory, I couldn't say. That's a different issue. So—there appears to be an interest or may be an interest on the part of Congress in terms of taking up the issue of extending TJTC.

Again, if the idea is to extend it in its existing form, our position is clear, we don't favor it. We did not put any money in our 1995 budget proposals to administer an extension. If, on the other hand, Congress is interested in pursuing ways to significantly improve it, then I believe as an administration we would be most interested in participating in those discussions, to see if, in fact, we can agree on a way that offers some promise of improving the impact for disadvantaged workers.

Mr. PETERSON. Following up this analogy you had here about how this is effective, if only 30 percent use it, and Mr. Masten says that this program doesn't return as much benefit as it costs, so there's apparently a difference of opinion here. I guess my question is, your argument might hold water, but how do you answer the question about whether these people are taking jobs that are going to be available to the people in the same category that just didn't figure out that this program was there?

I mean 6.5 percent of the people are using it. I would guess that the folks that you would be displacing—these aren't necessarily new jobs—the people you'd be displacing are probably people that would have qualified. They just didn't know about the program. So I guess it's hard for me to understand how you can say this is cost-effective when that is the effect of it.

Mr. ROSS. No, you misunderstood, and I apologize. We are not arguing that there is evidence that the current program is cost-effective. We are saying, however, there is nothing in the research that has been done by others or by the IG that would enable us to determine that there would be no way to make it effective.

Let me give you a couple of examples. As we said, we go back to our coupon analogy, if 30 percent of the jobs were offered to low-income people who would not have been able to work, would not have gotten them without it, that's the equivalent of 30 percent of the buyers who come in are new.

Mr. PETERSON. But are these jobs new?

Mr. ROSS. Well, remember that the purpose of the credit was to give disadvantaged folks——

Mr. PETERSON. The ones that figured out how to work the Government bureaucracy.

Mr. ROSS. They don't really have to work a Government bureaucracy. They have to present themselves as disadvantaged. The thing we're talking about is, at what point would it be cost-effective? Because you're quite right, the first question on your list of questions to be answered is does this return more benefits to the taxpayers than it costs? Where do we need to get to be at that point?

We think 25 or 30 percent new people who wouldn't have gotten those jobs fills the bill. And the question is, is there a way to get there? Our answer is, nothing in the research tells us in advance that we can or we can't. There are also some real problems with the OIG methodology about the 92 percent who said they would have hired the person otherwise. If it's appropriate now, I'd be happy to take a minute and walk through those, because that's been the basis of their testimony. And while, again, I want to emphasize, we don't want to continue the present program. They've not proved that another approach couldn't work. That's all we're talking about.

Mr. PETERSON. Well, my time is up, and I think I understand the question about the 92 percent. But I still have a question about you say these 30 percent that wouldn't have gotten these jobs otherwise. The question that hasn't been answered is what about the jobs that are displaced by those 30 percent?

Mr. ROSS. They would have been from people who were not disadvantaged. Remember, this was never primarily a job——

Mr. PETERSON. But we don't have any of that information. I don't think anybody can tell us that these jobs are being taken by disadvantaged people, away from people that are not disadvantaged.

Mr. ROSS. Exactly. An audit, which is what has been done, can't give you that information.

Mr. PETERSON. Why not?

Mr. ROSS. Well, because—I'll give you an example, let me quickly. The audit approach goes in and says to an employer, would you have hired this person or not because of the credit? Well, there are two problems there. First of all, it assumes that the motivation of the employer is the only issue that matters in terms of impact.

Let me give an example. Let's say this was a credit only for veterans. And let's say, honestly, I didn't care whether a person was a veteran or not in terms of my hiring. But I placed all my help wanted ads, because I knew about this, in the American Legion and DAV papers. So I changed my recruiting practices, which the GAO says, in fact, many have done.

So now suddenly I am getting a lot more veterans, even though I didn't make a decision. Second, let me give you another analogy. Let's try civil rights analogy. Remember, they asked these questions a year and a half after the decisions were made. Sir, did you hire this person because of a civil rights law that says you may not discriminate, or because this was a sort of a good solid person who met your requirements?

I daresay almost everybody would say, because this is a good solid person who met all of my requirements, that doesn't mean the civil rights law had no impact. The only way to do it is to try and figure out what happened when there was no civil rights law and compare it with what happened when there was a civil rights law and then you begin to see impact. I have to say to the IG, respectfully, I think they're very good auditors, but if they go into the social science research business, I think they stumble. And I think this is a good case of it.

Mr. PETERSON. Well, I'll take another round when I have more time the next time. Mr. Zeliff.

Mr. ZELIFF. Thank you, Mr. Chairman. Mr. Ross, you've been here before, on on-the-job training portion of your responsibilities, and you know that 154, 155 programs, many of which are not effective. And I guess the question going to your coupon idea, you know, what we've done here is we—coupon is very effective. You target to get the consumer to do something that they would not normally do. In this case, the employer is the consumer. He would, may or may not offer that job to a person that is economically disadvantaged or is handicapped, and you're forcing him or her to do that.

Mr. ROSS. Encouraging them, they're giving them an incentive, not forcing.

Mr. ZELIFF. Well, incentive encourages or forces, whatever. But they, obviously, have the decision on their own whether to take advantage of it or not. Then they take advantage of it, and they follow through. We call it a windfall. I just find that amusing, almost like there's something dirty about taking advantage of the incentive that the Department of Labor has offered them, giving them the job, and now it's a windfall. But having said that, I think this has got something in common with the other areas of responsibility you have in some of the job training areas. You know, what is it that we really want to accomplish? We want to try to get handicapped and disadvantaged—economically disadvantaged people a job, so that they can get off AFDC, they can get—be a part of the community. And I guess—and I'm not sure, in terms of the audit here, I mean are we asking the right questions and are we—do we have a system set up that we know for sure in an effective way that we are or are not getting those people those jobs?

And then the question is whether we, you know, can do it a different way. And the question I'll ask you is are we combining this program with some job training so that they can move up and be more effective? Just any comment on——

Mr. ROSS. Well, your point about integrating more of these different efforts is extremely well taken. That's something we've been trying to figure out, for example, how to link our apprenticeship programs, let's say with Job Corps, or with some of our JTPA programs, so that as you prepare people to be more employable, you have a path that can take them strongly into the middle class.

I would think that one of the things a Targeted Jobs Tax Credit could be linked with to make it more effective would be title II training programs. I remember your background with JTPA and certainly on a PIC, I believe, so you were pretty familiar with all of this. Using it as a particular aid in increasing placement rates for Job Corps, there are a variety of ways it might be done.

Up until now, to the best of my knowledge, it's been mainly handled in a vacuum and not connected with training. So the ability to make sure that people not only can get a job, but can begin to move up a career ladder, would certainly be one area to look at, were there an inclination in Congress to rethink this and where we wanted to go with it.

Mr. ZELIFF. And again, we're trying to provide an incentive to get people, employers to hire people that are hard to employ.

Mr. ROSS. That's correct.

Mr. ZELIFF. So the question is, how much do we spend to do that?

Mr. ROSS. We should not spend more. First, we've got to get more benefits back in terms of people who otherwise would not have been employed, being employed, reducing social service costs, increasing their taxes and so forth, than the cost. It needs to have a positive cost-benefit ratio. And second, we then need to compare it with our other programs for helping the disadvantaged get jobs. Like Job Corps and parts of JTPA.

Mr. ZELIFF. In Treasury, I heard your comments. Is the administration solidly behind this recommendation at this point, to get rid of this program?

Mr. FOLEY. We haven't said that we ought to get rid of the program. We've stated that the program has some problems and that we are looking at ways to resolve those problems, so that there may be modifications that can be made to the credit that will turn it into a credit that——

Mr. ZELIFF. Do you have any recommendations or will you be doing that later?

Mr. FOLEY. We are in the process of doing that now, and our recommendations will be reflected in our budget when we finally put that together. And we will be more than happy, as I stated in my testimony, to work with Congress to develop those modifications.

Mr. ZELIFF. Mr. Masten, do you have any data on New Hampshire at all? You mentioned Alabama, but——

Mr. MASTEN. Yes.

Mr. ZELIFF. Did that track the same thing as Alabama or——

Mr. FISCH. We don't have any specific data here, but we could provide you data.

Mr. ZELIFF. I'd like to have that, if I could. And you both feel very comfortable, then, in terms of terminating, the recommendation to terminate this program, as being ineffective; that the right criteria, the right questions were asked, and you just don't feel that this is a good use of taxpayer money, I take it?

Mr. MASTEN. That's correct on all terms, sir. We do not feel that we could support this program, period. It's very ineffective. We asked the right questions. We were there to see if this program induced the employer to hire the disadvantaged. We found it did not. Therefore, it's ineffective and we recommend that it be eliminated.

Mr. ZELIFF. I see the red light on. Mr. Chairman, I would hope——

Mr. PETERSON. We're going to go another round.

Mr. ZELIFF. Just ask a question, will we at some point have employers who dealt with this?

Mr. PETERSON. We are going to have some, next panel. We've got people on the next panel that favor this and are against it, so we'll have a good——

Mr. ZELIFF. Thank you.

Mr. PETERSON. Mr. Rush.

Mr. RUSH. Thank you, Mr. Chairman. I gather from some of the testimony or all of the testimony, most of the testimony, that most of the panelists here, and I might be incorrect in this, but most of the panelists who are present before us right now are opposed to the extension of the credit. Am I—am I correct?

Mr. ROSS. I would say again, in its existing form, sir. Not necessarily, the notion of a tax credit to help increase the hiring of the disadvantaged, we don't believe there's research sufficient to abandon that as an approach. We think the program as presently constituted doesn't warrant extension.

Mr. RUSH. Well, I am glad that you answered the question there, Mr. Ross, because my next question is directed specifically at the Department. What have you proposed to replace the program with? I mean—or do you intend to replace the program?

Mr. ROSS. Well, we have been trying to shift resources, because of their obvious limitation, away from programs that are working less well, toward those that are working better. The same speech in January where Secretary Reich talked about the fact that the TJTC in its present form did not seem to be working well, he cited the fact that we continued to have positive cost-benefit analysis relating to the Job Corps as a program that works, that returns more benefits to us than it costs. He cited a study that was completed that showed low incentive for adults. That the JTPA Program yielded more benefits in terms of their earnings, taxes they could pay, reduced social service costs, than the cost to us.

Unfortunately, that same study showed that our programs with out-of-school youth were not terribly effective, and in fact we had shifted some resource out of that into the adult programs and toward Job Corps. So I think the constant emphasis in the Department now is find what's working and try and get more resource to it, and when you have an important problem like the employment of the disadvantaged, don't necessarily keep spending money on something that isn't working, but put a lot of effort into trying to find other things that either are working better or experiment with ways to find things that do.

Mr. RUSH. Well, I—I basically agree with the general approach. But as the chairman indicated earlier, you have us here caught between a rock and a hard place. You're opposed to the extension of the deadline, but yet still labor has not come up with any alternatives. So for me and others on the committee who are absolutely committed to trying to provide jobs for disadvantaged Americans, we're in—we're caught up in a situation where if we allow the deadline to take place, don't extend it, then we have a problem that—where we are not trying—we're—the perception is that we aren't trying to do our job in terms of trying to provide jobs for low-income or more disadvantaged Americans.

And it seems to me that I've heard at an earlier hearing, I heard basically the same argument from Labor, and I'm just astounded that here we are two weeks before adjournment, and Labor is saying basically the same thing that it said months ago, but yet still we don't have any kind of specific product from Labor that says this is what we want to engage the Congress in, this is what we want to replace the JTPA Program with.

And it really, you know, Mr. Chairman, I just think that, you know, I'm not sure what's going on, but it seems to be some kind of political maneuvers or some kind of a subterfuge is going on here. Because I would certainly expect to have Labor's, and I know I have the utmost respect for the staff at the Department of Labor and for Mr. Reich, and I certainly would have—quite frankly, I'm very disappointed that here we are this morning, 2 weeks before adjournment, conducting this hearing, and the Department of Labor is still giving us this gibberish about why the program is not effective.

But yet still the Department of Labor, with all its talent and abilities and skill, and I believe its deep-seated commitment, we have not come up with a product that we can entertain here in the Congress. So we're going to allow this, if we follow your train of thought and what I perceive as being your wishes and the way you seem to be headed, we allow the program to—we don't extend the deadline, in effect kill the program. We wear the jacket as Members of Congress for doing that, and the Labor gets what it—you know, achieves its goal, but yet still don't have a product, don't have any kind of alternatives, don't wear the jacket for killing the program but you accomplish what you wanted to do in the first place, which is to kill the program.

Mr. ROSS. I can understand how it may look or how you may feel, Congressman. I, respectfully, would argue there is no subterfuge. To the best of my knowledge, Labor has not been asked to testify on this issue either before this committee or this Congress prior to today. I certainly have never been asked to testify on it.

Mr. RUSH. I remember specifically at an earlier meeting asking about JTPA.

Mr. ROSS. Yes, and that's correct.

Mr. RUSH. And about Labor's position on JTPA.

Mr. ROSS. Yes, I agree. But with all due respect, this is the Targeted Jobs Tax Credit, which was not part of the JTPA.

Mr. RUSH. OK, it's the same, excuse me, the same thing.

Mr. ROSS. The other thing is, there have, as you well know, been bills to deal with this before the Congress going back as early, I believe, as January 1993. And I think our position is that if there appears to be a strong interest on the part of Congress to deal with an extension, we are ready and willing and we hope able to gather Treasury and the rest of the administration to sit down and explore ways where we might improve it to the point where we think it has a promise to be effective.

We all agree that if it's not effective, wasting money in a good cause is not good policy. So I would only say to you, as I said in my prepared testimony, we are ready and willing to sit down with members of this subcommittee, with members of the authorizing committees, quickly, to talk about what, if anything, could make this an effective program to improve the employment prospects of the disadvantaged. We share that goal with you.

Mr. PETERSON. Mr. McHugh.

Mr. MCHUGH. Thank you, Mr. Chairman. Mr. Masten, you heard this morning some of the comments, criticisms, about your methodology, particularly how you posed the question to the employer. Would you employ this person were it not for the job tax credit program? How would you respond specifically to those criticisms? Why do you think, as you said earlier, that your methodology was good?

Mr. MASTEN. For one thing, Congressman, we used a two-stage stratified scientific sampling methodology to select statistical sampling of the States and the certifications within those States. We consulted with the Bureau of Labor Statistics in designing our survey—our questionnaires. We obtained responses from the employers regarding their motivation in selecting the TJTC participants, and from both employers and participants regarding the employer's hiring practices. The responses we received from the employers, were largely confirmed by the participants. So we feel that our methodology, (the questions that we asked) was relative to determining whether or not this program induced the employer to hire the disadvantaged, as it was intended. And the results are that it did not.

Mr. MCHUGH. Sounded like you were ready for that question.

Mr. MASTEN. One other statement we would like to make. We are not—we are not social scientists, but we are darn good auditors.

Mr. ROSS. I would agree with both of those statements.

Mr. MCHUGH. I'd like the record to show you and I have never discussed this issue before. Let me draw it down more specifically. There have been comments that the question you asked specifically, would you have hired this person or did you hire this person solely because of the job tax credit program, that seems, to me, to be a rather narrow approach to the issue. How would you defend that single question as being at least a primary determiner of your evaluative analysis?

Mr. MASTEN. Congressman, I would defer that response to Mr. Fisch.

Mr. FISCH. We felt that the question was straightforward and above board. But, we didn't just stop with that question. In addition to asking the question about the tax credit, we also looked at the hiring procedures of the employers and the policies that they used in hiring the individuals.

Mr. MCHUGH. Mr. Masten, again, at the risk of sounding like I'm picking on you, on page 7, you noted one of the disclosures that your audit included was that 37 percent of the employees in the sample were paid no more than minimum wage. I went into politics because I wasn't a math major, but I think that means about 63 percent were paid above minimum wage.

What would you have determined to be a fair figure there? If not 37 percent, 35, 30? Where should we be targeting that kind of, that kind of result? Sixty-three percent doesn't sound too bad to me.

Mr. MASTEN. Congressman, let me just give a breakdown of the wages before, during, and after the TJTC program. Before TJTC we determined that the wages were $5.22 an hour. During the program, during the time the participant was in the TJTC program, they earned, average, $4.96 an hour. After they left that program, their average earning was $5.52 an hour. It is my opinion that if the Government is subsidizing a program, the participants should be making more than minimum wages. So to give you a percentage of what is fair and what is not, I'm of the opinion that it should be a lot higher than this.

Mr. MCHUGH. Mr. Ross, you seem to have a different opinion.

Would you like to respond to that?

Mr. ROSS. Yes. And, again, I always have to preface this by saying, we are not arguing to extend this program as it is. We are arguing with the notion that it has no potential or possibility. The principal test of whether this program makes sense is the extent to which it returns benefits that are greater than the costs.

I could imagine a situation in which it led to the hiring of people who had never worked before, and in fact a decent portion of these had never worked before. And that if, in fact, they all earned minimum wage, that could be a very significant step forward. So you can't arbitrarily say this wage, this number.

It is a question of having to do an impact study which enables you to determine what kind of benefits were generated compared to the costs. And that's why I think while audit investigations can be of real benefit and contribute to this discussion, they're not really impact studies. And without impact studies, you can't be definitive.

You might say, well, then why are you against extending this program in its current form if you don't have any persuasive impact studies, and I guess the answer is to spend money that's in scarce supply even for important causes, the burden of proof ought to be on showing that there is a positive cost-benefit analysis, not simply the inability to prove that there isn't one.

So I just want to emphasize that seeing these questions in this way is not a wholly reliable way to determine what the impact is. I will give you another. These—the people questioned here were questioned a year and a half after the decision was made.

By the study's own admission, a huge number of these employee decisions are made by very large corporations, restaurant chains and others. Even knowing for sure who exactly made the decision about this person or that person, I think is methodologically very difficult. There is a whole body of social science research which says asking people their motivations, especially a year and a half after the fact, is not very reliable because, A, people don't remember very well, and B, there are all kinds of bias. People are trying to figure out what should I be saying.

And I think were I an employer and you came to me and said you've been hiring a lot of disadvantaged folks, do you do this solely because of this tax credit or not? Which is, in fact, the way essentially the question was put, and I would say, well, no, I mean we look at people's qualifications. We have a whole process.

Now, if you had said to me, did this help influence where you looked, did this play some role, actually we have earlier studies that show different figures when you ask the question that way, than really saying is this why you hired the person or this why you didn't.

So my only point in raising all of this is not to argue about extension as it is, but the IG went beyond that and said forget the idea of a tax credit helping low-income folks get work. And we simply are mystified, saying where in the research is there anything that would allow you to reach that kind of conclusion?

We can't find it. We went to our chief economist and other folks, no one can find that. That's the place and the only place really we're differing with the IG. We think they're going beyond the capability of their audit information to inform the future.

Mr. McHUGH. All right. I see my time is up.

Mr. PETERSON. Yeah. The witnesses are getting—when the red light comes on, whoever is talking, kind of wrap it up so we can get through this. We have another panel that is pretty interesting, I want to make sure we get to that. So, Mr. Shays, you're on.

Mr. SHAYS. Thank you, Mr. Chairman. There is an opportunity cost in everything we do. If we do this, we don't do something else. So I look at this in terms of opportunity cost. The Department of Labor is not doing a very good job in arguing that this program should be continued. There was a report earlier, I will try to get my fingers on. There was an earlier report that wasn't too kind.

Mr. MASTEN. That was the one in Alabama that caused us to launch the nationwide to see if results were the same nationwide.

Mr. SHAYS. So the Department of Labor had some indication that there were problems with this program; is that correct?

Mr. MASTEN. That is correct.

Mr. SHAYS. What I'm wrestling with is we are basically saying there is a net cost of $234 billion. So we're not talking about small dollars here. I mean, we're talking about—and this is an annual cost, correct?

Mr. MASTEN. That is correct. It is million, though, Congressman, not billion.

Mr. SHAYS. Why should I be content as a Member of Congress with your response that you are ready to sit down with this committee and the authorizing committee to make the program work? Why shouldn't I expect that you will come with specific responses and specific proposals?

Mr. ROSS. I guess, sir, because we, too, are in the process, having gotten this final report in August, of carrying on discussions with Labor, Treasury, the folks at the White House to explore various avenues, as well. These are not simple issues, coming up with determining whether there are persuasive ways to improve this program to make it worth Congress' while is an open question.

Mr. SHAYS. Would it be unreasonable for me to say the program should have to justify its benefits rather than the IG have to justify that it is not working? Shouldn't that be the way we approach it? In other words, we have to show it works rather than show it doesn't work.

Mr. ROSS. That's why we don't believe, given the present program, we can show it works, which is the reason we have come out clearly for not extending the current program.

Mr. SHAYS. Is it logical to make an assumption that if we make a program retroactive, we really haven't caused new action? If we make a program retroactive, we are basically—we are asking people to do something that they would have done anyway had we not made it retroactive. I don't have a hard time understanding that, in that case, we haven't——

Mr. ROSS. And we would not support it, making it retroactive.

Mr. SHAYS. Right.

Mr. ROSS. If it expires and then there is a decision subsequently to enact a new version of it, it would not be our position that it ought to be retroactive because I quite agree.

Mr. SHAYS. The cost of administering the program, is that taken out of appropriations expenditures?

Mr. ROSS. Yes.

Mr. SHAYS. The benefit is an entitlement?

Mr. ROSS. The benefit is an entitlement, that's correct.

Mr. SHAYS. So this to me is an example of—entitlements are more than 50 percent of our budget, our total authorizing money is about a third. This is to me, Mr. Chairman, is an example of how, if we had to put this along with appropriated expenditures, we might make a determination there is a better way to do it.

Intuitively we should be able to do this without a lot of cost. And I like the idea that we're helping employers make decisions. And I don't mind the incentives.

So intuitively, the program seems to make sense for me. But, Mr. Masten, I'm pretty convinced based on what I read that your report was done in a thorough way and now the ball's in the Department of Labor's court and in our court to come up with an alternative.

But there is no way we should refund this program if we don't come up with an alternative. Your going on like this does not satisfy me. This is something that should have been dealt with sooner, with all due respect. This is not new information.

And we have an inclination that this was a troubled program and it is a program that you're working on. It goes out—and just as, Mr. McHugh mentioned and others here with the 150 job programs that we have, I mean, these programs could work well and they could do good things. So I'm very happy, Mr. Chairman, that you've called this hearing. I'm looking forward to hearing from the employers.

Mr. PETERSON. Mr. Masten.

Mr. MASTEN. Mr. Chairman, to correct the record about the IG being opposed to a tax credit incentive to hire the disadvantaged, I just want to make it perfectly clear that we have never looked at the effectiveness of utilizing employment tax credits to increase employment for the disadvantaged. As a result, we haven't claimed that employment tax credits in general are not good. That is not our position. I want to make that absolutely clear.

Mr. SHAYS. You're taking this position on this program.

Mr. MASTEN. In this specific program. Very clearly, based on our audits, this program is ineffective and our recommendation stands.

Mr. SHAYS. Thank you.

Mr. PETERSON. Mr. Foley, you folks are ostensibly, as I understand it, in charge of making sure that the eligibility and all that is met in order so these people qualify for these credits; is that correct?

Mr. FOLEY. Well, we——

Mr. PETERSON. I mean, audit the tax——

Mr. FOLEY. We audit the taxpayers.

Mr. PETERSON. What do you do? What do you do to make sure that there is compliance?

Mr. FOLEY. Well, a corporation or a business that receives the targeted jobs tax credit goes through the regular audit procedure that all others——

Mr. PETERSON. You pick them out and they happen to have the tax credit, you will check it out. You have no program specifically to look at the targeted tax credit?

Mr. FOLEY. I'm not sure on that.

Mr. PETERSON. How many violations have you detected of this—have you found anybody, say in the last 5 years, that have not met the criteria and they've had their credits?

Mr. FOLEY. Taken away?

Mr. PETERSON. Yes.

Mr. FOLEY. I don't have that information.

Mr. PETERSON. Could you get that for me?

Mr. FOLEY. I could get that information for you.

[The information referred to follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 21 1994

The Honorable Collin C. Peterson
U.S. House of Representatives
Washington, D.C. 20515-2307

Dear Mr. Peterson:

This letter is in response to a question you raised at the hearings before the Subcommittee on Employment, Housing and Aviation of the Committee on Government Operations on the Targeted Jobs Tax Credit (TJTC) on September 20, 1994. You asked about Internal Revenue Service (IRS) compliance efforts and information on audit results with respect to the TJTC.

The IRS does not have a compliance program directed specifically at the TJTC. However, if a taxpayer has been selected for audit, the TJTC may become an issue. In the large case file of over 1200 corporations, the IRS Corporate Examinations Office identified only a few cases of adjustment to the TJTC, including a case where the credit allowed was increased. For smaller firms, the IRS does not track audit adjustments for the TJTC separately from other tax credit adjustments.

Additional information on compliance is available from the IRS Corporate Taxpayer Compliance Management Program (TCMP) in which corporate tax returns are rigorously audited. In the 1988 study, only about four percent of the corporations claiming the TJTC credit had their credit reduced or disallowed. While taxpayers are required to reduce wages deducted by the amount of the credit, corporations neglected to make this adjustment in one percent of the cases.

Overall, compliance with the TJTC does not appear to be a major problem, reflecting the fact that the credit is currently claimed by only about 6,000 corporations and 24,000 non-corporate businesses.

Sincerely,

Maurice B. Foley
Deputy Tax Legislative Counsel
(Tax Legislation)

Mr. PETERSON. Mr. Masten, you say that this program only generates $140 million worth of benefits, right?

Mr. MASTEN. That's correct, sir.

Mr. PETERSON. How did you determine that?

Mr. MASTEN. If I may defer that to Mr. Fisch.

Mr. FISCH. We considered the wages earned by the individuals hired because of the program and the reduction in transfer payments that they would have received.

Mr. PETERSON. I guess I still don't understand. I mean, these people are getting—they're getting a credit of 40 percent so—of the wages——

Mr. FISCH. Up to 40 percent.

Mr. PETERSON [continuing]. Of $6,000. And the amount is $250 million, or whatever it was, $300 million, whatever the amount is.

Mr. FISCH. And we counted as benefits about $125 million in projected gross annual wages of those individuals who would not have been hired without the tax credit.

Mr. PETERSON. So that's not all of them, then.

Mr. FISCH. No.

Mr. PETERSON. That's only the 8 percent. Is that how you came up with that figure? You're figuring that only 8 percent would not have been hired?

Mr. FISCH. Correct. It is only on the 8 percent.

Mr. PETERSON. So that's how you came up with that number?

Mr. FISCH. Yes.

Mr. PETERSON. OK. So then we get into the whole question about whether you ask the question right and whether that 8 percent is right and all that, I understand.

Mr. Ross, I am not happy, either, that you haven't come up with a plan.

So let's see, one of the issues that have been raised to me is that there is a lot of turnover and that actually the program might cause churning and people might actually hire people and let them go so they can keep getting the credit. So what is your position about lengthening the required retention period? Would you be in favor of that, yes or no?

Mr. ROSS. I really can't answer. It has been one of the kinds of things that are being talked about. Again, I cited a whole series.

Mr. PETERSON. You don't have a position? Do you think the program would be more effective if the employers were required to claim the tax credit?

Mr. ROSS. Couldn't say for sure.

Mr. PETERSON. You have no position on that?

Mr. ROSS. You are going to find that is fairly——

Mr. PETERSON. I ask these questions——

Mr. ROSS. I don't get to make these decisions unilaterally. I get to participate in them.

Mr. PETERSON. When do you think you will know?

Mr. ROSS. When will I know? I think relatively soon, and I think a lot will be dependent on the pace that Congress sets, is there any interest organized, active interest in Congress to extend this?

As I say, there are a variety of bills in a variety of committees. To the best of my knowledge, there has been no movement there.

Mr. PETERSON. You know there is going to be interest. They are going to do this in the dark of night when nobody is watching. If you don't get ahead of this, it is going to get extended. I will guarantee you this is how this happens.

Mr. ROSS. Mr. Chairman, this is your institution, not mine.

Mr. PETERSON. It isn't always mine. I just happen to be here sometimes. But you know, I think that you have some responsibility for providing some leadership. And I would hope that you would get at that sooner rather than later.

I still have a real question about whether these people are being placed in jobs that would have gone to people that have the same exact qualifications—and I think that they can audit for that. I mean, you can ask people, go back and find out who has been hired, using the credit and without using the credit, and find out whether these people fit in these categories. You could find that out if you wanted to.

Mr. FISCH. Yes, sir. One thing that we did find out is that approximately 87 percent of the employers hired the people first and then went and asked for the tax credit.

Mr. PETERSON. When it first started, when I was doing tax returns, I can tell you that my clients came in and at that time, there were no criteria. All you had to do was just, however amount of wages, you got some percentage of whatever the increase was when it first started. And nobody had a clue.

I mean, they thought this was like manna from heaven. The only reason they knew about it is because I told them. And so that's how it worked and then they did tighten it up. Apparently it hasn't changed their action a whole lot.

Mr. Ross.

Mr. ROSS. Quickly, there have been several studies on the question you raised about displacement. In other words, do disadvantaged people who were hired as a result of the credit simply displace other people who would have been equally disadvantaged, in which case you would say, gee, that doesn't seem to be any kind of net gain.

There are two studies, one by Bishop and Montgomery in 1993, another by Holden Burke in 1986, which we'll be happy to get to the committee. They indicate in fact there has been very little displacement; that the people who got those jobs in the vets got them instead of nondisadvantaged folks, which was the intent.

And the other question, about the 86 percent who claimed that they checked to see whether a person qualified after the hiring decision, again, the question you have to ask is, did their recruiting practices change—as a result of it?

I use the vets example. If you only recruited through veterans' newspapers, would you have significantly changed who you got. And so without answering those questions, GAO in fact did a study which showed that a lot of the large employers changed their recruitment practices.

Mr. PETERSON. Mr. Zeliff.

Mr. ZELIFF. Thank, Mr. Chairman. Mr. Masten, I heard—I think I heard you right by saying you made a comment relative to the tax credit and you—I think you indicated that you didn't think that they should get the tax credit if they are only paying minimum wage.

Did I hear that right?

Mr. MASTEN. You heard me say I think if it is a Government-subsidized program, it should generate more than just the minimum wage for the employees.

Mr. ZELIFF. And your audit, was that affected by that philosophy in any way?

Mr. MASTEN. Based on the wages before, during, and after, it hovers right around the minimum wage. In view of the way corporations are using this program, they are basically paying minimum wages to many of their employees.

Mr. ZELIFF. I guess my only comment was it is one goal to have more than minimum wage. It is another goal to get people who are economically disadvantaged and hard to employ a job, keep it at minimum wage. It would seem to me if I was going to do an audit, I would have to separate those philosophies.

Mr. MASTEN. This is a randomly selected group of individuals. I might point out that 87 percent of the participants—correct me if I'm wrong, were at least second-time employed people. Only 13 percent were first-time jobs. And of this group, 50 percent were young people. So that if you look at the chart in my prepared statement, you will see that it did not have a whole lot of effect on the real targeted groups.

Mr. ZELIFF. I'm not trying to put you on the spot or degrade in any way the audit. I think you're doing a good job in terms of trying to get rid of ineffective programs. But I just hope that we don't philosophize to a point beyond what the original mission is.

Another question, I wonder, do we take a look at and try and track how much it cost the Government, do we also look at how much savings we have in AFDC payments and other things that they would normally get? I would assume you probably did.

Mr. FISCH. We included that figure.

Mr. ZELIFF. That's what you included?

Mr. FISCH. We couldn't get it in all cases. Where we could, we did include it.

Mr. ZELIFF. I guess in terms—you all feel this is kind of a feeding trough, and there are a lot of management consultants out there that also get involved in this process. And I am just wondering in terms of placing employees, shouldn't—should the Department of Labor be fulfilling that responsibility or is there an opportunity here for outside consultants and intermediaries, and how does that work and what is the percentage of people who, you know, are in the business to line up people to get the——

Mr. FISCH. I don't know if I have a figure on the total number of people that are in the business of doing it. But to turn around and increase the Department's responsibilities for doing all this work, it's going to require quite an administrative dollar to do it. I think it's gone down from $20 million, to about $14 million. To put this type of burden on the Department—I don't think the Department, that is, the ES as setup right now could handle it, funding wise.

Mr. ZELIFF. Who pays the consultants to line up the——

Mr. FISCH. The consultants go through the employers. They are paid by the employers.

Mr. ZELIFF. Paid by the employer. All right. I guess my comment, Mr. Ross, has been mentioned earlier, too. Here we are, you know, we've run out of time, and as we have found in the job training effort, as well, we're finding that as far as the Department of Labor is concerned, we sure have an awful lot of work, a long way to go in establishing goals, effective management tools in terms of measuring performance and results, and you know, we seem to talk a lot about it, but—and you've been in it long enough at this point that I'm sure it is a high priority.

How do we get so that we come on the cutting edge, we don't run out of time? And what are you doing to provide that kind of leadership?

Mr. ROSS. We've been focusing very much on operational goals for the job training programs in effect now, title III, JTPA, which is for laid-off workers. We have now begun to set not only entering employment goals, jobs placement goals, but also customer satisfaction goals. We've got to begin thinking of our people like customers.

Mr. ZELIFF. Right.

Mr. ROSS. Same for title II adult and youth. In fact, with a lot of help from the IG, we've been developing more and more concrete goals and standards—we would like more authority to enforce them even tougher. The goals are specific. Same with Job Corps.

We keep working on improving a whole set of measurable outcomes in terms of placement. If it's education they get, to make sure it's meaningful. At this point, with the exception of the employment service—for which we still do not have any acceptable outcome measures of any sort, we're trying to focus very heavily on outcomes.

Mr. ZELIFF. Thank you very much.

Mr. PETERSON. Mr. Rush.

Mr. RUSH. Mr. Chairman, I'm going to make sure that I get the right program here. Mr. Masten, earlier you—or at least Mr. Ross indicated that you were not social scientists so therefore you were prohibited from, I guess, making some judgment regarding this particular program.

I don't necessarily agree that you have to be a social scientist in order to have some ideas about how programs can be corrected or how they can be improved upon. Have you had occasions to have any discussions with members of your staff about recommendation in testimonies of how this program can be improved upon?

Mr. MASTEN. Yes, we had a number of discussions. As I pointed out in my summary and in my prepared statement, this is the first time we have not put corrective recommendations in the report and simply recommended that it be eliminated. This is because it is ineffective in regard to what it was intended for. So we had numerous discussions before this audit was finalized and just could not come up with any recommendations for corrective action.

Mr. RUSH. So it is your opinion that—and I guess this is you said it in more ways than—some of us are hard of hearing. In your opinion, you don't think that there's any type of saving methods that we could utilize in order to prevent this program from just be-coming a figment of our imagination or a figment of the past or—you want it dead.

Mr. MASTEN. I agree with you.

Mr. RUSH. All right. Mr. Ross, I want to get back to some other specific line of questioning that we have been engaged in this morning, and have you or your agency had any discussions with any other interested parties about what their recommendations are or where to improve the program? I mean——

Mr. ROSS. Most of the discussions, sir, that I've been involved in have been with other parts of the Federal Government, officials from Treasury, officials from the White House in terms of trying to figure out how or if a tax credit to influence employer behavior could be effective.

And I thought it was significant that the inspector general did say they are not saying that a tax credit, after all, the targeted jobs tax credit is a tax credit, could not be effective in helping disadvantaged workers. They're simply saying, as we are, the existing one, the way it works, doesn't. So to answer your question, we have mainly been talking to others within the administration for ideas.

Mr. RUSH. Do you have a list of recommended improvements that you are at this point entertaining relative to this program?

Mr. ROSS. We have internally generated a whole variety of ideas and possibilities. Actually, I just got a note that we are going to be meeting with some employers who are interested, I think as early as tomorrow.

So yes, we have generated a variety of ideas that have been discussed. My guess is should Congress look like it is interested in moving ahead? We would be prepared to sit down very quickly to discuss options, receive ideas that interested Congresspersons might have, and if we can agree on something that makes sense, if we can find such a thing, move ahead.

Mr. RUSH. So it's your position, if Members of the Congress voice and express some desire to extend the deadline, then the Department of Labor would come in with some of their recommended improvements?

Mr. ROSS. Certainly ideas, yes.

Mr. RUSH. Or recommendations?

Mr. ROSS. Maybe recommendations. But at the minimum, ideas. We don't claim to have all truth on this, but we do have ideas we would be willing to share.

Mr. RUSH. Mr. Chairman, I just want to conclude by really commending the Department of Labor on this political adroitness. I really see the game plan right now. It has become real clear to me what is going on, the Masters.

Mr. PETERSON. Any other questions? I want to thank you all.

Mr. Foley.

Mr. FOLEY. I wanted to correct my statement. I said the jobs tax credit was enacted in 1981. It was enacted in 1978.

Mr. PETERSON. Thank you very much. We may submit more questions to you. In fact, we probably will, so you can expect that.

Mr. FOLEY. Thank you.

STATEMENTS OF RON CAREY, GENERAL PRESIDENT, INTERNATIONAL BROTHERHOOD OF TEAMSTERS, ACCOMPANIED BY HOBERT CURRIE, PONY EXPRESS CO., ST. LOUIS, MO; CHARLEAN JACKSON, DEPUTY ADMINISTRATOR, TEXAS EMPLOYMENT COMMISSION, AUSTIN, TX; JANET TULLY, DIRECTOR, COMMUNITY EMPLOYMENT AND TRAINING DIVISION, MARRIOTT INTERNATIONAL, WASHINGTON, DC; EDWARD LORENZ, POLITICAL SCIENCE DEPARTMENT, ALMA COLLEGE, ALMA, MI; AND LORI STERNER, ACCESS TO EMPLOYMENT, MINNEAPOLIS, MN

Mr. PETERSON. We'll call the final panel today. We are very pleased to have some good people here with us that I think will help us understand this better. Mr. Ron Carey, the general president of the International Brotherhood of Teamsters, who is accompanied by Hobert Currie of the Pony Express Co. in St. Louis, MO.

We have a traffic jam going on here. We have Charlean Jackson. I see she made her way up to the table. She is the deputy administrator of the Texas Employment Commission in Austin, TX. Janet Tully, director of community employment training for Marriott International, Edward Lorenz, who is with the political science department of Alma College in Alma, MI, and Lori Sterner with Access to Employment in Minneapolis, MN.

Mr. Currie, I see you made it up here. It is the custom to swear in all witnesses so we don't prejudice any previous witnesses. Any of you have any objections to being sworn?

So if you would please stand and raise your right hand, we'll swear everybody in.

[Witnesses sworn.]

Mr. PETERSON. Thank you very much. The written statements will all be entered as part of the record, so you may summarize them, if you wish. Again, we appreciate you all being patient and being willing to come and spend some time with us today. And we will start off with Mr. Carey. He is the president of the Teamsters. I welcome you and your compatriot there.

Mr. CAREY. Thank you and good morning. Mr. Chairman, members of the subcommittee, the Teamster Union appreciates the opportunity to offer its views and opinions on targeted jobs and tax credit.

As I sat or stood in the back of the room, the one thing that came across to me very loud and clear was, well, what about ways and means to fix it? We are not here today arguing the case for dismantlement. We are arguing to fix what is broken. We are offering suggestions in writing, in my written statement, that deal with the fundamental problems of this program.

The Teamster Union represents 1.4 million working men and women in a wide variety of occupations throughout the United States and Canada, from nurses to doctors, to law clerks, pilots, flight attendants. Some of those members work for Pony Express. They are here today. Pony Express, which is the Nation's largest ground courier company, makes extensive use of the TJTC program. I'd like to ask with your patience that all Pony Express drivers in this room kindly stand up. I just wanted you to see who they are.

Here with me is Hobert Currie, a driver from St. Louis. He will tell you in a few minutes about his experience with this program. The Teamsters support the goals of the TJTC recruitment, training, and continuing employment of people who have been locked out of the job market.

What we know from experience is there is wide spread abuse of this program. Companies like Pony Express take the tax breaks under the program but do not recruit properly. They do not invest in training. They provide low-wage, no-benefit, dead-end jobs. In fact, they offer such poor working conditions that they promote high turnover, and the more turnover, the more tax subsidies they receive.

Under the TJTC after an employee has been on the payroll long enough to earn $6,000, the employer gets 40 percent back as a tax credit. If that employee then leaves, the employer gets the tax credit again for another employee or replacement.

And so the musical chair continues. The turnover rate at Pony Express Couriers for this year was 69 percent. Now, the program was originally designed to create the great American dream, to give disadvantaged folks an opportunity to be able to purchase a home, have a car, raise a family.

Well, 69 percent is a terrible record. We don't know how many of these workers who left Pony were covered by the TJTC program, but we do know that Pony Express screens new hires on their eligibility for the TJTC program. And we know the Borg-Warner family of companies, which includes Pony Express, says it is one of the most active employers in utilizing this tax credit.

In 1989, 16 percent of all Borg-Warner employees were TJTC qualified. The current program allows Pony Express to do business in a way that violates the goals of the concept of TJTC, and it undermines the broader national employment goals.

We have heard often enough about the President talking about good American jobs. With that kind of turnover and with the taxpayer paying for it and no future for these workers, jobs at Pony Express certainly are missing the goal by miles. Pony Express does not use the TJTC to find other people and hire people who would not otherwise have been hired.

Pony Express screens applicants who come to them to see if they are eligible for the program. The screening is often done after employees have already been hired—and affidavits to support this are in the written text, and our members have made those affidavits. Working conditions at Pony Express are so bad that they contribute to the high turnover which undermines the whole purpose of the program.

We have included our report on these conditions titled "What is Pony Express Delivering?" Drivers tell us about conditions that should not be subsidized by the American taxpayer: poorly maintained vehicles that release toxic fumes into passenger compartments, bald test tires that offer no traction on rainy and icy roads. What does bald test tires means? It means that Pony Express entered into an agreement with a tire company that would give them the opportunity to test the tires and to see at what point accidents happen.

Wages are so low that some workers have to live in their cars. They transport toxic chemicals and hazardous medical samples of blood, urine, and other materials without proper training or packaging. Drivers are being forced to drive dangerously long hours, more than 24 consecutive hours in at least one case, and then fired for getting into an accident.

Pony Express is now faced with over 220 charges of violations of Federal labor laws——

Mr. SHAYS. Mr. Chairman, let me ask a question. Is Pony Express going to be able to defend themselves and is this related to the issue of the tax credit?

Mr. CAREY. It certainly is.

Mr. SHAYS. I mean, it just seems to me like you are using this as a forum to go after a company that's not here to defend itself.

Mr. CAREY. Well, we are here testifying about the abuses in the program and how the program should work with respect to how it's working for one employer.

Mr. SHAYS. I hope, with due respect, you would stay on the subject a bit.

Mr. CAREY. I think I am on the subject. Our written testimony recommends specific reforms to address problems like these.

As it now exists, the targeted jobs tax credit is all carrot and no stick. Either new enforcement mechanisms should be added to stop rewarding bad employers or the program should be ended. President Clinton has said many times that a strong economy must be based upon good jobs, good wages, and we agree with that and I'm sure you do. Reforming the targeted jobs tax credit would be one step toward achieving that goal.

Thank you very much.

[The prepared statement of Mr. Carey follows:]

Reforming the Targeted Jobs Tax Credit

Testimony of
Ron Carey
General President
International Brotherhood of Teamsters
House Government Operations
Subcommittee on Employment

September 20, 1994

Mr. Chairman, members of the subcommittee, the International Brotherhood of Teamsters appreciates the opportunity to offer our views on the Targeted Jobs Tax Credit here today.

The IBT represents 1.4 million working men and women in virtually all occupations throughout the United States and Canada. Naturally, we pay careful attention to government programs designed to promote employment.

We support the goals of TJTC, which we believe are to recruit, train and retain economically or otherwise disadvantaged applicants. However, we know that there is widespread abuse of the program by companies that are using it not to promote these goals but solely to improve their bottom line. These are companies like Borg-Warner, which takes extensive advantage of the tax breaks available under TJTC, but which does not recruit extensively, does not train adequately, which provides dead end jobs, turns over its workforce systematically, and is rewarded for doing so with a tax subsidy.

Unless TJTC is significantly reformed, so that the benefits employers can receive are tied to business practices that actually promote the program's goals, it should not be renewed. Without these reforms TJTC will continue simply to reward employers for creating bad jobs.

TJTC and Job Promotion

On the surface, the Targeted Jobs Tax Credit promises to move applicants who meet certain criteria of need out of chronic unemployment and into productive work. The qualified applicants include those who have lived on welfare, who have suffered unemployment, and who have served in our military but encountered difficulty entering the job market.

The sponsors of this tax credit envisioned that a company would locate qualified hirees by advertising job openings in places designed to attract qualified applicants. These would include veterans organizations, various agencies working with low-income people, public employment offices, and so on. These applicants would then contact the employer. During the hiring process, the employer would ascertain whether or not the applicant qualified under the TJTC. When faced with a decision between hiring two otherwise equally suitable applicants, the TJTC would motivate the company to favor the TJTC-qualified applicant. After hiring, the tax credit would help defray the cost of training and benefits that the employer might not ordinarily provide within its budget. The idea is to give both parties something of value: the employee gets a good job, and the company gets a good employee.

As with all expenditures of tax money, the program would be accountable for results, with measurable results that would enable Congress to fine-tune the program over time.[1]

Borg-Warner: Case Study

How TJTC is applied for and its benefits utilized within Borg-Warner Security Corporation shows how the program's good intentions can be corrupted. Borg-Warner, based in Chicago, describes itself in its annual report as the world's largest security company. It provides guard, armored truck and alarm services through its subsidiaries Wells Fargo, Burns and Globe. Borg-Warner also owns the nation's largest courier service, Pony Express Courier Corporation. Borg-Warner is a large recipient of TJTC benefits. In 1987, Borg-Warner Protective Services represented 1.5 percent of all TJTC certifications issued nationally. At that time, 16 percent of Borg-Warner's workforce had been hired under TJTC. By the company's own account in testimony before Congress, "Few, if any, major employers are as active in recruiting and retaining TJTC-eligible workers."[2]

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[1] While the program does not involve a direct payment by the federal government, the credit counts as a tax expenditure, that is, taxes foregone. This is as if the company had made an appropriate tax payment and the federal government had sent a portion of it back.

[2] Testimony of Dr. Joseph W. Arwady, Director of Performance Management for Borg-Warner Protective Services, before the House Subcommittee on Select Revenue Measures of the Ways and Means Committee, 1988.

Borg-Warner serves as a good case study for two further reasons. First, the Teamsters Union represents roughly 4,000 employees of Pony Express, one of several Borg-Warner entities that take advantage of the program. Many Pony Express employees qualify under TJTC, and many more were required to take a TJTC phone qualification examination by the company. Our relationship with these employees, as their collective bargaining representative, has enabled us to construct a detailed profile of how TJTC is used and its goals implemented—or not implemented—within the Borg-Warner family of companies. And second, Borg-Warner has itself examined its use of the TJTC. The Teamster members' experience and Borg-Warner's study provide interesting insight into the difference between what you may hear from companies whose profit levels are tied to continuation of the TJTC tax breaks and the day-to-day reality experienced by employees who were to benefit from jobs created under the program.

Achieving the TJTC's goal of providing jobs for people who would not otherwise be hired requires active recruitment as outlined above. However, if Pony Express recruits, it does a good job of hiding this from the employees that applied for jobs with whom we have spoken. Instead, our members find out about job openings at Pony Express through normal channels—from relatives, neighbors, friends, or others in their community. The vast majority found out about the job openings through classified advertisements in newspapers.

Pony Express follows a hiring sequence in which TJTC screening is carried out either simultaneously with or after the hiring decision. This sequence is clear in the "Pony Express Employment Fact Sheet" which is appended to this testimony. The fact sheet states that after an applicant's driving record has been checked, after an application has been submitted and after a quick screening, the applicant may be called in for an interview. If the applicant passes the interview and a driving test, <u>then</u> the next step is:

> A telephone interview with an employment specialist. This has no bearing on your job status; however, should you meet certain criteria, we may ask you to make a stop at ______ Job Service. This interview is for a Federal program called Targeted Jobs Tax Credit in which PECC is involved.

After they are hired, many employees are then asked to call a toll free number and answer questions about their personal financial background. Many of our members were told at the end of their phone interview with the consultant that they did not qualify for the program, and yet they were still hired. The timing of these calls varied considerably. Some report that they were asked to make the call immediately after being hired; others told us that they were not asked to do so until some time later. For Pony Express driver Burton Ray of St. Louis, TJTC screening was clearly an afterthought. He explains:

> Approximately one week after I began working, someone in the office asked me if I was a veteran. When I said yes they asked me to come to the office and talk to someone over the phone. The person on the other end of the phone verified all of my personal information and asked about the length of time that I served in the military service and my service number. The person told me that I did not qualify for the program.

The TJTC program's goal is "encouraging people to hire needy youths, and disabled SSI beneficiaries and other categories of people who frequently have difficulty finding jobs."[3] However, at Pony Express, that goal is not being met because TJTC-qualified applicants are neither recruited nor referred by state or other employment services, and are not favored by Pony Express in the applicant pool. As far as we can tell, they would have been hired anyway. This experience squares with findings of the Department of Labor's Inspector General, who found that only 8 percent find their job with the help of an employment agency; that in 86 percent of the cases employers determine the TJTC eligibility after a job offer has been made, and in 92 percent of the cases, the people hired would have gotten the job anyway.[4] Since the Pony Express does not know at hiring time whether an applicant might qualify, the prospect of being favored cannot apply.

Once on the job at Pony Express, the poor quality of the jobs is a major factor undercutting the TJTC goal of enabling needy job applicants to work their way into a long-term place in the workforce. Pony Express employees receive little or no training, face adverse working conditions and receive poor wages and few benefits.

These poor working conditions are relevant to an evaluation of TJTC for two reasons: first, they illustrate the kind of employment conditions favored by at least some TJTC companies; and second, these poor working conditions promote high turnover which is a key structural defect in TJTC. Attached affidavits tell of the drivers' experiences with TJTC and the working

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[3] "Legislative History," P.L. 95-600, p. 131.

[4] Report, "Targeted Jobs Tax Credit Program: Employment Inducement or Employer Windfall," Aug. 18, 1994, U.S. Department of Labor, Office of Inspector General.

conditions they faced after hiring.

Workers report "garbage working conditions," "atrocious" vehicle maintenance, being "forced to drive in winter with bald tires, no chains, and with hazardous cargo" such as "petri dishes that break, urine and blood samples that break and begin to stink." Training is minimal or nonexistent, and employees report that the only instruction they receive on handling hazardous materials consists of a take-home test they are handed, along with a set of answers, to fill out. Some workers at some locations report that they were instructed by their supervisors to sign a paper saying that they had received training, even though no training had been provided. The attached report What is Pony Express Delivering? details these and other problems reported to us by Pony Express couriers across the country.[5]

Pony Express' Employment Fact Sheet makes no pretense that employment conditions are anything but bare bones: "There are no medical benefits, paid holidays, vacation days or sick days." It comes as no surprise that the company's low wages, little or no training, and little prospect for wage increases or promotion produce extremely high turnover. According to Borg-Warner's figures, turnover at Pony Express during the first six months of this year was 69 percent.[6]

Under TJTC, employers receive the 40 percent tax credit on the first $6,000 paid to qualified employees who are employed for a minimum of 90 days or 120 hours. Other things being equal, this formula ultimately yields greater rewards for companies with the highest employee turnover. To illustrate, let's say that an employer—Employer A—hires 100 qualified individuals who remain employed by the company for several years. Employer A would receive a one-time tax credit in the first year of $240,000.

A second employer—Employer B—also starts out by hiring 100 qualified individuals and receives the same $240,000 in tax credits once the workers have been employed for 90 days or 120 hours and have reached $6,000 in earnings. But in our hypothetical case, Employer B pays its workforce only $5.00 an hour and creates such poor working conditions that half of the workers leave soon after the employer has reaped the benefit of hiring them. Employer B then hires another 50 qualified employees and starts the clock running on those employees, eventually receiving another $120,000 when they pass 90 days or

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[5] What Is Pony Express Delivering?, International Brotherhood of Teamsters, Summer 1994.

[6] Pony Express Courier Corp, 12-month Turnover Report, by district, month ending: June, 1994.

120 hours and $6,000 in earnings. With each new cycle, Employer B gets more tax relief as the reward for creating marginal, throwaway jobs that drive a high percentage of workers out.

The examples are hypothetical, but the numbers are not entirely fictional. The turnover at Employer B is a reasonable parallel to Pony Express' actual turnover rate of 69 percent for the first six months of 1994.

The TJTC tax relief that goes to a good employer like Employer A seems to be a worthwhile investment; these workers are off the unemployment rolls and building a long-term place in the workforce.

The investment in Employer B, however, is a very different matter. The more workers that Employer B can turn over, the greater the tax benefit. If Employer B also happens to be a competitor of Employer A, the damage is even worse. In that case, Employer A is under pressure to cut costs by paring away wages and benefits. The net result can be erosion of good jobs and wages for the whole industry.

Because of the lack of accountability in this program, we do not know the precise dollar total of the tax breaks that are flowing to Pony Express and other Borg-Warner entities. We do know that Pony Express screens extensively for TJTC and that many of our members who are employed at Pony Express fit the profile of those who are meant to be served by the program. We also know that Pony Express business practices, including its extraordinarily high turnover, fly in the face of the program's goals and of the nation's interest in spurring the creation of good jobs for its people.

The company that Pony Express workers have described to us—and which receives federal tax breaks through the TJTC program—could fairly be characterized as a sweat shop without walls.

Borg-Warner's Claims

In 1989 Dr. Joseph W. Arwady, Borg-Warner's Director of Performance Management, testified before the House Subcommittee on Select Revenue Measures of the Ways and Means Committee, calling for permanent extension of TJTC. He drew his recommendations from his lengthy report, Wage Subsidies and Jobs for the Disadvantaged: Applying the Targeted Jobs Tax Credit in an Operating Environment, which he described as the only study done in a single employer setting up to that time. On the basis of our study of the same employer at a later time, we urge that the program either be substantially reformed or eliminated. This comparison illuminates a wide gap between company and employee perspectives.

For example, in his 1989 testimony, Borg-Warner's Arwady asserted: "We pay TJTC workers very well."[7] In fact, Pony Express workers average a little more than $5.00 an hour. Many are required as a condition of employment to use their own vehicles or to enter into expensive leasing arrangements in a scheme that nets them less than the minimum wage, when under-compensated automobile expenses are factored in.

Borg-Warner also testified: "...the people that we put a uniform on have to look sharp, be there on time, and execute without mistakes, or we lose accounts. So we are very rigorous in the way we train and counsel these people, as well as in the selection process."[8] But Pony driver Ron Bloom, who routinely delivers caustic and toxic substances such as bleach, cleaning solutions and degreasers, says "I did not receive training on how to transport these materials."[9]

Borg-Warner claims that TJTC "is also a retention program." In Wage Subsidies Arwady devotes considerable attention to this topic. He writes, "The best way to retain workers is to accommodate their interests by providing opportunities to earn overtime pay, periodic pay increases, and convenient work locations and hours."

We do not dispute that such practices would go a long way toward encouraging retention. Unfortunately, none of these principles are practiced at Borg-Warner's Pony Express subsidiary. The drivers are denied overtime pay; even though many of them regularly work 50, 60, or more hours per week, all of those hours are compensated only at straight time pay averaging $5.50 per hour. Hobert Currie has worked at Pony Express for 11 years with no pay increase. Drivers in Chicago have actually had their pay rates cut over the past several years. Nor do Pony Express drivers have "convenient" working hours. This spring Robert McCabe was sent out of Pittsburgh on a 340 mile delivery—after he had already worked for 24 hours straight. He fell asleep at the wheel, careening over a 40 foot embankment. Pony Express suspended McCabe for five days for getting into an accident and later fired him.

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[7]"Targeted Jobs Tax Credit," hearing before the subcommittee on select revenue measures, House Ways and Means Committee, Serial 101-51.

[8]"Targeted Jobs Tax Credit," hearing before the subcommittee on select revenue measures, House Ways and Means Committee, Serial 101-51.

[9]Affidavit, attached to this testimony.

As already noted, TJTC serves to discourage employee retention. Does TJTC cause this turnover? Does Borg-Warner attempt to churn employees through poor working conditions and low wages in order to maximize its tax credit? Is there deliberate abuse of this program? Certainly this hypothesis cannot be ignored and the company must be held accountable.

Driver Burton Ray voices a view shared by many drivers from across the country when he says, "There is a lot of turnover at Pony Express because management has made it clear that they do not care about their employees." Another driver, who participated in a strike to protest the company's unfair labor practices, asked a Pony Express manager, "How do you expect us to earn a living on these wages?" The manager replied, "We don't expect you to earn a living."

Several agencies are currently trying to hold Pony Express accountable in other areas of its operating practices:

* House Banking Committee Chairman Henry Gonzalez and other members of Congress asked the Federal Reserve to investigate the security standards Pony Express applies in its handling of checks and other financial documents.

* The Federal Reserve Inspector General in Washington is personally supervising the investigation.

* The Department of Labor is looking into possible violations of the Service Contract Act as it applies to Federal Reserve contracts with Pony Express.

* The National Labor Relations Board filed a nationwide complaint against Pony Express and is currently prosecuting 220 separate charges of unfair labor practices against the courier company.

Other Miscarriages of TJTC

This testimony draws chiefly from our knowledge of Borg-Warner's Pony Express subsidiary, but there is no reason to believe that this corruption of TJTC's goals is an isolated example. Our members' experience with TJTC at Pony Express is echoed by other labor organizations' experiences with the program elsewhere.

For example, the Service Employees International Union reports that the program was used in tandem with a state tax incentive program to create poorly paid, marginal jobs which replaced good jobs in Pennsylvania. The state's Department of Public Welfare developed a plan requiring contractors to make a good faith effort to fill at least 25 percent of new or vacant jobs with qualified public assistance recipients. In exchange, contractors could receive up to $6,000 in state and federal tax credits over three years for each public assistance recipient hired. Tax credits were provided through TJTC and Section 1701a of the Pennsylvania Tax Reform Code of 1971.

Under this program, contract cleaning service workers at Haverford State Hospital, represented by SEIU Local 36, were replaced by workers recruited from the welfare rolls. Local 36 had successfully negotiated a contract with Service Master to perform the cleaning services at the state hospital. These SEIU members had worked under this contract for three years, during which time they had won wage and benefit increases.

When the contract came up for renewal, a nonunion company named Associated Cleaning Consultants and Services, hired public assistance recipients off the welfare rolls and, with the help of the government-provided tax credits, underbid the union contractor. Twenty SEIU members lost their jobs as a result.

Since the contract was up for renewal, the positions were considered "new or vacant jobs," even though union members had been performing these services for three years. Those 20 SEIU members were clearly displaced from their jobs, but the non-displacement provisions of the law could do nothing to protect them.[10]

The AFL-CIO has taken a stand in favor of terminating TJTC. According to AFL-CIO congressional testimony : ". . . the TJTC has failed at its primary mission and has benefited a handful of employers at the expense of the Treasury and American workers." In 1985 the AFL-CIO testified before the Senate Finance Committee Subcommittee on Savings, Pensions and Investments, urging that the program be allowed to expire. They listed their concerns as, "the windfall tax gain provided to employers who would have hired a targeted employee without the credit and yet obtained the tax savings, the displacement of nontargeted but no less needy workers and the loss of revenue to the Treasury of $500 million a year in a time of soaring deficits and savage budget cuts in domestic programs."[11]

Policy Recommendations

The TJTC program's goal of encouraging decent, stable employment for underprivileged groups is one we all should support, but the

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[10] Analysis provided by Peggy Kelly, Policy Department, SEIU, Sept. 15, 1994.

[11] Statement of AFL-CIO before the Senate Finance subcommittee on savings, pensions and investment on S. 1250.

program, as currently structured, is failing to carry out this goal. Unless the program is substantially reformed in a way that makes the employers who reap its benefits accountable, the program must be ended. As currently constituted and operated, TJTC is little more than a welfare program for the worst employers that actually discourages the creation of good jobs with a future.

We believe that the program should only be retained if the following five problems are adequately addressed:

PROBLEM #1: The TJTC Program does not create employment for individuals who would not otherwise be hired.

Our members' experience provides supporting evidence to the Department of Labor Inspector General's audit finding that TJTC hires would have been hired anyway. Again, many are tested for TJTC qualifications only after they are hired. This testing is often done by a consultant, much the same way that a good tax accountant will try to find tax breaks for an individual after the tax year has ended.

RECOMMENDATION: Post-hiring voucher requests must be prohibited, with enforcement to ensure such post-hiring certification is eliminated completely from the program. This prohibition should be coupled with a requirement that companies applying for the tax credit provide evidence that they have carried out appropriate recruiting to identify qualified applicants.

The tax credits that would be lost would be those that should never have been granted in the first place.

PROBLEM #2: The TJTC encourages high employee turnover.

Pony Express employee turn-over from January to June of 1994 of 69 percent cannot be justified under any circumstance. In fact, the TJTC discourages employee retention.

RECOMMENDATION: The hired time requirement for TJTC should be changed to one year or 520 hours.

While employers may contend that the kind of person served by this program is disinclined to work at any job for that period of time, we believe that the problem involves the quality of the jobs. Rather than blaming the victim, employers should be encouraged to create jobs that will attract and keep workers. In his 1989 testimony Arwady spoke of the company's success at responding to a change in requirements. He said, "We were able to manage that [change in requirements]. We were able to build rapport and hold on to people longer in order to get the certification . . . ."[12] We believe that if it were to the company's financial advantage to do so, they would again manage to encourage retention. Employers should be rewarded for retaining employees, not turning them over and out.

PROBLEM #3: The kind of jobs that gain this credit are low-wage positions that offer few or no benefits.

The companies using this credit read like a Who's Who of dead end employment. The DOL audit notes that the TJTC "provided the majority of participants entry-level, low-paying, low-skilled part-time jobs which do not offer benefits."

RECOMMENDATION: Raise the base salary requirements, while lowering the percentage rate; for example, rather than offering the credit of 40 percent on the first $6,000 of earnings, offer 24 percent of the first $10,000.

This change would not effect the amount of the credit, which would remain $2,400. However, it would encourage employers to hire eligible employees at a higher wage.

RECOMMENDATION: TJTC should only be made available for jobs that offer full medical benefits.

PROBLEM #4: Lack of oversight and accountability.

The Department of Labor, through its State Employment Security Agencies, certifies whether particular individuals are qualified candidates for TJTC credits. The Internal Revenue Service grants particular companies large tax subsidies. However, there is virtually no oversight of a particular company's use of the TJTC, barring an IRS audit, which even then would be unlikely to turn up such potential problems such as whether a company may intentionally create turnover in order to gain more credit.

Because the TJTC is a tax program, the records of the company are confidential IRS records. Interested parties, whether they be concerned nonprofits, labor unions, employees, or taxpayer groups, cannot gain access to these records. This confidentiality and lack of oversight provide an informational black hole which works to the advantage of employers who may be abusing the program and to the detriment of workers and taxpayer advocates wishing to make the company accountable for how it uses the subsidy.

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[12] "Targeted Jobs Tax Credit," hearing before the subcommittee on select revenue measures, House Ways and Means Committee, Serial 101-51.

RECOMMENDATION: A specific office should be created within the Department of Labor Employment Training Administration to monitor TJTC use and determine the company's eligibility to receive the benefit of this program. Violations of EEO, OSHA and other applicable federal laws can be grounds for denial or revocation of a company's eligibility for program benefits.

This would constitute a kind of "good employer" test to build in incentives for employers to further the stated goals of the program and operate within federal laws and regulations. This tax credit should be available for good employers that demonstrate commitment to the program's goals through meaningful training, decent wages and benefits, and lawful operations. It should not be available for continued misuse by bad employers that subvert its purposes and even exploit the very people whom the program was designed to help.

Conclusion

We all recognize that good jobs are the foundation of a healthy economy. Labor Secretary Robert Reich has used his position as an advocate to articulate the concern that is shared by working people and business people alike that we build a future of high skill, high wage work.

Some people argue that a bad job is better than no job at all, and that companies like Pony Express would go out of business if not for the help of programs like TJTC or if they were forced to pay better wages or provide training for workers. Pony Express jobs pay low wages because they are low-skill jobs, the argument goes.

We believe that the example of UPS contradicts this kind of thinking. Like Pony Express, UPS delivers time-sensitive packages. UPS invests in its workforce with good wages, good benefits, and training. UPS has grown to be the largest overnight package delivery service in the world. Pony Express is part of a multi-million dollar corporation, Borg-Warner, and is itself the largest courier company in the country. There is no reason to believe that jobs at Pony Express could not be good jobs. And if they cannot become good jobs, there is no reason to believe that it would be in the nation's interest to reward Pony Express for creating bad jobs. Our tax resources would be better invested with companies that have the will and the ability to create the good jobs on which our nation's future depends.

Good jobs do not come from nowhere. They do not come about by accident and we cannot rely solely on the goodwill of employers to make them happen. We can, through creative use of incentives and enforcement build a system of incentives that makes creating decent jobs in an employer's self-interest. The current Targeted Jobs Tax Credit is all carrot and no stick, and without drastic change to make employers accountable for their use of this benefit, it will continue to fail those it is meant to help.

If we cannot build in such accountability, we must dismantle the program. For we will never in a million years create good jobs for our nation's future until we stop rewarding employers for creating bad ones.

BAKER INDUSTRIES

Pony Express Courier Corp.

2325 S.E. 10th Street, Portland, Oregon 97214
(503) 238-2943

EMPLOYMENT FACT SHEET

Thank you for your interest in employment opportunities at Pony Express Courier Corp. (PECC). Due to the peculiarities of our operations, this fact sheet has been prepared for your information prior to receiving an application.

1. PECC does not initially hire full-time employees. PECC hires employees to work up to 50 hours a week. Routes vary from four hours to eleven hours a day, Monday through Friday. There is limited weekend work available. These openings are for courier guards involving pickup, transportation, and delivery of items for regular customers. Uniforms and vehicles are provided.

2. There are no medical benefits, paid holidays, vacation days, or sick days. ?

3. The starting wage is $5.50 per hours. After 90 days $6.00, then after a 180 day review, $6.25. It is a state law for "Courier/Guard's" to be paid regular pay over 40 hours rather than the normal time-and-a-half.

4. Employee Vehicle Lease Opportunities - PECC has openings for company employed individuals. These people lease their own vehicle to service one of our routes. The rate of pay is determined by the hours, miles, type of vehicle used. The range is $300 to $450 per week. ?

5. Good driving skills are a must. ? A road test is required before you can be hired. Currently, we are not employing anyone who cannot drive a panel van. ?

6. You must possess the cabibility of lifting and carrying up to 75 lbs. Some items are bulky and difficult to handle.

7. General routing knowledge of the Portland metro area is necessary. Detailed knowledge is better.

8. Much of the workday takes place away from direct supervision. If you are a responsible and self-motivated individual, you would enjoy being a PECC Courier/Guard.

9. The work is interesting, varied and very people-oriented. We are looking for employees who will develop and maintain a pleasant rapport with the customers.

10. Because of the time-sensitive nature of our business, we are looking for individuals with a past work history of no tardiness, and a very low rate of absenteeism.

11. There is no personal time off granted during the 90-day probationary period. After the probationary period, personal time off can only be arranged one month in advance (by written memo). Approval/disapproval is based on operational consideration. Because of the increased customer commitments, there is no time off granted during the holiday season (November 15th-January 21st). Everyone has Thanksgiving Day, Christmas Day and New Years day off.

12. It is the policy of Pony Express Courier Corp. to hire people who are 21 years of age and over.

13. Before your employment can commence, you will be required to give the company your consent to request a check of your driving record. Forms for this are available at time of hire. PECC will then scrutinize the MVR and compare it to your employment application. If the information presented is correct and acceptable, then your continued employemnt with this company will being You must present a valid OREGON drivers license.

14. Once your application has been turned in, you may receive a quick screening. you will be notified by phone should we have routes opening up and an interview would be scheduled then. Should you pass the interview, the next steps go as follows:

    A. A driving test will be administered.

    B. A telephone interview with an employment specialist. This has no bearing on you job status, however, should you meet certain criteria, we may ask you make a stop at Portland Job Service. This interview is for a Federal program called TARGETED JOBS TAX CREDIT in which PECC is involved.

    C. Uniforms will be issued and you will be instructed when to report to work.

    D. Paychecks are issued on Friday, for the previous weeks pay.

Again, thank you for your interest in PECC. After having read the above should you desire to apply for employment with PECC, please sign below.

I acknowledge that I have read and understand the above information.

NAME: ______________________ DATE: ______________________
Signature of Applicant

County of Allegheny
State of Pennsylvania

Affidavit of Ronald C. Bloom

1. I state that my name is Ronald C. Bloom. I have been employed as a Pony Express Courier since January 1, 1992. I work 55 hours per week on the average.

2. I answered an advertisement in the newspaper and went to Pony Express to fill out an application. Approximately six months later Pony Express called to hire me. I went to the Pony Express office and watched an orientation film, etc. After the orientation, I was handed the phone and told to answer the questions asked. The person who handed me the phone told me that I had the job but that the questions were necessary anyway. I answered the questions.

3. In January 1994, I slipped and fell on the ice in the company's parking lot. I was lying there for 20 minutes calling for help. Finally, ~~another driver helped me get up and off of the ice.~~ RCB Pony Express had been warned of potholes and of the conditions in the parking lot. The Occupational Safety and Health Administration (OSHA) had warned Pony Express twice. Pony Express paid all of my health costs relating to the accident, even though I technically do not receive benefits as an employee.

4. In June 1994, on a hot day I began to sweat. As I bent over to lift a heavy box at work, my glasses fell off of my face and broke. The company refused to pay for the cost of my new glasses.

5. I use my own vehicle to make deliveries. I did not receive training before I started working.

6. I transport "Zep" and other cleaning products. They are transported in plastic drums which sometimes leak. These products contain bleach and other cleaning solutions. Sometimes I am asked to transport degreasers to butcher shops. These solutions have many chemicals in them. I did not receive training on how to transport these materials.

I state that the foregoing is true and correct to the best of my knowledge.

Ronald C Bloom
Signature of Affiant

I DID NOT GET UP
OFF THE ICE.
EMS PERSONAL &
EMPLOYEE'S AT THE
TERMINAL PlACE ME
ON A BOARD & PUT
ME IN AN AMBULANCE
RCB

Affadavit of
John Klotzbaugh.

Wilkinsburg, Pa.

I've worked for Pony Express for six and a half years. I found out about the job from a friend. I didn't hear about it at an employment office, or such thing. I heard about the jobs tax credit when I was hired. I was told to call this telephone number and they asked me questions such as if I'd been on welfare. The company basically hired me at the same time they had me make this telephopne call.

I work vary long houre. I carry checks between banks and the Federal Reserve. I also carry harazdous material, often at the same time.

The company has shoddy vehicle maintenancve. Venichles come back from the garage with the same problem they went in with.

Signed

John Klotzbaugh
John Klotzbaugh

Notarized by

Judith A. Sustar

Notarial Seal
Judith A. Sustar, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Feb. 3, 1997

County of Cook
State of Illinois

Affidavit of Felicia LaCour

1. I state that my name is Felicia LaCour. I am employed as a courier by Pony Express in Chicago, Illinois.

2. At the end of December 1993, I went to the Pony Express office to fill out an employment application. As part of the application, Pony Express took a photocopy of my MVR and my CDL. No jobs were available at the time but the person in the office invited me to call back in a few months.

3. In April 1994, I contacted Pony Express about a job and they asked me to come into the office for an interview. Randy Maynie interviewed me and asked me to go downstairs to fill out a few forms. While I was downstairs Wendy, a Pony Express worker, told me that she was dialing an 800 phone number and that the person on the other end would be asking me a few questions. Wendy also told me that I had to be approved before I could be hired.

4. The woman on the other end of the 800 phone call was named Evelyn. She asked me if I had ever served in the military or received public assistance, or if I was currently receiving public assistance. After I answered her questions she told me that I did not qualify for the tax credit.

5. I told Wendy that I did not qualify for the tax credit. She told me that I was hired and she gave me a uniform shirt. I began work the next day.

I state that the foregoing is true and correct to the best of my knowledge.

Felicia M. LaCour
Signature of Affiant
This 13 Day of Sept 1994
Bonnie Edwards
Signature of Notary Public

OFFICIAL SEAL
BONNIE EDWARDS
NOTARY PUBLIC STATE OF ILLINOIS
MY COMMISSION EXP. AUG. 14,1998

County of Kanawha
State of West Virginia

Affidavit of Jeff Naylor

1. I state that my name is Jeff Naylor. I have been employed as a Pony Express courier since January 1994.

2. I filled out an application and was hired. I watched a training film and filled out other paperwork. I was handed the phone and answered questions from the person on the other end, which I did. I began work later that week.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Kelli Shamblin
Signature of Notary Public

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
KELLIE S. SHAMBLIN
TEAMSTERS LOCAL 175
P. O. BOX 4405
CHARLESTON, WV 25364
My Commission Expires May 12, 2003

Affidavit of Jeff Naylor
County of Kanawha
State of West Virginia

1. I state that my name is Jeff Naylor. I h ave been employed by Pony Express since January, 1994.

2. As a Pony driver, I carry a range of material, including biohazardous waste, drugs, financial documents including checks, etc. I drive to banks and the Federal Reserve. Sometimes there are spills. The company does not supply the proper equipment to keep everything settled down.

3. I also served in the Army as a communications maintainer. I served in the Persian Gulf war. I met Gen. Schwarzkopf at King Faud International Airport. We called it Camp Eagle II. He seemed like a pretty good guy, someone concerned with the soldiers.

4. I like working for Pony, because I think it would be a good career. I like driving. But the company doesn't treat us very well. I make $4.75 an hour with no benefits. I work between 20 hours and 55 hours a week. I don't think the company is run correctly. The company doesn't care about us. I'm not so sure about Gen. Schwarzkopf anymore.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
KELLIE S. SHAMBLIN
TEAMSTERS LOCAL [illegible]
P. O. BOX [illegible]
CHARLESTON, WV [illegible]
My Commission Expires May 12, [illegible]

County of Clearfield
State of Pennsylvania

Affidavit of Frederick Painter

1. I state that my name is Frederick Painter. I have been employed by Pony Express as a courier since June 1992.

2. I found out about Pony Express through my friend who was a lead driver. I filled out an application in May 1992. In June 1992, my friend called the Pony Express office and put me on the phone. The person on the other end asked me for some information to identify myself and then asked me about my financial background and whether I had ever received public assistance or served in the military. I answered the questions and started work a couple of days later.

3. The pay is terrible. In 1992 I started working for $5.25 per hour. Two years later I am earning $5.75 per hour.

4. The vans are in poor condition. Many have no heat or air condition. Also, the company doesn't train the drivers.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public

County of St. Louie
State of Missouri

Affidavit of Burton Ray

1. I state that my name is Burton Ray. I was hired as a courier by Pony Express in June 1990.

2. For two years prior to joining Pony Express I was employed as a janitor by a church. When the church laid me off due to cutbacks, a church member suggested I contact Pony Express for employment. Someone told me that I needed my chauffeurs license for employment with Pony Express so I obtained it before I went to fill out an application with the company.

3. I went to the Pony Express office and filled out an application. I was handed a quiz on driving. The quiz appeared to be a federal form from the U.S. Department of Transportation and had approximately sixty-six questions on it. The people in the office also gave me a copy of a book that contained the answers to all of the questions. I completed the quiz there.

4. I was hired and began work the following week.

5. Approximately one week after I began working, someone in the office asked me if I was a veteran. When I said yes they asked me to come to the office and talk to someone over the phone. The person on the other end of the phone verified all of my personal information and asked about the length of time that I served in the military service and my service number. The person told me that I did not qualify for the program.

6. The working conditions are terrible at Pony Express. There is no safety equipment. If you have to lift something that requires a forklift or other machinery, you must do it without the equipment or lose your job. Nothing is available for the vehicles -- not even an ice scraper.

7. You never know what you're carrying at Pony. The packages do not contain labeling. Sometimes the packages are marked, "Hazardous" but we are never told what they contain that makes them "Hazardous." Sometimes the packages leak but you can't be sure what is leaking. Sometimes when the packages are unloaded in Kansas City, they have an odor which becomes irritating to drivers.

8. There is a lot of turnover at Pony Express because management has made it clear that they do not care about their employees. Pony Express couriers are paid by the hour and the company has stated that no courier may work more than sixty hours per week. The exception is when a job comes up unexpectedly. Then, Pony management will allow couriers to go over sixty hours. There has always been more concern for the package and the delivery than

there is for the person. Also, there are no pay increases at Pony Express. When I was hired in October 1990, I was making $6.25 per hour. After ninety days I made $6.75 per hour. Today, nearly four years later, I am still making $6.75 per hour. I am told from the men and women recently hired that they are paying new couriers $6.00 per hour. The company is trying to replace us with people who they can pay less.

I state that the foregoing is true and correct to the best of my knowledge.

Burton E. Ray, Jr.

Signature of Affiant

Subscribed and sworn to before me this 13th day of September, 1994.

Helen L. Fields

Signature of Notary Public

HELEN L. FIELDS Notary Public
STATE OF MISSOURI CITY OF ST. LOUIS
MY COMMISSION EXPIRES 4/13/97

County of Allegheny
State of Pennsylvania

Affidavit of Tony Silvagni

1. I state that my name is Tony Silvagni. I was first hired by Pony Express in May of 1993. I quit at the end of August in 1993 when my hours increased at a better job at the University of Pittsburgh Medical Center. Then a month later my hours were decreased again, so I went back on 11/16/93. I went to Pony the first time because I saw an ad in the newspaper.

2. My first interview was very laid back, not too many questions. They wanted to know about prior driving experience, and I didn't have any. I explained about the job at the hospital. There was a position open for six weeks while someone was on disability.

3. After I was hired, on my first day of work, they told me to come in an hour early. My supervisor dialed a number and I talked to a women. She asked me my social security number, age, name, address, whether I was a veteran, was I ever on welface, did I ever get unemployment compensation. I thought that was strange, that's why I remember. She asked me about my other job and what the salary was. I told her I was making $8.50 an hour, and she said, "Oh, that much." She asked if I was single or had dependents. I thought it was somebody in Pony Express in Charlotte that needed something for payroll information. After I was done I gave the phone back to my supervisor and he talked for a minute.

4. There was a lot of turnover in Pittsburgh before we voted in the union; now people seem to be staying to see whether we're going to get a good contract. The low pay is the biggest factor. The ten and twelve hour routes are very long and difficult - with 40 of 50 stops on them. The vehicle equipment wasn't good at all, and it was hard to find parking. It was very disorganized. The dispatchers gave the cold shoulder to the new people. Your first month there they didn't really want to deal with you.

5. I've transported blood, urine and other materials from a pathology lab. We had no training on handling these materials. When I worked at the medical center we got training on this every six months. At Pony there was no orientation.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public

Notarial Seal
Judith A. Sustar, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Feb 3, 1997

County of Allegheny
State of Pennsylvania

AFIDAVIT of Dean Sladick

1. I state that my name is Dean Sladick. I've been working at Pony, as a courier and in the warehouse, for two years and two months. I found out about the job through an ad in thepaper.

2. I filled out an application, and about two weeks later they called and I went in ofr an interview. Then I was hired and watched the training tape. Then they called a number and a lady on the other end asked a couple of questions, I can't recall exactly what they were. There was something about whether I was a veteran, and if I was ever getting any kind of assistance.

3. There's a lot of turnover at Pony because the pay is so low, the average is only about $5.50 to start. Some of the older vehicles weren't in good shape.

I state that the foregoing is true and correct to the best of my knowledge.

Dean S. Sladick
Signature of Affiant

Judith A. Sustar
Signature of Notary Public

Notarial Seal
Judith A. Sustar, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Feb. 3, 1997

County of Clearview
State of Pennsylvania

Affidavit of Greg Thompson

1. I state that my name is Greg Thompson. I have been employed by Pony Express as a courier for approximately [illegible] years.
A HOME OF A LEADER COURIER GAURD (GT)

2. I found out about the company through a person who used to work there. I went to ~~the Pony Express office~~ and filled out an application. After checking my driving record the company called me a couple of weeks later to tell me that I was hired. While I was on the phone with them I was connected to a person in Atlanta, who asked me questions relating to whether I had ever received public assistance. I spent three or four minutes on the phone, answering the person's questions.

3. There is a lot of turnover at Pony Express. Drivers are fired for petty things.

4. Pony doesn't take good care of their vans. In one of the vans I was given to drive, I could see the ground through the bottom of the van. The tires are poor. I was assigned a van that had not been inspected for some time. When the police stopped me I explained to them that it was a company van and they sent a citation and fine to Pony Express for failure to have the vehicle inspected.

I state that the foregoing is true and correct to the best of my knowledge.

Greg Thompson
Signature of Affiant

Signature of Notary Public

County of Cook
State of Illinois

Affidavit of Lamont Wallace

1. I state that my name is Lamont Wallace. I have been employed as a courier by Pony Express for approximately one year.

2. Approximately one year ago, I went to Pony's offices and filled out an application for employment. I went home and waited for Pony to check my driving record. The people at the Pony office misplaced my application so they asked me to come back and fill out another application. I did so. They asked me to call them back in one week to check on the status of my application.

3. I called them back one week later and they told me I was hired. They told me to come in for orientation and to discuss topics such as starting pay.

4. When I returned to the office I watched a 45 minute orientation tape. At the tape's conclusion, I was asked to dial an 800 phone number. The woman on the other end asked me questions relating to my financial background and to my potential veterans status. After answering the questions, she told me that I did not qualify for the program.

5. I started work as a Pony Express courier the next day.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public

Sept 7, 1994

"OFFICIAL SEAL"
MARY NAILS
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES

County of Allegheny
State of Pennsylvania

Affidavit of Robert Valentine

1. I state that my name is Robert Valentine. I have been employed as a Pony Express courier since June 1993.

2. I went to the Pony Express office to fill out an application. I was hired. I was then asked to call an 800 phone number and answer the questions on the other end. The questions dealt with whether I was on welfare; had a medical disability; take medications; and my race. I answered the questions and the person on the other end of the phone told me I was not qualified. I was hired anyway.

3. After I worked 90 days I became a full-time employee and received full benefits.

4. I am given the Saturday route often. On these days I deliver to and from hospitals and laboratories and drive approximately 330 miles during the course of a 12 hour shift. I did not receive any training on how to handle materials picked up at the hospital. Instead, I was given a pamphlet and asked to sign a piece of paper. Also, the hospital does not provide instructions on how to handle their samples.

5. When I go to hospitals to transport materials I am given blood and urine samples which are not packaged. They are placed in vials, which are then placed in legal size envelopes that are not sealed. On rare occasions, the hospital puts some of the samples in plastic baggies with hazard signs on them.

6. On one occasion the urine sample popped open and spilled on my shoes as well as on the floor of the van.

7. On my route at Kaufman's I am forced to transport boxes and other materials found behind the store. The store maintains a cafeteria and dumps its grease on the loading dock where materials are picked up and dropped off by Pony Express couriers such as myself. I twice warned my supervisor, Richard Kerr, that the loading dock was a hazardous area. On October 4, 1993, I slipped on cooking grease. On January 21, 1994, I had surgery as a result of the accident. My supervisor forced me to work against my doctor's orders. If you refuse to work you get sent home and are eventually fired.

8. I am currently receiving workmen's compensation for having picked up a box of 160 lbs. The company has a verbal policy that no worker lifts more than 125 lbs. I got hurt lifting a box that weighed approximately 160 lbs.

9. In June 1993, Mr. Sharp, a Pony Express assistant manager, was

told by some workers that there was a Penske truck with no brakes. Mr. Sharp sent a driver out with the truck and told him to use the emergency brake. Three hours later the driver hit a hillside because he had no brakes. Pony Express fired him.

~~10. I fell on ice in the company's parking lot and received workmen's compensation. The company was warned that it had to plow the parking lot and fix the potholes.~~

11. On two separate days this past winter, the Governor declared a state of emergency due to the condition of the roads. Pony Express forced its drivers to go out and drive those days.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public
16th day of Sept 1994

Notarial Seal
Judith A. Sustar, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Feb. 3, 1997

(10) I fell in Kaufmans loading dock causing me to go on compensation and have surgery on my left knee.

I also fell in the parking lot of Pony Express during the winter but no injury was present at that time. The company was told that it had to maintain the road.

County of Cook
State of Illinois

Affidavit of Darryl Walker

1. I state that my name is Darryl Walker. I was hired as a courier by Pony Express on Friday, August 12, 1994.

2. I went to Pony Express' offices on August 12, to fill out an employment application. After filling out the application, I was given a safety quiz. The topics asked about included driving questions and proper techniques for lifting heavy objects.

3. After the quiz I was informed of the starting salary and other work-related items.

4. I was hired.

5. I was asked to go downstairs. When I went downstairs Mr. Cornell Morgan asked me to dial an 800 phone number that he provided me with. The person on the other end of the phone asked me questions about my job history, military background, and financial background. After answering all of the questions, the person told me that I did not qualify for the program.

6. I was given a uniform. I began work on Monday, August 15, 1994.

I state that the foregoing is true and correct to the best of my knowledge.

Darryl T. Walker
Signature of Affiant

This 17 Day of 1994
Bonnie Edwards
Signature of Notary Public

OFFICIAL SEAL
BONNIE EDWARDS
NOTARY PUBLIC STATE OF ILLINOIS
MY COMMISSION EXP. AUG. 14,1995

County of Spokane
State of Washington

Affidavit of Jim Meloche

1. I state my name is Jim Meloche. I am employed by Pony Express. I have knowledge that Pony uses tires that are undersized for the weight of the vehicle and these tires are part of an experimental program sponsord by the tire company. It is my experience that these tires are creating a safety hazard and that they often throw the speedometer off by about ten miles per hour.

Jim Meloche

Signature of Affiant

Irene M. Orgill

Signature of Notary Public AUGUST 18, 1994

IRENE M. ORGILL
COMMISSION EXPIRES
NOTARY
PUBLIC
FEB. 19, 1998
STATE OF WASHINGTON

County of Bexar
State of Texas

Affidavit of Luis Morales

1. I state that my name is Luis Morales. I have been employed as a courier by Pony Express for six years.

2. I went to the Pony Express office and filled out an application. A person from the office called me back within two days and hired me. The company had retrieved my driving record from Austin.

3. At our branch there is an 85% turnover rate. I received a starting salary of $4.50 per hour. I worked for Pony for four years before I received a paid vacation. Aside from the pay and benefits, the turnover is large because the company has no concern for the workers and there is obvious favoritism -- certain people can get away with having long hair and certain people cannot, for example.

4. The vans are in poor condition. Many of the vans have at least 400,000 miles on them. Sometimes the horns don't work. The tires are always very worn. The doors don't lock and some don't shut completely. The company has four routes that deliver in town. The rest of the routes go out of town. Vans that appear unsafe stay on the routes working in town, so they don't break down far from the office. Vans that are in reasonably good condition are sent on out-of-town routes. The company also receives test vehicles, for which the company doesn't pay.

5. In San Antonio it is absolutely necessary that cars have air condition. There has not been air condition on any van for the past two years. That means that dust, etc. flies into the vans while driving. It also means that when the vans are stopped somewhere and the windows are kept open for ventilation purposes, the vans are completely unsecured.

6. I regularly pick up radioactive materials. There is never any paperwork -- just a packing slip. Our vehicles are unmarked and do not tell the public we are carrying hazardous materials. I am often asked to carry blood and urine samples that are contained in a cardboard box. The people I take the materials from are clothed in gloves and masks. They place the containers with hazardous materials into lead containers. I am not provided with gloves or masks and have to reach into these lead containers to retrieve the packages. At an army hospital on my route, I put a package down next to a Geiger counter and the counter started to tick. The radioactive materials that are driven from Dallas and Houston to San Antonio are placed in the middle of the truck so that if the driver is stopped, the police cannot see that the driver is carrying hazardous materials.

7. There is no workman's compensation available to Pony Express couriers in San Antonio. The company implemented its own plan with its own doctors and its own rules. The company also asked all couriers to sign a waiver stating that we would not sue the company.

I state that the foregoing is true and correct to the best of my knowledge.

Luis Morales Jr.
Signature of Affiant

ESMERALDA ROSS
Notary Public
State of Texas
Commission Expires 08/28/95

Esmeralda Ross
Signature of Notary Public

SUBSCRIBED AND SWORN TO BEFORE ME

THIS 11th DAY OF September

1994.

Esmeralda Ross
Esmeralda Ross

MY COMMISSION EXPIRES 8-28-95

County of St. Louis
State of Missouri

Affidavit of Angela Burle

1. I state my name is Angela Burle. I am employed as a driver for Pony Express. I was denied a sick day I requested during my pregnancy. I am often assigned to unload packages in excess of 150 pounds, although I am midway through my pregnancy.

Angela L Burle
Signature of Affiant

State of Missouri

Subscribed and sworn to before me this 10th day of August, 1994.

Helen L. Fields
Signature of Notary Public

HELEN L. FIELDS, Notary Public
STATE OF MISSOURI CITY OF ST. LOUIS
MY COMMISSION EXPIRES 4/13/97

County of St. Louis
State of Missouri

Affidavit of Jim Sylvester

1. I state my name is Jim Sylvester. I am employed as a driver at Pony Express. The 30 gallon garbage bags filled with bundled paper work and checks from the Federal Reserve and the Boatman's Bank are poorly tied and constantly fly open during delivery. I have had to retrieve these documents from the street after this has happened.

2. I have knowledge that Merrill Rayborn, another longtime St. Louis Pony driver, saw his hours cut from 58 to 17 in one week in the companies effort to hire more part time workers.

3. I have knowledge that Pony Express never paid Gary Bruce for about 130 hours that he worked. Bruce was ordered by Pony to punch off the clock and wait for a delivery from Chicago which he then had to deliver.

4. As an EVL driver, I am required to lease or purchase my own vehicle and pay the commercial registration, auto insurance, and car maintenance and repair bills. My compensation is $~~4~~.50/hour and $.17/mile. A bookkeeper, I asked to calculate it out for me, said that my auto expenses ate up 30% of my wages.

James Sylvester
Signature of Affiant

State of Missouri

Subscribed and sworn to before me this 10th day of August, 1994.

Helen L. Fields
Signature of Notary Public

HELEN L. FIELDS, Notary Public
STATE OF MISSOURI CITY OF ST. LOUIS
MY COMMISSION EXPIRES 4/13/97

County of Denver
State of Colorado

Affidavit of Joseph Palumbo

1. I state that my name is Joseph Palumbo. I have been employed by Pony Express as a courier for the last five years. I work between 55-60 hours per week.

2. I am currently receiving workmen's compensation due to a job-related injury. Pony Express owns pushcarts that are in need of maintenance. Many of these carts have wheels falling off of them. In my route that takes me to the Federal Reserve Bank I use these pushcarts to cart canceled checks into my vehicle. I have told my supervisors that these carts need repair. On June 17, 1994, while using one of these pushcarts with a loose wheel, I pushed the cart and the wheel jammed. The cart stopped and I injured my knee as a result. I had surgery on my knee on July 29, 1994.

3. Pony Express transports materials to and from the United States Postal Service. Pony Express does some work which requires use of USPS tubs and pushcarts. Pony Express has stolen these tubs and pushcarts for use during non-USPS routes. For example, one courier who regularly delivers library books to and from schools on a library exchange program, claims that USPS equipment is used for these deliveries, even though USPS work is not involved. At Pony Express' branch office there are USPS carts with ~~USPS~~ Pony route numbers written on them that are used for Pony Express work on routes other than USPS.

4. Pony Express pays me $8 per hour because I use my own vehicle. When my vehicle is being repaired and I use a Pony Express van, the company pays me $5 per hour. Temporary employees are paid more than $8 per hour for the same work.

5. This past winter (1993-94) Pony Express employed John Benoit to drive the route to Grand Junction (approximately 260 miles). During one blizzard, Mr. Benoit started to drive but the weather made driving hazardous. Mr. Benoit called the office to tell them of the conditions and to tell them he did not want to continue driving. The office threatened to fire him or discipline him if he discontinued the route. Mr. Benoit continued driving and subsequently slid off of the road, hit an embankment, and dented the back bumper. Two weeks later the company's supervisor asked him to sign an accident report. Mr. Benoit refused to sign the report so the company fired him.

I state that the foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Annette M. Casias
Signature of Notary Public

8/5/94

ANNETTE M. CASIAS
NOTARY
PUBLIC
STATE OF COLORADO

My Commission Expires May 31, 199[illegible]

County of Allegheny
State of Pennsylvania

Affidavit of William J. Rak

1. I state that my name is William J. Rak. I have been employed by Pony Express as a courier approximately one year and five months. I was told at the time I was hired that my position would become a full-time position within 90 days. I am not yet a full-time employee. I do not receive benefits or vacation pay. I do not recevie compensation at the rate of time and a half for all hours worked past forty. I work approximately 60 hours per week.

2. The vans that Pony Express has given us to drive around in are not in good condition. Some vans have over 300,000 miles on them. One day in the middle of my route the back doors of the van flew open and checks that I was carting from a Federal Reserve bank flew everywhere. I had to collect them from the ground.

3. In May 1994, Pony Express employed Robert McCabe as a courier. Mr. McCabe was a relief driver and drove the night shift. After two assignments where he drove nearly two days straight, his supervisor called him back in after dismissing him. The supervisor asked him to make another run of 340 miles. Mr. McCabe explained how tired he was, but the supervisor would not listen. Mr. McCabe fell asleep at the wheel and went over a forty foot embankment. Pony Express usually terminates employees for such accidents, however the company acknowledged it was their mistake for sending Mr. McCabe out. The company forced Mr. McCabe to sign documentation relieving them of any liability. Later, the company fired Mr. McCabe.

The foregoing is true and correct to the best of my knowledge.

Signature of Affiant

Signature of Notary Public

WHAT IS PONY EXPRESS DELIVERING?

International Brotherhood of Teamsters

WHAT IS PONY EXPRESS DELIVERING?

For its corporate image, Pony Express Courier Corporation borrows from history, playing on our memory of an adventurous enterprise running on the barest essentials: mail to deliver, strong horses, and young, wiry riders.

But reality is far less romantic. Today's Pony Express is a cog in a corporate wheel -- a wholly owned subsidiary of Borg-Warner Security Corporation, which is 47% owned by the giant investment bank Merrill Lynch & Co, and affiliated companies.

And for the nearly 5,000 drivers and other workers who do the work at today's Pony Express, reality is anything *but* romantic.

- Deliveries today include hazardous biomedical materials along with toxic chemicals and time-sensitive financial documents. Hazardous cargo is routinely mixed with regular packages, including financial documents such as Federal Reserve Checks and even, in at least one reported incident, candy deliveries.
- For their horses, the workers are given decrepit, and often unsafe, company vans -- or are forced to pay out of their meager paychecks to lease a vehicle, a system which keeps many of them below the poverty line while they work 50, 60, and more hours a week.
- Today's "riders" are workers like any others in their communities struggling to make ends meet and hoping for what every worker wants -- decent wages, a job with a future, health care, safe working conditions, and respect for their rights on the job.

What Pony Express workers face daily is a company that mistreats workers and customers through:

- Inadequate security
- Exposing employees and cargo to hazardous material
- Violating federal labor laws and safety and health regulations
- Failing to train couriers properly
- Poverty wages
- Little or no health insurance
- Dangerously long hours on the road, often without rest between shifts and with nothing but straight time pay for hours that routinely run to 50, 60, and more per week.

During the past two years, nearly 4,000 Pony Express workers have voted to join the Teamsters Union to begin to make their hopes a reality by negotiating a contract. But Pony Express is doing everything in its power to delay those negotiations, hoping that the workers will lose heart and abandon their efforts to improve wages and working conditions. The company harasses and fires workers who speak out and stand up for their rights.

Pony Express workers in many cities are out on strike over the company's unfair labor practices, and workers in many other cities are making strike preparations. The workers are taking their case to the people in the community at rallies and leafleting locations throughout the community, where they are asking for support in their struggle to rein in a company that is trampling not only on its workers, but also on its customers and the general public.

Adopted images are as unreliable for taking the measure of companies as they are for sizing up people. Companies, like individuals, should be evaluated on their actions. And in action, Pony Express today is an outlaw company that puts profits before its workers' basic rights and before public safety.

This paper recounts some of the stories that Pony Express drivers tell about the terrible and unsafe working conditions they have united to try to change. Their struggle to rein in this company's excesses is a fight in which everyone in their communities has a stake.

Pony Express Delivers...
Risk on the Road

Pony Express drivers carry everything from cancelled checks and payroll documents to hazardous biomedical lab samples and chemicals to heavy equipments parts. Some drivers tell of being required to handle hazardous materials and to clean it up when it spills with little or no training or protective gear. Others are forced to lift heavy, bulky cargo weighing as much as 200 pounds without any assistance or lifting equipment. Many drive company vehicles that are so worn and decrepit as to pose what the Oregon Occupational Safety and Health Administration has called a serious highway safety risk. Drivers complain that they are compelled to drive under extremes of fatigue and weather conditions that further multiply the risk factors for them and others who share the road with them.

Radioactive Cargo

Georgia. Some Pony Express Drivers in Atlanta claim that they are ordered to carry boxes of blood samples, urine samples, and radioactive substances to area hospitals and laboratories—with their bare hands.

When Pony drivers drop off hazardous packages—including boxes marked "radioactive"—they are received by hospital personnel wearing protective face masks and proper clothing. Pony Express doesn't even give its drivers a pair of gloves. Pony driver Melvin Banks and his co-workers say they have never received training from the company on how to safely handle these or any other hazardous materials.

Texas. Pony Express tells its Houston drivers to hide boxes of radioactive substances in the middle of their vans and pile other packages around them, explains Houston Pony driver Wilma Jackson, because the company doesn't want to get caught by a Department of Transportation inspection.

"It's illegal what they are doing," Jackson says. "Pony doesn't mark its vans properly to indicate that hazardous materials are on board, so they have us hide the hazardous packages."

Herman Greer, another of the Houston Pony drivers who delivers radioactive pharmaceutical supplies, says that the company has never trained him on how to handle radioactive material, or what to do in the case of a spill.

Blood, Toxic Chemicals and Illegally Transported Explosives

Pittsburgh. Pony driver Robert Valentine delivers blood and urine samples for disease testing to hospitals and laboratories. One of his co-workers delivers leaky five-gallon plastic drums filled with chemical agents and toxic degreasers to butcher shops. But Pony has not trained either of them on how to safely handle hazardous materials. The company hasn't even given them rubber gloves.

Blood, Toxic Chemicals and Illegally Transported Explosives continued

Oregon. Pony drivers say that the company forces them to work in a minefield of hazardous materials--from leaky drums of toxic chemical cleaners to flimsy packages of blood and urine. They also complain that the company provides no protective gear or comprehensive training to its employees.

Hazardous cargo is often poorly packaged. Just a few months ago, Salem Pony driver Bob Hawley was assigned a delivery that included plastic vials of urine packed in zip lock bags. Phil Berg-Rempel, another Salem driver, has transported vials of blood packed in paper envelopes.

Pony Express left a blood spill on the floor of its courier room in Salem, even though some blood-borne diseases such as hepatitis can live in dried blood, until a state safety inspector saw it three weeks later.

In Oregon, as elsewhere around the country, Pony drivers say that they deliver drugs from pharmaceutical companies and toxic chemical solvents in unmarked plastic totes. When the hazardous substances leak out into the vans, drivers must clean up the spills themselves without knowing what they are.

Several years ago, Berg-Rempel watched a spill of concentrated car wash solvent turn from green to orange when it hit the metal of his Pony van.

West Virginia. Jerry Darquenne of Fort Nutter had a spill in his van that ate the rubber weather seal off the bottom of the door and part of the metal below that. A few days later he says he got some kind of liquid from one of the packages on his pants that ate right through them.

Illegally Transported Explosives

Tennessee. Knoxville Pony driver Claude Bates knows that he could jeopardize his livelihood as a driver if the Department of Transportation caught him transporting Freon--a Class A explosive--without the proper papers, vehicle markings, or endorsement on his license. Yet that is exactly what Pony Express expects him to do.

Pony knows that it is illegal for its drivers to carry the explosive materials without proper licensing and paperwork, Bates says, so the company doesn't hassle him when he refuses to pick up the shipments in Chattanooga. Yet Pony eventually makes the delivery anyway, as not all of its employees are as knowledgeable about DOT regulations as Bates. Bates says Pony doesn't provide sufficient hazardous materials training for its drivers.

Deficient Training

Several drivers have signed affidavits stating that when they were given the hazardous materials test they were also given the answers. Al Wilman says, "We didn't receive proper training, just the answers to the test. We were given a book that is supposed to tell us what to do with hazardous materials, but no information or instructions on how to use the book. It takes a lawyer to figure out."

Risky Business on the Road—"Test" Tires and Tired Drivers

Texas. The tires on many Houston Pony vans are so worn that the wire radials are showing, but Pony still won't change them, according to its Houston drivers. The tires are "test tires" which Pony gets for free in exchange for a promise to push the tires as far as possible to test their durability for tire companies, and the drivers end up as the guinea pigs. To Pony Express, free tires are worth more than people's safety on the road, Wilma Jackson says.

Washington. Drivers on Pony's northern routes often ask the company to put snow tires or new tires on its vans during the icy winter months, but Pony says it can't change the worn "test" tires. Seattle Pony driver John Flansaas says there have been numerous accidents that could have been prevented if Pony used safer tires.

In Spokane, Pony driver Jim Meloche says that the free tires Pony gets from tire companies are actually undersized for the weight of its vehicles—even before they are loaded. Employees say that the undersized tires throw the speedometer off by about ten miles per hour.

Too Many Hours

Pony's apparent practice of sending drivers out on deliveries when they are already fatigued from one or more consecutive shifts illustrates how Pony Express puts profits before the safety of workers and the driving public.

Pennsylvania. When a Pony Express supervisor sent Robert McCabe on a 340 mile delivery—*after he had already worked for 24 hours straight*—McCabe fell asleep at the wheel and careened over a 40 foot embankment.

McCabe knew he was too tired to drive, but feared he would lose his job if he refused to make the delivery. "It'll be amazing if I don't fall asleep at the wheel," he told co-workers before he left. Pony Express suspended McCabe for five days for getting into an accident and later fired him.

Colorado. As a relief courier in Denver, Christopher Rudd has no set hours -- he's at the company's mercy. After driving a long night shift, Pony told Rudd to take the next day shift as well. He got just a few hours of sleep. The next day, Rudd fell asleep at the wheel and ran into a sign post. Pony fired him for getting into a "preventable accident."

Decrepit Delivery Vans, Extreme Weather Conditions

Texas. Houston Pony driver Charles Turner barely made it back to Pony offices after his company van filled with gas fumes, contaminating the already blistering air inside. When Wilma Jackson looked at the van afterwards, she found near the dashboard the remains of a gas credit card that had completely melted down. Even the dash itself had started to melt from the combination of heat and fumes. Like most of Pony's vans, this one did not have air conditioning.

Pony driver Herman Greer says that most of the vans in Houston have over 200,000 miles on them. In many, the brakes are worn down to metal on metal. Two weeks ago, one Pony van rear-ended another when its brakes failed just two blocks from the branch office, crashing the second van into another vehicle, according to Greer.

On another occasion, the front wheel flew off a Pony van while a courier was driving. Pony supervisors have sent out vans with caved-in sides from previous accidents that have never been repaired.

Pennsylvania. Pittsburgh Pony employee Anthony Didolce says he often has to drive a delivery van with no speedometer or emergency brake.

While most delivery companies have communications radios in their vans, Pony generally does not. This means that drivers are forced to hunt for pay phones to keep in contact. Veteran Harry Stubenvort says that using a pay phone late at night in northside Pittsburgh reminds him of his days in Beirut. He adds, "One of my coworkers died of a heart attack in his vehicle and was only discovered after a customer called to complain that his delivery hadn't arrived. I keep thinking that this poor fellow may have lived if he'd been able to radio for help."

Another Pittsburgh driver, Bobby Valentine, once wrote up a vehicle as unsafe. But when he got back to the hub he found out that instead of repairing it, Pony had just assigned it to someone else.

Colorado. By the time Pony driver John Benoit got to Vail, the storm his supervisor had sent him out in had become a severe blizzard. When he phoned in to the Pony office to let the supervisor know that conditions were unsafe for driving, Pony threatened to fire him or discipline him if he stopped. To save his job, Benoit kept driving. His vehicle hit an icy patch on the road and slipped into an embankment, denting the back bumper. A couple of weeks later, Pony asked him to sign a form stating that the accident was "preventable" and would count on his record.

West Virginia. Fred Anderson, a Charleston driver, had a 12:30 a.m. run in an ice storm that was so bad that police warned all motorists to stay off the road. But Anderson's supervisor insisted that he make the delivery. The trip took much longer than normal, and when he arrived at his first customer, they took him to a hotel for the night.

Another employee, Ralph Fouty, initially refused to go out in that same storm, citing police warnings, but was ordered out anyway. He wrecked his vehicle and was fired.

Back-Breaking Work

In Oregon, Pony Express is limited to 75 pounds per package by the state law. However, the company routinely requires its workers to lift packages weighing twice that maximum and more.

Oregon. In Salem, driver Phil Berg-Rempel injured himself lifting a *132 pound* package that the company required him to deliver. After he filed an OSHA complaint with the state. The agency investigated further, turning up 269 violations by Pony Express. The comapny was fined $26,900.

Missouri. St. Louis driver Angela Burle delivers some of Pony's heaviest packages. On Friday nights, Burle -- who is in the second trimester of her pregnancy -- unloads heavy John Deere tractor parts by herself. She says that a tractor rim she moved recently weighed more than 150 pounds.

West Virginia. In Charleston, West Virginia, Jim Cavender can usually get help loading his heaviest freight—including car parts that weigh over 100 pounds—but Pony Express leaves him to unload the parts himself at the delivery site without the help of a hand truck or lifting device.

Indiana. In Clarksville, Indiana, Pony driver Dennis Hobbes had to unload a 170 pound John Deere tractor gas tank by himself.

Missouri. In St. Louis, as in other Pony locations, cancelled checks are transported by Pony Express between banks and the Federal Reserve as part of the check clearing process. The checks are bundled and stuffed into trash bags that often weigh as much as 150 pounds. Jim Sylvester says that he and the other drivers who handle these routes are expected to hoist these unwieldy, overweight bundles of financial documents unaided.

Pony Express Delivers...
Crushing Blows to Workers' Efforts to Improve their Lives

In 58 cities across the country, Pony Express workers organized into a union to improve their miserable wages and working conditions. But Pony Express is doing everything it can to stop them—threatening and firing workers, cutting hours, changing work routes, and trying to thwart employees' efforts to win better on-the-job conditions by delaying negotiations.

The National Labor Relations Board issued a complaint alleging over 120 violations of federal labor law and is currently holding hearings on these charges.

Meanwhile Pony Express is continues its efforts to weaken workers' resolve and erode confidence in their union.

Want a Better Life? You're Fired...

Georgia. In Statesboro, Pony Express fired or forced out all but five of its 18 employees who tried to organize to improve their poverty-level wages and miserable working conditions. When Pony couldn't find an excuse to fire a worker, the company simply stopped assigning the driver deliveries and refused to let them punch-in on the time clock. The drivers were forced to quit.

Kentucky. The supervisors at Pony Express' Lexington terminal got tired of Dennis Arvin's efforts to organize his co-workers to improve their poverty-level wages and miserable working conditions. So they stopped assigning deliveries to him, he says.

With a wife and two children to provide for, Arvin couldn't afford to stand by while Pony kept him waiting for assignments that never came. He was finally forced to quit and find another job.

Racism

Missouri. Hobart Currie, a Vietnam vet and a Pony Express driver for 11 years, is paid $7.25 per hour, and works a schedule that puts the hardest workers to shame. During the week ending August 5 his pay stub showed 80 hours -- all at straight time. He has worked as much as 100 hours a week repeatedly. As a senior driver he trains other drivers, maps out routes, sets up, or acts as dispatcher.

He is put in charge on weekends often because, as he says, "managers like to be home on weekends."

Currie has trained his own supervisors, who have been promoted while he is passed over. The people Currie trains to become his supervisors are white, while he is black. He writes to General Schwarzkopf: "I thought equality was for everybody. I practiced what you preached in the service, but it took my return to civilian life to see what racism is, and equality isn't."

All Work—and Some for No Pay

Missouri. Pony Express has never paid Gary Bruce for some 130 hours he has spent at work. When his route ends at 1:30 a.m. in St. Louis, Pony makes Bruce punch off the time clock, even though he then has to wait—sometimes until 4:00 a.m.— for the arrival of a delivery from Chicago which he must take home with him to Poplar Bluff.

Georgia. In Atlanta, Melvin Banks said he and a co-worker have never been paid for the dispatch work they did for Pony one weekend. Most of the drivers have to work 60-hour weeks just to take home a check that can cover the bills. Pony doesn't offer its drivers full benefits until they have been working for two years. Even then, some workers still don't get benefits if the company doesn't feel like awarding them. When Banks and 14 other drivers went on strike to protest their intolerable conditions, Pony fired three of them outright.

The company couldn't find an excuse to fire Banks, but they cut his pay by 75 cents an hour when he returned to work—down to $6.25 an hour. Since then, Pony has done everything it can to try to harass Banks. "They'll write you up for any little thing, suspend you, try to discredit you in every way they can," Banks said.

Pony's Working Poor

Oregon. In Portland, Pony Express paid Lynn Curtis and Joyce Moon only $6.50 an hour. Five months ago, Curtis had to find another home for her son because she could no longer support him on her income. She has no health insurance or benefits.

When Pony Express cut Joyce Moon's hours, she could no longer afford her rent and had to find homes for her children. Moon drove for Pony during the day and slept in her car at night.

Kentucky. When Pony Express first hired Mike LeMaster in 1986 in Ashland, the company paid him $4.35 an hour. Today—after eight years of service to the company—Mike is still waiting for his first raise. His pay is *still* only paid $4.35 an hour.

In January of 1993, during the fuel crisis, Pony levied a 3% surcharge on its customers to offset the increased prices. But drivers like Nicholasville's Al Williams who lease their vehicles to Pony got no relief because the company wouldn't increase their mileage rates. Williams and the other drivers continued to be paid only $4.35 an hour and fifteen cents a mile.

Dodging Benefits with More Part-Timers

Pony Express workers wages are so low that the vast majority of them have to work well over 40 hours to scratch out a subsistence level living for their families. Now Pony has added a new wrinkle. Pony Express is cutting hours for its full-time employees, workers believe, to avoid paying for benefits.

Missouri. The company recently cut six-year employee Earl Getes' 10- to 11-hour route down to 7 and a half or 8 hours. But Pony hasn't stopped delivering to his old stops. Instead, it has hired a new part-time worker to take up the difference.

Merrill Rayborn, another long-time St. Louis Pony driver, saw his hours cut from 58 down to 17 in one week. A brand new part-timer delivered to Rayborn's old stops.

"They're trying to get it down so that everyone is part-time so they don't have to pay any benefits," said another St. Louis driver, Jim Sylvester. "As it is, you don't get vacation until you work three years for the company. And no paid sick leave ever."

Pony' Spells Poverty: EVL

Many Pony drivers do not drive company vehicles, but use their own cars under Pony's Employee Vehicle Leasing (EVL) plan. Under this plan, the employee is required to lease a vehicle and the company pays a small amount, allegedly to cover the costs. In reality, the company's payments do not begin to cover the actually costs of leasing, operating, and maintaining these leased vehicles, and the drivers are stuck in a constant struggle to stay afloat.

Missouri. As an EVL driver, Jim Sylvester is required to lease or purchase a vehicle and pay his own commercial registration, auto insurance, car maintenance, and repair bills. Pony Express pays him $5.50 an hour plus $.17 per mile. A bookkeeper who Sylvester asked to calculate it out for him says his auto expenses ate up 30% of his wages last year, leaving him only $3.86 per hour to pay for housing, food, and other necessities.

West Virginia. In Charleston, EVL driver Cavender is required to lease or purchase a vehicle and pay his own commercial registration, auto insurance, and car maintenance and repair bills--all on $5.00 an hour, with no overtime.

Last year, Pony told Cavender that the Escort wagon he was driving was too small. His supervisor threatened to switch him to a shorter route with fewer hours and less pay unless he leased or purchased a new, full-sized vehicle.

Now, to meet payments on his new Ford van and still provide for his two children, Cavender has had to take a second job on weekends to stay out of bankruptcy.

Firing the Victims

Texas. Houston driver Laveta Hayes' ball point pen almost killed her. Hayes' Pony Express van was broad-sided by a reckless driver who ran a red light, forcing her to veer into a pole. The pen she always carries in her shirt pocket punctured straight through her jaw.

At the hospital, the Pony supervisor asked how soon she could return to work. But just a few days after her return, Pony Express fired Hayes for getting into a "preventable" accident. The police had not even given her a ticket.

Forcing a Choice Between a Job and Health

Missouri. St. Louis driver Angela Burle was afraid that her pregnancy was going to miscarry. After her doctor recommended that she take a week off work, the four-year driver for Pony Express called in to ask for just one night off to recover. But her supervisor threatened to fire her if she didn't show up for work.

"When I'm sick, I'd like to be able to take a day off and not worry about losing my job," Burle said.

Burle's doctor also told her not to work more than 35 hours a week. But at $6.75 an hour, Burle says she has to work at least 50 hours a week just to pay her bills and eat the healthy diet her doctor recommends. She is now about midway through her pregnancy.

Washington. When one Seattle Pony driver showed up to work complaining of being ill, his supervisor told him that there was no one to cover his route—he would have to go out. The driver collapsed and died of a heart attack in Everett.

Workers report that Pony dispatchers, concerned about getting his route back on schedule, instructed another driver to get the van keys out of his pocket, even while emergency medical personnel were still trying to resuscitate him.

Pony Express Delivers... Less than Customers Bargained For

Beat-Up Vehicles, Lax Procedures Breach Security

Pennsylvania. William Rak spent 45 minutes one day picking up Federal Reserve checks off the Pittsburgh street when they flew out the broken back door of his Pony Express van. The door locks had never been fixed because Pony had fired its only mechanic.

Missouri. Rounding up loose Federal Reserve and Boatman's Bank checks that have flown out onto the street is a routine part of Pony driver Jim Sylvester's work day. He says that the 30 gallon garbage bags stuffed with bundled paperwork and checks are poorly tied and constantly fly open during delivery.

Beat-Up Vehicles, Lax Procedures Breach Security continued

Washington. Seattle Pony Express driver John Flansaas would never have known that the packages he delivered to University Hospital contained samples of monkey blood infected with the AIDS virus if he hadn't finally asked a hospital nurse himself. There were no markings on the boxes at all, which were loaded side-by-side with packages of Easter candy and Halloween sweets.

Flansaas says that Pony Express never trained him on how to handle biological materials and never told him what the boxes contained. He says that Pony's hazardous materials training consists of a five minute session in which a Pony supervisor gives employees the answers to a multiple choice quiz.

Colorado. Pony Express transports materials to and from the United States Postal Service in Denver, but the company is hauling away more than the USPS thinks. Pony supervisors tell their drivers to steal the USPS push carts, says Joe Palumbo, a five-year Pony employee, "because Pony's carts are falling apart and there are not enough of them to go around."

Oregon. A few months ago at the Portland terminal, a Pony driver came to his supervisor holding a bloody package he had found in a bag of bank work. The supervisor told him to dig through the shipment and find the leaky package of blood.

Who's Riding Herd on Pony Express

U.S. House Banking Committee & the Federal Reserve

Congressman Henry Gonzalez, who chairs the House Banking Committee, has called on the Federal Reserve to investigate Pony Express' contractual relationships with the Federal Reserve and its branches.

The Inspector General has agreed to carry out a thorough investigation and has committed to personally oversee the investigation. Particular security concerns include:

- Background checks have failed to screen out security risks. In Oregon, for example a driver was hired while he was on parole, a fact that was not discovered until the Portland police arrested him for allegedly robbing a bank.

U.S. House Banking Committee & the Federal Reserve continued

- The indiscriminate mixing of hazardous cargo with other material, raises security and public health questions. The lack of training for hazardous materials handling has led to OSHA citations. OSHA has also found safety violations at some terminals and has declared some equipment unsafe.
- Lax security in delivery procedures. In Wisconsin, for example, an individual whose work put him in contact with Pony Express couriers reported that vehicles were routinely left unlocked with the tailgate wide open while the driver delivered other cargo inside the building.

In addition, there is reason to believe that at least some Federal Reserve contracts with Pony Express may violate the federal Service Contract Act, which requires that contractors must be paid wages that meet certain minimum standards. Pony's rock-bottom wages are so low that some Pony families are actually below the poverty line.

In Oregon, for example, the Department of Labor's Wage Determination Numbers for package carriers calls for a minimum hourly wage of approximately $8.00. But Portland Pony Express drivers are paid wages as low as $4.50 per hour.

National Labor Relations Board

The NLRB has issued a nationwide complaint including over 120 specific charges of labor law violations against Pony Express. These charges are currently the subject of hearings across the country.

Mr. PETERSON. Mr. Currie, did you have a statement or——

Mr. CURRIE. A brief one, Mr. Chairman. Good morning to you.

Mr. PETERSON. Welcome to the committee.

Mr. CURRIE. Members of the subcommittee, thank you for inviting us and having us, giving us a chance to speak our minds.

My name is, once again, Hobert Currie. I am from St. Louis. I have been with Pony Express for 11 years. I was hired through this TJTC program. It benefited the company, true enough, but it didn't benefit the employees.

Once our time period was up for this to kick in, then they made working conditions so horrific and so horrible that you had no choice but to leave. And they tell you straight out from the beginning, we want a revolving door policy because of this program.

A revolving door policy means once they have benefited from us, then they'll turn around and hire another person qualifying for the same TJTC tax credit. When I first started 11 years ago, the company was called Gelco. Pony Express bought them out. I was at $9.10 an hour, and this is in 1983, early 1984. Here it is 1994, they cut our benefits. We are down to $5 an hour, which is ridiculous. But we have no benefits, no health insurance, no workers' rights, no say-so in the matter. If you do speak your mind or speak up for yourself, then you're out the door.

They find all sorts of excuses and reasons to keep us at this level where we have to be dependent on programs like this. And the only ones who are going to benefit is going to be the companies who participate in these programs.

I'll say again there are no benefits. The working conditions are so terrible. We risked our own lives. Not just us, our own lives every day, but we risk your lives by being out there in these unsafe vehicles and these working conditions and stressed out, no sleep, running 24 hours a day, 100 hours in a week. Nobody cares. Pony does not care.

We're trying to bend your ear to hopefully gain some attention from you ladies and gentlemen. Hopefully we'll benefit from you today here if you take an active interest in what is actually going on.

Why should big corporate America continuously benefit when we, the people, don't matter, period? We don't matter until there's a problem or you need another way to benefit from us. I say I work 100 hours a week, 7 days a week. I'm on call 24 hours a day. But it doesn't matter. I'm still at the same wage level of 11 years ago. It doesn't matter. People ask me why I've stayed so long, why do I take this, continuously take this.

There comes a time when you have to. You can no longer run. You have to take a stand and fight. And if I don't, it's going to continue. I have to say, I've never been afraid of anything that I can see, there's always a solution somewhere down the line to each problem. And I figure not just for myself, but I could benefit others by being here today and speaking my piece and making you aware of what is actually happening with the big corporations, such as Pony Express.

Mr. PETERSON. Thank you. Thank you, Mr. Currie. We appreciate you being with us.

We have Janet Tully with us from Marriott. You use the program and you are in favor of it, so we want to give—we're trying to have some balance here, so——

Ms. TULLY. OK. On behalf of the Society for Human Resource Management and Marriott International, I'm pleased to be here to testify for targeted jobs tax credit. And yes, I am pro renewal of the program.

We at Marriott are very proud of our national participation in the program, and our experience has been so positive that we've hired a tremendous amount of structurally unemployed people who never really would have otherwise had the chance.

The key to our successful involvement has come because of an expanded awareness on the part of our hiring managers, they—through training and through financial incentives. Any credit, any credit that's realized on the part of any employee, the credit is given right to the unit level and not on the corporate level. So it affects the bottom line of the unit.

Our managers are encouraged to give TJTC people an advantage when they are in the hiring process and to spend extra time and effort once they are hired, to help them to stay as long as they can. Once our managers overcame their initial reluctance to hire these individuals, they found that TJTC people stayed as long, if not longer, than non-TJTC eligible people.

Frankly, I really am extremely surprised at the findings that the inspector general's office found. This certainly is at odds with my experience at Marriott and with other companies that I am familiar with. I know that our managers actively seek TJTC eligible people.

Some of our units, such as our reservations center in Nebraska, which is extensive, has initiated far-reaching programs for the outreach of people with disabilities. The initial impetus for this program was TJTC. We knew that any extra time and effort that was going to be involved—and that was going to happen, starting up the programs and doing some extra training, was going to be offset by TJTC.

Other methods of outreach that we use includes job orders with the State employment services, stating that TJTC applicants are preferred. We don't say TJTC applicants only. We need some applicant flow, and if they don't have any TJTC eligibles at the time, we still want to get some kind of a flow.

But we do have—we now have job orders listed with the Job Service due to the Targeted Job Tax Credit Program. We list openings with vocational rehabilitation agencies, veteran agencies, and numerous community-based organizations.

Responsibility for initiating the paperwork and handling of the process, the TJTC vouchering process, at Marriott is an in-house hotline screening program and we supplement that with TJTC consultants. Because of the savings from TJTC, we have initiated numerous programs at Marriott which in the present economy would not be otherwise feasible.

Some of these programs include work adjustment programs for people with disabilities, Marriott job coaches and supported employment programs for people with disabilities to increase their skill levels. We have developed preemployment life skills and a jobs skills training program for people who are coming off of welfare or people who have had unsuccessful job experience where maybe in the last 2 or 3 years, they haven't worked.

We found that when we did our outreach for TJTC people, we were finding that a lot of the people that came on board had so little job experience and background experience that we really had to spend a tremendous amount of time in the beginning working with them.

So therefore, we developed a program called "Pathways to Independence" where we work with the different welfare work-to-programs and the—JTPA program to help in preemployment training. Some of the modules that we have in this training program include some self-esteem training, basic communication skills with your managers, your co-workers, with our hotel guests, managing your paycheck, just basic how to manage your budget and basic hospitality skills. These programs really can't be continued if this program ends.

My biggest problem is that I can't market them internally to our units if I can't say that there will be an offset to all the initial losses in—excuse me.

Mr. PETERSON. I was—go ahead.

Ms. TULLY. So it's hard to market it internally into the—into our individual units when we know there isn't going to be any offsets for all the additional costs for the initial training programs.

Time is money and training costs money. As much as we would like to continue these programs, we have a responsibility to the shareholders. We just can't seem to carry it. In the chairman's letter to Marriott, we were asked to provide our general assessment of the TJTC program and recommendations for change.

We believe the program is first-rate, naturally, based on the fact that it encourages Marriott to reach out to workers who might not have otherwise been able to enter the work force. We give them the opportunity to learn basic workplace skills. Some of our best employees came to us through TJTC and they would not have had this opportunity if we were not doing the preferential hiring in looking for TJTC. This is the reason for which the program was developed in the first place.

Of course, the program can be improved. To deal with the concern that these people would have been hired anyway, I recommend that the company should be requested to do at least one of the following: Where State EEO laws permit, companies try to determine probable eligibility. I understand that a lot of existing EEO laws do not allow companies to ask these questions prior to making a hiring decision and the questions that are necessary to be asked to determine if they are eligible for the programs.

But there are some States where the EEO laws permit this, and they can do that in those States. Or the company should file a request with the Job Service stating they want TJTC eligible people preferred and the Job Service could file the job orders with the State welfare offices. Or the company could develop and have proof of outreach programs which indicate that the company will do one of a number of things, either advertise in economically disadvantaged communities, provide bonuses for hiring managers, for hiring TJTC eligible persons, develop working relationships with community-based organizations indicating that they prefer TJTC eligibles.

I believe that if the program were made permanent and given proper funding, it would become an integral part of every company's hiring procedures. We have definitely altered our hiring procedures because of this program.

It is necessary that there be more information about the program's existence in the form of public relations and advertising. It is in many cases a very, very well-kept secret. I saw it advertised one time, just due to the budgeting, President Reagan was talking about it and it was around 1:15 a.m. on television, and that was the only TV coverage it had.

Currently, the Job Service does not staff its TJTC units adequately or with their strongest staff members because they don't believe it's going to be a long-term program. Companies don't assign their resources to the TJTC program because of their constant belief that the program is going to expire.

The 23- and 24-year-old economically disadvantaged youth category should be reinstated. This category was dropped for unrelated budget reasons several years ago, but is an extremely important part of the program. Employers are reluctant to hire individuals within this age group who have little or no prior workplace experience. By giving employers an incentive to take a risk on these individuals, many of these young people receive their only opportunity for employment.

In closing, I urge the subcommittee to support renewal of TJTC. On behalf of Marriott International, I would be happy to answer any questions.

Mr. PETERSON. Thank you, Miss Tully. We appreciate your testimony.

[The prepared statement of Janet Tully follows:]

On behalf of both the Society for Human Resource Management (SHRM) and Marriott International, I am very pleased to be here today to testify with respect to the Targeted Jobs Tax Credit Program (TJTC). SHRM is the leading voice of the human resource profession, representing the interests of more than 60,000 professional and student members from around the world.

Recognizing that certain groups of individuals are structurally unemployed, Congress acted in 1978 to establish the Targeted Jobs Tax Credit. This landmark legislation established a partnership between the government and the private sector to place certain "hard to employ" individuals into the job market.

The key to this program is a "targeted" tax credit. An employer can receive a credit for a percentage of an employee's first-year wages. It is available only to businesses who agree to hire workers from among groups such as disadvantaged youth, welfare recipients, and Vietnam-era veterans.

We at Marriott are very proud of our nationwide participation in this program. Our experience has been so positive due to the fact that because of TJTC we hire far more structurally employed workers than would otherwise be the case. Furthermore, we are very pleased that, even though most of these workers come to us with little or no basic workplace skills, many learn the basics and go on to be highly valued and highly productive employees.

The key to our successful involvement has come about because of expanded awareness by our hiring managers about TJTC, through training and monetary incentives. Managers are encouraged to give TJTC eligible applicants extra consideration in hiring and to retain these workers once they are on the job, because any wage savings are passed on to the unit's bottom line. Once our managers overcame their initial reluctance to hire these individuals, they found that many of them stayed with the company longer than non-TJTC eligible employees.

Frankly, I am extremely surprised at the conclusions reached by the Office of the Inspector General of the Department of Labor regarding TJTC. Certainly their conclusions are at odds with the practice we have initiated at Marriott, and what we have found is the case with other companies with whom we are familiar.

I know that our managers actively seek to hire TJTC eligible people. Some of our units, such as our reservations office in Nebraska, have initiated a far-reaching program for outreach to persons with disabilities; the initial impetus to this initiative was TJTC. Other methods of outreach include job orders with the State Employment Services stating that TJTC applicants were preferred, Vocational Rehabilitation agencies, Veterans agencies and community-based organizations.

Responsibility for initiating paperwork with the TJTC vouchering agencies lies with our in-house hotline screening system or with our TJTC consultants.

Because of the savings from TJTC, we have initiated numerous programs at Marriott which in the present economy would not otherwise be feasible. Some of these programs include work adjustment programs for persons with disabilities, Marriott "job coaches" to increase skill levels of persons with disabilities. We have developed pre-employment life skills and job skills training for many of those employees who have been on welfare or who have had a limited or unsuccessful work experience. These training programs include self-esteem training, communications skills in relation to supervisors, co-workers and guests, managing a paycheck, and basic hospitality skills.

These programs will not be continued if we are unable to market them to our properties as a program that will assist in training new TJTC applicants while offsetting potential financial loss. Time is money, and training costs money. As much as we would like to be able to administer these programs without a financial offset, we have a responsibility to our shareholders and owners to protect their investments. In the Chairman's letter to Marriott you asked us to provide our general assessment of TJTC and make recommendations for change.

We believe the program to be "first rate," based on the fact that it encourages Marriott to reach out to workers who might otherwise not enter the workforce and give them the opportunity to learn basic workplace skills. Some of our best employees come to us because of TJTC: without it, they might never have found a job. This is the reason for which the program was developed in the first place.

Of course the program can be improved. To deal with the concern that "these people would be hired anyway," I recommend that the company should be requested to do one of the following:

1) Where State Equal Employment Opportunity (EEO) laws permit, companies could try to determine probable eligibility.

OR

2) The company should file a request with the job service stating that TJTC eligibles are preferred. This request would be filed by the job service with the state welfare office.

OR

3) The company would develop and have proof of outreach programs which indicate that the company will do one of a number of things:

a. Advertise in economically disadvantaged communities.

b. Provide bonuses to hiring managers for employing TJTC eligible persons.

c. Develop working relationships with community-based organizations, indicating that they prefer TJTC eligibles.

I believe that if the program was made permanent and given proper funding, it would become an integral part of every company's hiring procedure. It is necessary that there be more information about the program's existence in the form of public relations and advertising. Currently, the job service does not staff its TJTC units adequately or with their stronger staff members, because they do not see TJTC as a long term program. Companies, in turn, do not assign their resources to the TJTC program because of their constant belief that the program will expire.

The 23 and 24-year old economically disadvantaged youth category needs to be reinstated. This category, which was dropped for unrelated budget reasons several years ago, is extremely important. Employers are reluctant to hire individuals from this age group who have little or no prior workplace experience. By giving employers an incentive to take a risk on these individuals, many of these young people receive their only opportunity for employment.

In closing, I would urge the Subcommittee to support TJTC. This valuable program is set to expire on December 31, 1994, and with it, perhaps the goals and career aspirations of thousands of this country's structurally unemployed individuals. Congress should act now to extend the TJTC program and keep this key partnership between the government and the private sector alive.

Mr. PETERSON. Next we are going to hear from Charlean Jackson from the State of Texas. Appreciate you being with us today.

Ms. JACKSON. Thank you. Chairman Peterson, members of the subcommittee, I am Charlean Jackson, Deputy Administrator of the Texas Employment Commission, which is the State employment security agency for our State.

I had been asked to come before you to testify representing an agency administering the Targeted Jobs Tax Credit Program. Texas has consistently had the highest volume of TJTC activity in the Nation.

As you're aware, the Revenue Act of 1978 established TJTC. Through the years, legislation has modified the program with changes in process, as well as eliminating and then adding targeted groups. As these changes occur, the program has become so confusing that it is out of the reach of the normal employer, and I want to stress that. This is the regulation document from the Employment and Training Administration.

I would say to you an employer has to be trained on extensive government regulation in order to effectively utilize TJTC. And in the case of the Marriott Corporation, they have gone through a massive training program for their people so they could access this program. And that's really what it takes.

A virtual industry has been created by consulting groups who access the program for a fee as a representative of the employer. Some large employers, such as Marriott, have human resources staff trained to coordinate the TJTC Program for their purposes. I repeat, however, that the program is just not accessible for the average employer. The program can create huge tax savings for large service and retail industry employers who make TJTC a part of their business strategy.

Today, we heard a few comments about the funding which supports the TJTC Program through allocations to the State employment security agencies, and I would say to you, and I believe this would be backed up by the OIG, that the funding is woefully inadequate. The allocation has never been sufficient to support the demands of the program and is currently at such a level that dollars will only support a basically ineffective program.

I would also say to you that we have never, ever been asked by the Department of Labor how much it costs to administer the program. The consulting groups have asked us what we need to administer the program. We have never been asked by the Department of Labor. And it is extremely important that consideration be given to the people who have to do the work of this program.

In the State of Texas, our dollars will only pay for 31 positions and in our State, we have 102 full-service offices and an additional 109 employment service points to smaller communities. We feel if we have a program, we need to have people who can do the work in those local offices.

We recently testified that the ES offices do not have enough staff—we don't—to handle this program the way it was intended to be handled. The consulting groups have been after us for several years to accept mail-in eligibility documentation, as opposed to their sending the applicant to a local office. The integrity of the program with the mail-in system is seriously compromised. Yet lack of staff has forced us to join most other States in allowing this procedure.

The TJTC Program is one which invites fraud. Our resources are so limited that the staff cannot begin to audit all of the applications received in the mail. We do the best we can. We deal with groups who try to take the tax credit on food stamp recipients, classifying them as general assistance. Qualified general assistance programs are not even available in our State, yet we have folks who try to use that to make people eligible. Mental health and mental retardation clients are identified as vocational rehabilitation clients, clearly trying to take advantage and slip something by, and it's a real problem for us.

A staff member has recently identified a situation in one of our major cities involving a consulting group who is submitting eligibility worksheets on young people stating that they individually qualify as a family of one with no income. During contacts with parents about such living arrangements, our interviewer discovered that the information was falsified. The young people state that the forms were already filled in and they were told to sign. We returned these folders to the consulting group 5 to 6 months ago and we have had no response.

This is not to be interpreted as a bashing on consulting groups because we have many who do a good job. But what I want to infer is that the program is ripe for fraud, for people who want to do something that is not right, it's there for the taking.

Statistics on the certifications issued during a recent quarter for our State agency reflect four factors which are very interesting and should be of interest to you. Eighty-eight percent of those certified were paid minimum wage or less. Twenty-nine percent were clerical or retail. For the most part, they are retail sales clerks. Fifty-eight percent were service occupations and 80 percent were between 16 to 24 years of age.

I would say to you I think something that's very, very critical—and I have not heard enough attention to it in this hearing, is what types of jobs are being filled. I say that to say this. In our paper in Austin, Texas Sunday in the business section, headlined "help wanted". People, employers cannot find people to fill these jobs. And I would say to you to put anyone who wants to work in front of them, TJTC or not, they're going to hire the worker. They need the workers, and TJTC is not a big part of that. This information supports studies which found that most TJTC certifed workers were youth in minimum-wage, high turnover occupations.

For the last program year reporting, which ended June 30, 1994, 545,000 job openings were listed with our agency of which 783 were openings for TJTC eligible candidates were to be the only referrals. Very, very limited number.

To support the OIG assessment that most workers would have been hired regardless of the tax credit, 110,206 openings were listed where employers said they would take a TJTC eligible worker; however, eligibility was not a requirement for the job, and Marriott Corp. is an employer that does this.

The purpose of this program established 16 years ago was well intended. Designed for target group members to be vouchered as eligible for TJTC, these potential workers were to take the vouchers as a self-promotional tool for job search. This process proved to be unsuccessful. An individual's self-esteem can be seriously damaged when he wears a sign around his neck saying that he has a barrier to employment.

Our agency strongly agrees with the findings of the Office of the Inspector General's report that the TJTC should not be reauthorized following expiration Dec. 31, 1994. If reauthorization does occur, Congress should adequately fund this program.

I say to you no one knows what the real cost is with operation of this program. In the case of the allocation for our State, we would need dollars, three and one half to four times of the current amount. Mr. Chairman, this concludes my written statement.

I'll be happy to respond to any questions you might have.

Mr. PETERSON. Thank you very much for your testimony. We appreciate you being with us.

[The prepared statement of Charlean Jackson follows:]

[The questions addressed by Mr. Peterson and Ms. Jackson's replies follows:

You asked that I respond to two additional questions.

Question: If the law were changed to limit tax credits to workers who are referred by the Employment Service on a pre-employment basis--and your funding was increased proportionately--do you believe that the TJTC would be a good program for the disadvantaged and a good marketing tool for your agency?

Response: If you believe, as we do, that these job seekers would be hired regardless of the TJTC Program, then the other issues are moot. Our statistics show that these workers are hired, for the most part, in unskilled, low paying, high turnover jobs. To make any difference in increasing opportunities for the disadvantaged in "breaking the mold", jobs must have a training plan where the worker can obtain much needed skills. If TJTC is a program which truly helps the disadvantaged, there must be a retention factor much stronger than what currently exists. An increase in wage rate from entry level and beyond must be defined. This wage rate should be tied to the increased skill level and training plan.

There is absolutely nothing in the current TJTC Program to force an employer to make a difference in the future of a disadvantaged person. This is a program that benefits all the players but the applicant.

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Your comment about the use of TJTC as a marketing tool for the Employment Service (ES) is an interesting one. Our experience has been that most employers are interested in either a "warm body" or a "best qualified" applicant. TJTC, even in its infancy, never proved to be a marketing tool in and of itself. Our staff used TJTC as a part of a total package of staffing services. "Let the Employment Service send the employer well qualified applicants for the job opening--decide who you want to hire--then let the ES determine if the imminent hire is TJTC eligible"--this is what we marketed. This also lends credence to the OIG finding that the applicant would be hired regardless of TJTC eligibility.

Question: Does the use of consultants by employers who seek tax credits for their workers facilitate the work of the Job Service in implementing the TJTC Program?

Response: Consultants are in business for profit. Many of them have very broad interpretations of TJTC regulations. Before we were forced (due to staffing limitations) to discontinue one-on-one interviews with potential TJTC clients, consultants were constantly pressuring our staff to come to their clients' place of business for on-site vouchering. The consultants wanted priority service in the local office for vouchering. It was constant confrontation. These folks are in business to sell as many clients as possible on use of the TJTC Program, regardless of whether there is staff on our end to handle the workload. This is not the fault of the consultants who promote their business interests, but the resources of the ES are not funded accordingly. There are several consultants who take pride in running an honest program. They become knowledgeable on program requirements and send in error-free paperwork. I cannot say that this statement applies to the majority. Consultants always have notified the state personnel as to changes in regulations, dollar amount of allocation to the states, etc., much ahead of the Department of Labor. It is easy to understand the perception by many that the consultants control this program rather than the Department of Labor.

Please let know if additional clarification is needed.

Sincerely,

Charlean M. Jackson

Charlean M. Jackson
Deputy Administrator for
Human Resources & Administrative Services

Testimony of Charlean Jackson, Deputy Administrator
Texas Employment Commission
Subcommittee on Employment, Housing and Aviation
Committee on Government Operations
United States House of Representatives
September 20, 1994

Chairman Peterson, members of the Subcommittee, I am Charlean Jackson, Deputy Administrator of the Texas Employment Commission (TEC), which is the State Employment Security Agency for the State. I have been asked to come before you to testify representing an agency administering the Targeted Jobs Tax Credit (TJTC) Program. Texas has consistently had the highest volume of TJTC activity in the nation.

As you are aware, the Revenue Act of 1978 established TJTC. Through the years, legislation has modified the program with changes in process as well as eliminating and then adding targeted groups. As these changes occur, the program has become so confusing that is out of reach for the normal employer. A virtual industry has been created by consulting groups who access the program for a fee as a representative of the employer. Some large employers have human resources staff trained to coordinate the TJTC program for their purposes. I repeat, however, that the program is just not accessible to the average employer. The program can create huge tax savings for large service and retail industry employers who make TJTC a part of their business strategy.

The funding which supports the TJTC program through allocations to the State Employment Security Agencies is woefully inadequate. The allocation has never been sufficient to support the demands of the program and is currently at such a level that dollars will only support a basically ineffective program. These dollars will only pay for 31 positions in Texas which has 102 full-service offices with an additional 109 employment service points in smaller communities across the State. Needless to say, the program has been fragmented to such a degree that our face to face interviews with potential TJTC employees in most instances have been eliminated. The consulting groups have been after us for several years to accept mail-in eligibility documentation as opposed to their sending the applicant to a local office. The integrity of the program with a mail-in system is seriously compromised, yet lack of staff has forced us to join most other states in allowing this procedure. The TJTC program is one which invites fraud. Our resources are so limited that the staff cannot begin to audit all of the applications received in the mail; however, we do the best we can. We deal with groups who try to take the tax credit on Food Stamp recipients, classifying them as General Assistance recipients. Qualified General Assistance Programs are not even available in our State. Mental Health and Mental Retardation clients are identified as Vocational Rehabilitation clients. A staff member has recently identified a situation in one of our major cities involving a consulting group who is submitting Eligibility Worksheets on young people stating that they indivdually qualify as a "family of one" with no income. During contacts with parents about living arrangements, our interviewer discovered that the information was falsified. The young people state that the forms were already filled in and they were told to sign. The folders were returned to the consultant five to six months ago, requesting clarifying information and have yet to be returned.

Statistics on the certifications issued during a recent quarter reflect four factors which are predominant:

- 88% were paid minimum wage or less
- 29% were clerical/retail (for the most part sales clerks)
- 58% were service occupations
- 80% were between 16-24 years of age

This information supports studies which found that most TJTC workers were youth in minimum wage, high turnover occupations. For the last Program Year reporting which ended June 30, 1994, 545,305 job openings were listed with our agency, of which 783 were openings where TJTC eligible candidates were to be the only referrals. To support the Office of Inspector General's (OIG) assessment that most workers would have been hired regardless of the tax credit, 110,206 openings were listed where the employers said they would take a TJTC eligible; however, eligibility was not a requirement for the job.

The purpose of this program established 16 years ago was well intended. Designed for target group members to be vouchered as eligible for TJTC, these potential workers were to take the vouchers as a self-promotional tool for their job search. This process proved to be unsuccessful. An individual's self-esteem can be seriously damaged when he wears a sign around his neck saying he has a barrier(s) to employment.

Our agency agrees with the findings of the Office of Inspector General's Report that the TJTC Program should not be reauthorized following expiration December 31, 1994. If reauthorization does occur, Congress should adequately fund this program. In the case of our allocation, Texas would need dollars three and one-half to four times of the current amount.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you or other members of the Committee may have.

Mr. PETERSON. Mr. Lorenz from Alma College in Michigan. Thank you for being with us.

Mr. LORENZ. Mr. Chairman, I'm very pleased to have this opportunity to appear before you. I would like to begin by emphasizing the unique perspective from which I come here today for I've been both a TJTC researcher recently and also you might call it a practitioner.

Currently I am an associate professor of history and political science at Alma College in Alma, MI. I am also president of the Michigan State, Political Science Association. My special interest is the study of the social policy process. (I might add I also went to the University of Chicago in Mr. Rush's district.)

An example, of my interest in social policy is my research on the failure of the TJTC oversight process which will appear in the spring 1995 Journal of Policy Analysis and Management. And I might also add something I wasn't going to originally say. I heard a comment earlier about we're getting lobbying on both sides of the issue. Well, I think we do, we do hear somewhat from both sides of the issue. But, one of the problems with TJTC, as so many programs like it, is we get most of the lobbying, most of the pressure from those who are getting the immediate cash benefit from the program. I heard the Department of Labor also add at the last moment that they are going to have meetings tomorrow regarding the program, and they mentioned they were going to talk to employers, which I think is very good, but they didn't—and I'm sure this is a Freudian slip, so to speak—they aren't going to search out job seekers. They also are not going to consult with those of us who are maligned social scientists or auditors. They apparently are going to go to just one segment of the interested public.

At the request of the House Ways and Means Committee to the National Commission for Employment Policy, I conducted two of the empirical studies in the 1980's of TJTC. I also have practical TJTC experience having served as the Maryland TJTC coordinator from 1979, when the program was beginning, until 1986, and I know Janet from then. We also had dealings with Borg-Warner as a user of the program.

I'd like to use the brief amount of time remaining to summarize the evidence of what I would call TJTC failure and the reasons for that failure and the need for reform.

First of all, the National Commission for Employment Policy studies, which I did, tracked the employment experiences of about 2,000 TJTC participants, producing findings which are comparable to those of the inspector general's study.

Without going into methodological details—I will be glad to go into those in questions, I have prepared a summary, which I think you each have with my written statement. It compares the NCEP study on some key indicators of TJTC impact with those of the IG, showing very similar results and, I think, very negative results for the program.

And incidentally, these negative results from the NCEP study were reported at hearings of the Ways and Means Committee in 1989, following our study in 1988. I was pleased to hear today that Doug Ross clarified the ETA response to the IG report. I agree with him that TJTC is difficult to evaluate, in a pure social scientific sense, because we never had a real control group, which would be some group we deny services to.

Despite that qualification, I believe the scientific evidence is overwhelmingly in, and I think TJTC, as it currently stands, has largely failed. And I think this is a fact. I don't think this is just a hypothesis that needs some more study.

And I think what that raises is the question of what is wrong with TJTC? And I think a brief exercise can help us clarify that. I think, first of all, we should ask what is the problem TJTC is designed to solve, and is it defined correctly to solve that problem?

I think the answer to that question is that TJTC is aimed at the right problem. Clearly, employment opportunities for disadvantaged youth, welfare recipients and other targeted groups are woefully inadequate to support viable families, et cetera.

Thus, a subsidy to derive more employment of targeted individuals is a rational response to a major social problem. Then we have to ask from where does the failure arise in having implemented this policy? And I think the answer is that it comes from the segment of the employer community that has been made up most of the users of the credit.

In response to TJTC, almost no employers changed their employment procedures to help group members. I think a few did, and actually I think Marriott may be one of those because I am somewhat familiar with what Janet has spoken of. That may be why she is a good witness to have from the employer perspective.

But I think there is not evidence of a change in behavior designed to provide more opportunity. However, there is a lot of evidence—and we have to be clear on this when we talk about changes of behavior, there's a lot of evidence of changing behavior by firms that hire large numbers of low-wage workers in high turnover positions. They have worked diligently to maximize their credits, but being largely indifferent to the impact upon the workers who are getting hired.

I'm sure that the IG is within the ballpark, if that's right to say during the strike, anyway, in the ballpark in saying 92 percent of the credits are windfalls. Consequently, we should ask what is the proper response to TJTC failure?

And I think it is not to continue the program as is or to delay changes until some future study is made or that sort of thing. There should be only two options under consideration: No. 1, termination, as the IG recommended, or, No. 2, significant immediate changes.

And I reject recommending termination personally, not because of any merits in the current TJTC, but, rather, because of the continued deterioration in the employment opportunities for disadvantaged workers, especially minority youth.

In the absence of a national full employment program, simple justice requires attention be given to targeting employment and training resources on this population. However, if the disadvantaged are to be helped, fundamental change, not more studies, must be made in the credit.

Subsidizing high-turnover, low-paying jobs must be replaced with credits which encourage employers to offer targeted workers living wages and stable opportunities. To respond to Mr. Rush's wish for formal—or for specific reform proposals, I have included in my written statement, and would be glad to review, some specific changes in the current law related to the credit percentage and the wage base upon which the credit is earned, which I think should greatly reduce windfall credits while increasing TJTC impact on the poor.

Since relatively few of the current TJTC jobs should qualify under a revised formula, such as the one I have proposed, there would be adequate savings, compared to the existing program, with this revised formula to pay for a new, larger program focusing on encouraging the creation of good jobs.

In addition to reforming the rate at which the credit is earned, administrative changes should be made to prevent retroactivity, that is determining eligibility after people are already working and to encourage TJTC vouchering. And having administered a program in the 1980's, I sympathize with the Texas Employment Commission about the shortage of funds.

After these short-run reforms have been instituted, a study, as favored by Doug Ross, could commence reviewing the impact of those reforms to better target the subsidy on permanent jobs. If subsequent studies found that, even with reforms, the program isn't helping get more jobs, then I think we could confidently agree with the IG that outright termination is the only solution.

[The prepared statement of Mr. Lorenz follows:]

STATEMENT OF EDWARD C. LORENZ, ASSOCIATE PROFESSOR OF HISTORY AND POLITICAL SCIENCE, ALMA COLLEGE, ALMA, MICHIGAN

Mr. Chairman, I am very pleased to have this opportunity to present to you a summary of my research into the Targeted Jobs Tax Credit's success in improving employment opportunities for the disadvantaged and the disabled. I hope to address two issues in my oral testimony:

1. Provide an independent analysis of the recent TJTC findings of the Inspector General of the Department of Labor, and

2. Make some concrete proposals, based upon the results of scientific studies of the credit, regarding credit reform or termination.

In addition to reviewing these points orally, I have attached to my written statement a revised version of my most recent TJTC study, which will appear in the Spring 1995 Journal of Policy Analysis and Management. That study focuses not only on the Inspector General's findings and reform proposals, but also has a detailed analysis of the failure of the current TJTC, with special attention to the failure of the TJTC evaluation and oversight process.

Before beginning my comments about TJTC, I hope I can make a few observations about my qualifications for and interest in TJTC analysis. First, I have conducted several studies of the credit, including two research projects evaluating TJTC's impact on income. These studies were done for the National Commission for Employment Policy at the request of the Committee on Ways and Means. Second, I am an academic historian and political scientist without personal financial interest, other than as a tax paying citizen, in the outcome of the credit renewal process. Even my travel to these hearings is paid for by my College. Third, I have had intimate experience with the credit on a non-academic level, having served as Maryland TJTC Coordinator from the inception of the program in 1979 through the middle 1980's.

The above are not meant to imply I have only an indirect interest in credit renewal. As a teacher of Political Science, and current President of the Michigan Conference of Political Science, I am passionately committed to improving the policy process. I spend much time in teaching and research seeking to increase my student's sense of political efficacy. I teach them to be appalled when the Long Term Public Interest is sacrificed for the benefit of a few affluent and influential individuals and firms. While control of self-interest is a timeless problem of our free government, I urge students to become committed to controlling self interest and to trusting our system can control it. When it does not do so, as in the case of TJTC, I want the policy changed.

Ultimately, I am most concerned with TJTC because of our pressing need to address the declining employment prospects for the poor, disabled, and minorities. The new global economy threatens to make them special victims. This concern also relates to my teaching. One of my classes this term is the History Seminar in 20th Century American Social Reform. My students are studying a generation of reformers who brought justice, hope, and opportunity to an earlier group of disadvantaged workers. I would not be true to the purpose of that class and to my own mentors at the University of Chicago, if I were not determined to use my knowledge of social policy to reform TJTC.

The publication in the last year of two reports from the Department of Labor's (DOL) Inspector General [IG] documenting the failure of the Targeted Jobs Tax Credit (TJTC) has reignited the debate about the continuation of the credit. That debate has been a heated one ever since studies in the early 1980's documented fundamental weaknesses, if not failures in the program. Yet, each time TJTC faced renewal, despite considerable evidence of problems, it has been renewed, often with minor changes which made failure more likely. In fact, the findings of the Inspector General are not in the least surprising, given the earlier social scientific research on TJTC, some of which I conducted, and most of which has been part of the record of the TJTC oversight process.

Among the comparable studies of TJTC impact which used "a 'carefully constructed methodology'" were two conducted for the House Committee on Ways and Means by the National Commission for Employment Policy, the first in 1985, with a follow-up in 1988. I use the words "Carefully constructed methodology," because the Employment and Training Administrator said in response to the IG report that reform should be delayed until after such a study. I would maintain more than enough such studies have been done to begin credit reform.

For example, the two NCEP studies assessed the success of the program in raising the earnings and improving job retention of program participants. Furthermore, the Inspector General's national report contains considerable information on worker retention and income which may be correlated with the NCEP data to see if the two studies reinforce or contradict each other. Since both studies call for major change in employment tax credit policy, the reports' consistency, based on data independently collected over many years, would represent a powerful argument for reform.

The Inspector General's August 1994 report identifies the following specific earnings and retention findings which can be compared to NCEP data:

1. "One of three employees (37%) was paid at or below the minimum wage prescribed by law; for all TJTC jobs in our sample, starting wages averaged $4.96."

2. "Two of three employees (61%) worked part-time."

3. "One of four employees (25%) worked in eating and drinking

establishments . . ."

4. "Three of four employees (76%) were no longer with the TJTC employer five quarters after being hired."

5. "TJTC employees' average annual earnings were $7,738 (*$4.96 average hourly wage X 30 average hours per week X 52 weeks*)."

Quite significantly, the NCEP findings fully support, sometimes more negatively, each of these measurements by the Inspector General. Of course, the NCEP study often asked slightly different questions or collected data in slightly different ways than did the Inspector General. Most different was the selection of the NCEP samples. The NCEP wanted to answer questions about variations in program impact by race, sex, and targeted group. Therefore a stratified random sample was constructed to assure each category had a significant number of cases. Consequently, the total NCEP sample was composed of groups of nearly equal numbers, while the actual TJTC participation by group varies greatly, with over half in one category and as few as three percent in another used in the NCEP studies. This sampling procedure made combining NCEP group data into a "TJTC average" unnecessary. Because data varied only little by group, the NCEP group data can be averaged for a rough estimate of total NCEP findings.

Tracking a stratified random sample of 1,808 people vouchered in 1982, the NCEP studies reviewed incomes after two and five years and compared them to pre-employment earnings. In addition to sorting data by targeted group, race, and sex, the study distinguished whether or not the voucher was retroactive. A comparison group of workers found eligible but not hired was included. While the studies found significant income gains for all participant categories in the first year after vouchering, by the fifth year, two-thirds of the groups no longer had significantly better incomes than the comparison groups. Perhaps most disturbing, only one of seven minority categories continued to have significantly higher income after five years.

The starting wages earned by workers in the NCEP study were very similar to those found by the Inspector General, if changes in the value of the dollar are considered. For persons vouchered before hire, the average starting wage was $3.60/hour (in 1982). For those found eligible retroactively (after hire), it was $3.45/hour. Converting these to 1993 dollars, the vouchered starting wage averaged $5.29 and the retroactive $5.07. The IG's figure would be $5.23 (in 1993 dollars).

In the Inspector General's national study, sixty one percent of workers hired under TJTC in 1991 worked part-time. While the NCEP study did not ask if the initial job was part-time, it did report mean income figures as well as track those who earned a full credit for their employer. Both of these numbers reveal the proportion of workers working sufficient hours to approach the earnings of a full-time minimum wage worker (*52 weeks X 35 hours X*

\$3.35/hour or \$6,097/year). In contrast to the IG, which found 39 percent of TJTC workers working full-time, only 28 percent of the vouchered workers in the NCEP sample achieved minimal full-time earnings (\$6,000/year) and only 25 percent of the retroactively certified.

The Inspector General's national report found concentrations of TJTC hires in job classifications and industries which traditionally offer little opportunity for advancement. The NCEP study data agrees with the IG's conclusions. Table 1, below shows the comparison. The general point of these data is that TJTC led to few jobs in occupations usually associated with opportunity.

TABLE 1
TJTC PLACEMENTS BY JOB CLASSIFICATION

JOB CATEGORIES	IG PERCENT	NCEP PERCENT
Prof./Mgmt.	3.2	2.8
Clerical/Sales	38.5	23.8
Service	37.6	47.5
Ag/Forest/Fish	0.2	0.8
Processing	2.5	4.3
Machine Trades	3.2	3.0
Benchwork	4.8	9.0
Structural	2.9	1.5
Miscellaneous	7.2	7.5

Likewise the industry data of the firms employing the TJTC eligibles shows remarkable similarities between the NCEP and IG data. This data is shown in Table 2, below.

TABLE 2
TJTC PLACEMENTS BY INDUSTRY

INDUSTRY	IG PERCENT	NCEP VOUCHERED	RETROACTIVE
Service	17.5	26	35
Wholesale/Retail	66.4	43	53
Manufacturing	10.9	18	9
Other	5.2	13	3

A notable fact reported in both NCEP reports, but ignored in most others, including the IG report, is the rather significant differences in the experiences of those vouchered before hire and the retroactively certified. While both were heavily concentrated in retailing and services, clearly the vouchered were less so. This difference supports the assumption of the original TJTC supporters that vouchering is a valued part of the program. Unfortunately, pre-employment vouchering has been minimized in recent years for all but the handicapped.

Another impact upon workers measured by the Inspector General was retention. The IG found that 76 percent of workers hired under TJTC were no longer with their employer after five quarters. The NCEP study, while measuring credits earned by employers rather than quarters of retention, found 72 percent were gone after one year. Obviously, retention has remained a problem of TJTC, and one with a direct impact upon the earnings of TJTC workers.

The Inspector General used the mean wages and hours and average weeks of employment of TJTC hires to calculate a mean annual income for participants. Assuming a 1993 wage of $5.23 and 30 hours of work in an average week multiplied by 52 weeks, the IG annual income would be $8,162. The NCEP computed annual income by tracking actual wages paid by the TJTC employer to those in the stratified sample. Those vouchered before hire earned a mean annual income (in 1993 dollars) of $5,929. The retroactives earned $5,620 (in 1993 dollars). Here the Inspector General's figures are considerably more positive than those of the NCEP study. The differences may result from the different sampling used in the NCEP and IG research, as well as from the two methods of determining annual income. Since the NCEP data are less positive than the IG findings, the IG conclusion would only be reinforced, that, "We question whether better results should be expected of activities subsidized with public funds." Clearly, the current TJTC has failed to achieve dramatic changes in the employment opportunities and earnings of the disadvantaged.

The failure of TJTC resulted from both some of the assumptions inherent in most tax credit and vouchering schemes and in some of the specific TJTC rules that carry those assumptions to extremes. TJTC experience does not prove that vouchering and tax incentives will not work to redistribute opportunity. It does indicate that a sophisticated understanding of the limits of human rationality, as well as aggressive and competent public management, and rigorous empirical program evaluation are essential if minimally managed tax credit programs are to succeed. Discounting the need for competent, if minimal, management, underestimating the influence of special interests, or replacing empirical analysis with rational argument doom such policies to distortions that benefit only organized interests, not the disadvantaged. The integrity of minimally managed redistributive programs can be protected by emphasis on independent, empirical impact assessment, competent administration by the remaining public managers, and the aggressive search for widespread participation in the policy.

INCREMENTAL REFORM:

As the eleventh expiration of TJTC approaches, given the extensive evidence of failure, there should be only two options under consideration:

1. Termination; or

2. Significant short-run changes, followed by complete reform or redesign during the coming year.

The primary reason for rejecting credit termination has nothing to do with the merits of the current TJTC structure but rather arises solely from the continued deterioration in employment opportunities for disadvantaged workers, especially minority youth. Simple justice requires that, in the absence of a national full employment program, attention be given to targeting employment and training resources on this population. While the recently implemented empowerment zone program may do some of that, the number of empowerment zones is so limited that they can impact only a fraction of the disadvantaged population.

However, if the reason for not terminating TJTC is to help the disadvantaged find jobs, fundamental change must be made immediately in the credit. There is no reason to delay taking action that would reduce, if not eliminate, most of the current windfalls. Current subsidies for high turnover, low paying jobs need to be replaced with credits earned by employers who change their employment practices and give opportunity to the economically disadvantaged and the disabled. This change can be dealt with quite simply by changes in a few lines in the current tax law.

The change most likely to increase significantly TJTC's impact on the poor is to reform the credit percentage and the wage base upon which it is earned. The following formula would be one way to institute this reform:

1. A credit of 10% of the first $4,000 paid in the first six months of employment, for those workers retained at least three months but not beyond one year;

2. A credit of 20% on wages above the first $4,000 but under the first $8,000 paid in the first year of employment for those retained between six months and one year, but terminated before the end of the first year;

3. A credit of 40% of the first $15,000 in wages for workers retained for more than one year; and

4. A credit of 20% of the first $15,000 in wages paid in the second year of employment, available only for those earning at least $7,500 in the first year of employment.

Since relatively few of the current jobs eligible for the credit would qualify for a significant subsidy under this revised formula, there would be adequate savings to pay for the new larger credits.

In addition to reforming the rate at which the credit is earned, certifications should only be allowed on workers interviewed in person and found eligible by participating agencies before the first day of employment. This change would free the staff of agencies such as the Job Service from the current burden of processing thousands of letters requesting credits and allow them to focus upon vouchering job seekers. Regulations should be changed to require that the vouchering agency staff inform job seekers referred by potential employers of the right to use the voucher at any business.

After these short-run reforms have been made, a study could commence reviewing their impact and proposing redesign to better target the subsidy on permanent jobs with training opportunity. The study also should examine the vouchering process to make certain there is vigorous outreach to job seekers and a cross section of the business community. If the reforms result in better job opportunities for the disadvantaged, the reformed credit should be made permanent, so employers and communities with large eligible populations could plan its use when making location and production decisions. If studies find the reformed credits are not stimulating more jobs for the poor, then employment tax credits can be abandoned as insufficient to overcome education and geographic barriers to employment of the disadvantaged.

Mrs. THURMAN [presiding]. Miss Jackson, it is my understanding you have a plane to catch at noon.

Ms. JACKSON. Yes.

Mrs. THURMAN. If we could deviate for the members, if there are any questions for Miss Jackson, we might hear from her before we hear from Lori Sterner.

Mr. RUSH. Madam Chairman, I just think if she has a noon plane, she better get out of here.

Ms. JACKSON. It's not at 12 it's at 12:45.

Mr. ZELIFF. I guess on a nonpartisan basis, we would agree.

Mr. RUSH. Thank you so much.

Ms. JACKSON. Thank you.

Mrs. THURMAN. We thank you for appearing. And if we have any additional questions, we will probably ask you to respond to them.

Ms. JACKSON. That will be fine. Be happy to.

Mrs. THURMAN. I appreciate that.

Miss Sterner, thank you for allowing us to do that for a few minutes.

Ms. STERNER. Thank you. Thank you for the opportunity to speak today. My name is Lori Sterner. I am sponsored here today by the Governmental Affairs Committee of the Minnesota Rehabilitation Association, as well as my employer, Access to Employment located in Minneapolis, MN and Grand Rapids, Minnesota.

I come to express my experience with the program as having worked with this agency for eight and a half years now, providing placement services to people, particularly with disabilities, and other barriers to employment, as well.

Access to Employment's belief is that people with disabilities have been denied for too long equal opportunity to employment. The population we serve has been traditionally unemployed as well as underemployed. We take an approach to not only place people in jobs that exist, but to create jobs because the people we serve are so significantly disabled that there isn't always a job for them to walk into. So we have to work with employers to create opportunities tailored to their unique abilities. That's when TJTC becomes very important, because an incentive like that entices the employer to create the opportunity and to be supportive of the unique needs of the person and allow the extra time they will need to learn the job.

Our consumers fit target eligibility in the following areas, people who have completed a VR program with the State of Minnesota or with the Veterans Affairs, General Assistance recipients, SSI recipients, and persons in other work incentive programs.

Our program matches candidates that have qualifications to jobs in which they are interested, therefore, we go after jobs that will increase their chance of retention. We assist employers to obtain TJTC vouchers and to complete the entire certification process for the qualified applicants.

Access to Employment provides services to approximately 175 consumers at any given time. That's in both communities that we serve. Approximately 75 to 80 percent of our consumers are employed at any given time. The average wage is $1.61, through the use of subminimum wage certificates, to a high of $11.92. Our average wage is just over $5.

These are not typically, then, high paying jobs, but as I said, because we match our candidates to the jobs they want, they do select the industries that they want to work in. Typically, people do work in hospitality industries. There is a high turnover, but the people we place want to work there and TJTC becomes the incentive to gain that employment.

Access to employment supports the targeted jobs tax credit program because it has provided an incentive to employers to provide increased opportunities to persons in the targeted groups. TJTC has opened doors for more people to become productive members of the work force. More people in the work force means more taxpayers to support Federal programs. Targeted job tax credit has allowed persons in targeted groups to gain skills and experience through the best possible means. That is, on the job.

More persons with disabilities in the work force then educates employers as well as the general population that people with disabilities do have skills and abilities similar to the majority of persons. Targeted job tax credit then ultimately enhances the recipient's chance for job success and retention. Thank you. That is all I have.

Mrs. THURMAN. Thank you, Ms. Sterner. Mr. Carey, it's commendable that you were recommending changes to improve the TJTC rather than terminate it in view of the many problems your members have experienced with it.

If the credit were tied to health benefits, higher pay, much longer retention and compliance with the EEO and other Federal laws as you suggest, would it attract employers at all?

Mr. CAREY. I think it would, and I think that was the basic concept when it was drafted, that it was to provide the kind of opportunities. If, in fact, disadvantaged individuals are given a job and the job does not provide for the kind of benefits that you spoke about, then it's transition, and all it is is a musical chair for more subsidies by the taxpayers.

Mrs. THURMAN. If these were done, would you also support increasing the $2,400 credit?

Mr. CAREY. Yes, I would.

Mrs. THURMAN. The problem you described where the tax credit enabled one contractor to underbid another is troublesome. How would you suggest you deal with it?

Mr. CAREY. Well, I think there's a fair bidding process that could take place. I don't know that there is a magic bullet for that particular problem.

Certainly, anyone who receives entitlement under these programs should live up to a code of conduct. I also urge that the employment period under which companies would receive this should be extended. The jobs should have stability. What's the sense of putting people into this job and then six or eight or a year later, they go somewhere else?

Mrs. THURMAN. Mr. Currie, let——

Mr. CAREY. Madam Chairperson, there was a question raised by Congressman Shays with respect to Borg Warner having its opportunity to defend itself. I might say that in 1989, Borg Warner testified on TJTC. And I just wanted to have that on the record. Thank you.

Mrs. THURMAN. Testified to whom?

Mr. CAREY. The Ways and Means Committee. Thank you.

Mrs. THURMAN. OK. Mr. Shays, we'll see if we can't get that testimony then.

Mr. Currie, just out of curiosity, you have mentioned that you've actually been with them for 11 years?

Mr. CURRIE. Yes, ma'am.

Mrs. THURMAN. And you went from, what's it, 10-something or 11——

Mr. CURRIE. $9.18 an hour.

Mrs. THURMAN. To $5 today.

Mr. CURRIE. Yes.

Mrs. THURMAN. After being trained and coming in, and 11 years is a long time to be there, have—what would be the reason for staying? I mean I'm just curious.

Mr. CURRIE. Well, as far as my training goes, none was ever provided. It's more like trial and error. You're sent out on your own. You tell them you know the city, you know locations, you know the State. They'll try you, and if you prove successful, then so to speak, you're on the inside. But as far as my staying there, things weren't always that bad.

Like I said, at $9.18 an hour, I was quite comfortable. I had benefits, health insurance, dental, everything. But since Pony took it over, everything's declined, gone backward. Instead of progressing, it's been regression.

Mrs. THURMAN. Have you looked for other employment?

Mr. CURRIE. Yes, ma'am. I don't want to make this a personal issue.

Mrs. THURMAN. That's fine.

Mr. CURRIE. I'm a disabled veteran, Vietnam vet, and I don't want this to be personal. But a lot of other employers, once they found out that you do have a disability, then they want nothing to do with you. So I was fortunate in that reason, because I was able to just hang on.

Mrs. THURMAN. Thank you.

Ms. Tully, it sounds as if Marriott is using the TJTC program the way it was intended. That is, reaching out to hire the hard-to-employ and using some of the tax credits to give them extra services. Approximately how many people did Marriott hire under this program last year? And we've actually—and then are going to, if you have got the information, break it down to the disabled, Vietnam veterans and ex-offenders.

Ms. TULLY. I'm sorry, I don't have those figures with me.

Mrs. THURMAN. Do you think you could get those to this committee for the record?

Ms. TULLY. Yes, I can get them.

Mrs. THURMAN. We'd appreciate that.

[The information referred to follows:]

	ALL YEARS		1991		1992	
Catagory A	1,750	5.62%	594	6.32%	509	6.27% Voc. Rehab. Associates
Catagory B	15,698	50.45%	5,050	53.71%	4,250	52.33% Disadvantaged Youth
Catagory C	733	2.36%	215	2.29%	203	2.50% Viet Nam Veterans
Catagory D	864	2.78%	188	2.00%	186	2.29% SSI Recipients
Catagory E	3,261	10.48%	962	10.23%	774	9.53% General Assistance
Catagory F	76	0.24%	22	0.23%	15	0.18% Co-op Students
Catagory G	1,155	3.71%	312	3.32%	298	3.67% Ex-Felons
Catagory H	6,376	20.49%	1,793	19.07%	1,580	19.46% AFDC Recipients
Catagory J	1,205	3.87%	266	2.83%	306	3.77% Summer Youth
TOTAL	31,118		9,402		8,121	

	1993		1994	
Catagory A	390	5.73%	257	3.78% Voc. Rehab. Associates
Catagory B	3,433	50.47%	2,965	43.65% Disadvantaged Youth
Catagory C	180	2.65%	135	1.99% Viet Nam Veterans
Catagory D	198	2.91%	292	4.30% SSI Recipients
Catagory E	602	8.85%	923	13.59% General Assistance
Catagory F	16	0.24%	23	0.34% Co-op Students
Catagory G	284	4.18%	261	3.84% Ex-Felons
Catagory H	1,473	21.66%	1,530	22.52% AFDC Recipients
Catagory J	226	3.32%	407	5.99% Summer Youth
TOTAL	6,802		6,793	

"PATHWAYS TO INDEPENDENCE...A TRAINING FOR JOBS PROGRAM"

Marriott's Community Employment and Training Programs (CETP) department has developed a training program called "Pathways to Independence...A Training for Jobs Program." Ordinarily, another training program would be of minimal interest, but there are several things about "Pathways to Independence" that make it quite unique.

First, and foremost, the program works. That in itself is noteworthy. It has proven to be very effective in the training and retention of entry level associates at a number of locations. "Pathways" has been successfully implemented in Atlanta, GA; El Paso, TX; New Orleans, LA; and Chicago, IL.

"Pathways to Independence" was created in order to meet guidelines set up by state and federal employment and training sources. They required that a training program be unique and separate from the "normal" training given to new employees in order to qualify for funding. As a result of in-house research our CETP group found that many entry level associates terminated their employment during the first 180 days. Most left the job, voluntarily or involuntarily, <u>not</u> because they were unable to perform the technical aspects of the job, but because they lacked basic skills in one or more areas related to social, cultural or individual behavior.

As a result, "Pathways to Independence" was designed to address their needs with customized modules focusing on areas directly related to performance on the job. Some of the modules are:

- Importance of Teamwork
- Dependability
- Attitude
- Stress Management
- Personal Finance
- Importance of Self-Esteem
- Communication with Co-workers and Supervisors
- Accepting and Giving Criticism

The training manual is very user-friendly and enables the trainer to conduct classes with a minimum of exposure to the material. "Pathways" classes are extremely participatory and successful completers report feeling a true part of the Marriott team.

Initial publicity concerning the "Pathways to Independence" training program has resulted in an external management company contracting with our CETP department to provide "Pathways" training to 300 Native Americans from the Omaha tribe in Macy, Nebraska.

This is a "Win-Win" program. People who need an extra hand in beginning their work experience get extra support and we get a better prepared associate, reduce our turnover, and have an associate who treats our guests well.

MARRIOTT INTERNATIONAL
TJTC CATEGORY BREAKDOWNS

	ALL YEARS		1991		1992		1993		1994	
Voc. Rehab. Associates	1,750	5.62%	594	6.32%	509	6.27%	390	5.73%	257	3.78%
Disadvantaged Youth	15,698	50.45%	5,050	53.71%	4,250	52.33%	3,433	50.47%	2,965	43.65%
Viet Nam Veterans	733	2.36%	215	2.29%	203	2.50%	180	2.65%	135	1.99%
SSI Recipients	864	2.78%	188	2.00%	186	2.29%	198	2.91%	292	4.30%
General Assistance	3,261	10.48%	962	10.23%	774	9.53%	602	8.85%	923	13.59%
Co-op Students	76	0.24%	22	0.23%	15	0.18%	16	0.24%	23	0.34%
Ex-Felons	1,155	3.71%	312	3.32%	298	3.67%	284	4.18%	261	3.84%
AFDC Recipients	6,376	20.49%	1,793	19.07%	1,580	19.46%	1,473	21.66%	1,530	22.52%
Summer Youth	1,205	3.87%	266	2.83%	306	3.77%	226	3.32%	407	5.99%
TOTAL	31,118		9,402		8,121		6,802		6,793	

Mrs. THURMAN. Do you find that turnover is a problem? Or are you able to claim the full $2,400 credit for them before that actually happens?

Ms. TULLY. Turnover is, in an entry-level position, is always a problem, it's always an issue, and it's something we try and keep very, very low. Contrary to the belief that because the person completes the TJTC eligibility that a company would want to turn them over, I can only speak for Marriott. By the time somebody has been it's either—it's somewhere around 5 or 6 months after we've hired them that they would complete their eligibility. We have, by that time, invested a tremendous amount of time and effort in training. And if we have a good employee, we very much want them to stay.

There's no way that we would try and turn over an employee like that just because the TJTC eligibility had run out. The big asset to it is that the additional time and effort and patience that's involved in working with people who have been structurally unemployed, in the first couple of months of employment. That's how we market it to our properties, to say that, well, at least at that point in time, some of the wages are offset by the targeted job tax credit program.

By the time they're there 5 or 6 months, they're working very, very well, and they're a valued employee. I mean we wouldn't want to turn somebody over we spent all that time training. I don't understand that concept.

Mrs. THURMAN. Let me ask a question here. However, it's my understanding in most jobs you go through training, whether you happen to be in this program or another program. Do you have any numbers or anything that shows where those that are in the program turn over more so than those that go through other training programs that you might have?

Ms. TULLY. Years ago, they did a study with the program to see—I was concerned about it because they were trying to pigeonhole TJTC-eligible people, and I had a problem with that. But what they did was did all the study and checked it out and at the time we came that there was very, very little difference. The only difference was that with the TJTC-eligible people stayed longer than those who were not TJTC-eligible.

The numbers were not big enough to make a big, big statement about it. But I do know that in many cases and in many of our operations, that additional time up front, time and training that's spent helps them to have a basis to keep them going later on.

Mrs. THURMAN. And then do you ever do any tracking when they leave? Do they go to a higher paying job, are they—I mean——

Ms. TULLY. Oh, a lot of them go to higher—to other jobs. We don't know exactly what they make. But at that point, after you've worked 5 or 6 months, now they have an employment history. When they fill out an application, they can say they worked somewhere, which makes them a lot more valuable to another employer. Whereas when we got them, they had been out of work maybe anywhere from 6 months to 2 years or maybe hadn't worked at all.

Even if they do turn over in 6 months, they have some work experience and we all know now, I mean really and truly, it is so much easier to find a job when you have a job. So they're there, they can go around and have the luxury of looking to see if they want something else. Maybe the hospitality business isn't for them, or whatever they want. But their self-esteem is certainly higher and they're certainly a much more marketable person.

Mrs. THURMAN. Mr. Zeliff.

Mr. ZELIFF. Thank you. I just—you know, the first two panels here seem to be overwhelmingly against. And I was hesitant to use this as an example, but as an employer, I'd like to give you two examples that we dealt with. And just on the record.

One is a guy that we hired that's still working for us. He's been with us for 8 years. He was hired as a dishwasher under this program. He then got promoted to a prep person, then went to a line cook. He is an assistant chef today. He will probably be moving out of the area in another few months.

Another guy was hired as a dishwasher. He stayed for 5 years, did not have potential to go beyond that, had a severe disability. We had to work with job coaches and put extra effort in order to bring him up even to minimum skills to do that job. Ended up getting married and left the area. But there's two examples where the program worked.

Marriott's examples, I think, are examples where the program worked. And I think what we're trying to do here today, unlike the Department of Labor, which hasn't, in my judgment, really tried to figure out how to make the program work. It would seem to me that they would have a successful program user, such as you, before them, not tomorrow morning but, you know, maybe yesterday before this hearing or at some point meeting with lots of employers to figure out what's working and what's not. And I would like to have you, if you would, submit for the record copies of, if you're willing to, your training program, your outreach program, so that maybe we can pass them on to them.

If in the event this gets extended, let's try to make the thing work. Let's find out what it is that's working for you, and particularly if we can come up with some kind of reference or proof that shows stability, how long are you keeping your employees, like the two examples I just used, and I just—I'm just kind of glad to see in your case that there's an example where perhaps it is working.

Where I'm concerned here is if we drop this program and we don't replace it with something that will work for disabilities, you know, and hard-to-hire people, hard to employ, people who need help, that they're just going to get caught up and lost in the shuffle. And I think that's irresponsible on our part as well.

And, Mr. Carey, I would like to just—maybe that testimony was submitted to Ways and Means in 1989 or 1988, but I do feel that Pony Express, and I have—I don't even know who they are. I don't do any business with them, but certainly they should have a right to be able to give their side of their point of view. And I share some of your concerns and some of the testimony in terms of results, but if you have, as Marriott has expressed, any additional information where you could—where we can take this program and make it work better, not concentrating on the abuses, I mean we can beat up on Pony Express all day long, but, you know, is there any information that you might have after thinking through the testimony that you could add to make this thing work? Or should we just drop it? And if we do drop it then, you know, I go back to my concern. What are we going to do for the hard to employ?

Mr. CAREY. Well, I have submitted specific recommendations in my written statement and I agree, obviously, they should have the opportunity to defend themselves and they were quite aware that we would be here. And I'm supportive of the program. And, again, if it still doesn't work, we ought not meddle with it. We ought to end it and dismantle it.

Mr. ZELIFF. You're—you're a guy that's got some great experience you might be able to share with us. In terms of disabilities, forgetting about this program, are there other programs that the Federal Government is using that are more effective?

Mr. CAREY. I don't have——

Mr. ZELIFF. Or are there any programs that the union would recommend, things that we should be doing that we're not doing?

Mr. CAREY. Yes, and I will not take the time of this committee to go through some of them. You've been patient with us. But I will certainly be submitting additional recommendations so that it can help this committee make some decisions.

Mrs. THURMAN. Mr. Zeliff, if you will let me just—in his written testimony, there are about five recommendations and proposals that he has offered to this committee, for your information.

Mr. ZELIFF. Let me just make one final comment, and I know Mr. Shays will have some comments. But I think what I am hearing, the thing that worries me more than anything else, is the lack of management on the part of the Department of Labor. And I mean there's no management, there's no review, doesn't seem to be much guidance and there seems to be little or no followup. And I think that's something that concerns me, not only in this program, but also in other job training programs. And what I hate to see happening here is we just dismantle a program where we see some examples where it can work.

It would seem to me that if we're going to put Federal programs out, there should be good, effective outreach on the part of the Department of Labor. There should be some good guidance and followup. And maybe with your—if you can send us that material and put it on the record, maybe we can use that as part of our final evaluation. Unfortunately, we have a week or two here, and this is—this whole thing is probably going to get lost in the shuffle. But thank you very much.

Mrs. THURMAN. Mr. Lorenz, did you want to respond?

Mr. LORENZ. Yes, I just wanted to add something that Mr. Zeliff asked earlier, about New Hampshire. And you may be interested that one of the interesting studies of TJTC was one done in New Hampshire about 2½ years ago by a summer intern who worked for the New Hampshire Department of Employment Security, called, "TJTC, Who Does It Benefit." And made some recommendations that basically are the same ones we have agreed with when I did the work with the National Commission for Employment Policy, about altering the credit amount to benefit New Hampshire residents more. I could get a copy of that, if you can't.

Mr. ZELIFF. Sure. And I wonder, with your experience, would we be better off just giving a State a block grant and let them come up with tailor-made programs for disabilities and handicapped and economically disadvantaged, based on, you know, New Hampshire's circumstances instead of the Federal Government stuffing a program down our throat that may or may not work?

Mr. LORENZ. I think there's a possibility, obviously, of more flexibility with that. I don't think so much the eligibility is a problem. You know, we have seen in different States, different utilization rates for different groups, the handicapped in some States more so than a large economically disadvantaged population. I think it's the administrative support, and the credit formula that really is a key.

You know, one thing to realize, since 1978, we've dropped the actual net credit from a $4,500 credit in 1978 dollars, to a $2,400 credit in 1994 dollars. The 1978 credit, if we still had it and had increased it with the rate of inflation, would be something like a $9,000 credit, which I think would go much further to encourage the right type of employment. And it was a 2-year credit, until the mid-1980's, to encourage retention. You got two-thirds of the credit the first year, a third the second. And in one of our cost cutting moves in the 1980's, we cut out the second year credit, which was the very heart of rewording the retention that we all hope happens. So I think if we just went back to that, we'd be making a major reform.

Mr. ZELIFF. Thank you.

Mrs. THURMAN. Mr. Shays.

Mr. SHAYS. Thank you. Mr. Carey, I wish I'd waited two more sentences, because you were all done, and I would have not had to interrupt you and I apologize for that.

I agree with the general thrust that if a company is abusing other issues and it's related, that it's pertinent testimony. I just wasn't sure how much longer it was going to go. I thank you as well for your five recommendations and I'm going to come back to one of them, because it is—the irony of the IG's office and the Labor Department coming and testifying without recommendations boggles my mind.

Mrs. THURMAN. Duly noted.

Mr. SHAYS. And you all coming with recommendations. I had the sense that the Department doesn't want to rescue it and they're not going to go out of their way to try to help us show how it can be saved. Because intuitively, there is tremendous merit with this program. I'm struck by hearing testimony and, Mr. Currie, let me just say to you that you are one of the most articulate people who have come before the committee. I was noticing that you had prepared testimony and you were adlibbing, and you also sensed the mood of the committee as well. So you are a very smart man besides.

Mr. CURRIE. Thank you.

Mr. SHAYS. So you are certainly a gift to whomever has the opportunity to have you work for them. You're very articulate. I've not recalled someone in your situation being so articulate. The thing that's interesting to me is what would be the logic of having 90 days, and then getting past the credit? It would seem to me there should be a logical year before you get that credit. And it does seem to me, like Marriott, that you have to—you have to invest some blood, sweat, and tears in that employee. So that you have something at stake.

And it seems to me, if someone's willing to invest some blood, sweat, and tears in an employee and some training, that then we've achieved everything we wanted to achieve. And I just open that up for comment. I mean some of you have touched on it, but wouldn't this be the central, the reform that would be necessary? And maybe—I wish you all had testified first and then we had the Department of Labor come, because my question to them would be why not do it for a year, why not require that there be some investment and training that they can show, and then it would seem to me there wouldn't be the same kind of abuse.

Ms. TULLY. I am trying to understand, you're saying that you wouldn't be eligible to take the credit before a year, is that what you're saying?

Mr. SHAYS. Why should you get the credit after only 90 days? My understanding, the way the program works, you hire someone for 90 days. If they leave on the 120th day, you still get the benefit, correct?

Ms. TULLY. Yes, yes.

Mr. SHAYS. That's crazy to me. On the face of it, it seems crazy. I'd love to have someone defend it.

Ms. TULLY. Well, at that point you've already invested an awful lot of time, blood, sweat and tears in someone, 90 days.

Mr. SHAYS. You have, you have. But I get the sense, with individual companies like the company you work for, sir, that they're basically saying here is the job, go out and do it. I mean I'm not hearing the other side, but that's the general thrust. That doesn't strike me as training. It strikes me as if, by the way, you want to leave in 90 days, we are not going to lose much sleep about it.

Mr. LORENZ. That's why I think changing the credit as you're alluding to is the major reform that could completely alter the impact of TJTC. If the credit were not loaded up front so that you get your credit very quickly at the beginning—you know, now it's 40 percent of the first 6,000 in wages. If you pay that in a part of a year, you get your full credit, and there's no longer an incentive to do anything. The credit should be redesigned to reward the employer who retains for the long term, and to reward those who pay at least somewhat higher wages, which we're not rewarding now either.

Mr. SHAYS. Right. Mr. Zeliff was mentioning in his private employment how the program works. But in the public sector, I believe an employer should be reaching out. I felt our own office should, congressionally.

Our first experience was with someone who was off welfare, I interviewed the person, I said what happens if you fail. She said I'd try harder next time. I hired her. But our first experience was, our very first call was from a veteran, and my office manager called me up, said, Chris, we have a problem.

She got this call, she did just as you said, she asked about what she didn't understand. And one of her questions was what's a veteran? And we realized in a congressional office, that's not the kind of question you want to ask. But for 6 months, we worked with this person, and bless her heart, and she made incremental improvement, and then she finally decided to leave. We spent more time than usual and we got back a dear person, but I can understand the disincentives to an employer sometimes.

She didn't have the wealth of information and background we needed, but then we did it again with someone else, and it was highly successful. A little bit of work effort, and now we have a great employee, an employee that can move right through the system that we have. So we would never have that employee had we not made a proactive effort. That's my point. And so Marriott is doing that, you know, but I hear the abuses you're saying.

That gets to the last point that one of your recommendations is to improve the employment wage level, so jobs are not just at the lowest level. My challenge with that, though, is that realistically someone who is new to the work force is going to be at that level.

Mr. CAREY. I think it is, and I think I have to commend Janet in the things that are happening in that company, where they're investing in employees. I mean it just doesn't make sense to me why employees would make that kind of investment, the taxpayers would make that kind of investment, and then have it transition people in and out. It should be used for the right things, and, again, I think we've heard some of them here today. It has to be tightened up so that the program works as it originally was designed. And today, what we tried to do was to connect with you and with this subcommittee the real world issues, what is happening out there.

Now, again, I certainly hope that Borg Warner has its opportunity to come and to present its arguments and to tell its side of the story. But this is the abuse and this subcommittee is here dealing with that issue.

Mr. SHAYS. I just would conclude, and I thank all of those who have testified, and appreciate the recommendations that this panel has made to improve the program. I wish we had heard the recommendation in the previous panel, but I just believe that there are parts to this program that have to be very beneficial. It would be a shame if inaction or just a lack of interest allows the program to die. But I couldn't vote for it the way it is today.

I mean I think we have to incorporate a number of the recommendations that you both have made. And they don't seem like difficult—it doesn't strike me that these are—that it took a rocket scientist, with all due respect, to come up with these recommendations. That's why it's particularly unsettling that the Labor Department hasn't done that.

Ms. TULLY. They may be aware of it. I guess their problem is in how are they going to administrate it. I guess that's their concern.

Mr. SHAYS. Could I just ask one question? We're paying administrative costs of about $30 million? Is that——

Ms. SIMONSON. Used to be.

Mr. SHAYS. But you're suggesting, your last recommendation, I believe, Mr. Carey, that we set up an office to administer the program. It would be nice if we didn't have to do that. It would be nice if—I mean the woman, Ms. Jackson, who left, and showed me the regulations, I was thinking, my God, that's all we had? It struck me that—I mean that's an improvement. Seems to me we should be able to run the program without a lot of regulation, there should be periodic audits and if you aren't abiding by it in the correct way, then you get fined. Without a lot of government red tape. Anyway, thank you.

Mrs. THURMAN. Thank you, Mr. Shays. I have a couple of questions here that the chairman had asked me to ask, so if you'll bear with me, we'll kind of go through them.

Ms. Tully, do you believe that giving a credit to employers for hiring the disadvantaged is a form of stereotyping, and are we saying that these groups are necessarily less productive or desirable workers?

Ms. TULLY. I think it's—we are targeting people who have barriers to employment, people who do not have a work history. And, yes, those are going to fit in the disadvantaged categories.

You get caught in the middle of something when you are in the interviewing process, we can't ask the questions that would put them in a certain category, to say a particular disadvantaged youth. So you see whether they have any work history or not, but when you're in the interview process, you're asking the questions, and all you can tell, that this person really doesn't have a lot of work experience and, is likely to be TJTC eligible. We got more involved in this when we did outreach for TJTC, so we had more numbers of people who were eligible. And one of the things that came out in our training classes and our focus groups, was a lot of these people felt that—just say, for example, 15 to 20 sick days a year was acceptable, no problem with that.

What would be—why would any employer be upset with something like that? I think unless I was chronically ill or I had some kind of an illness, I don't think I'd be around. If I had 20 sick days a year, I mean that's just not—you can't run a business. So we sat down and that's when we got involved in the training modules, to say, well, if you were running a business and, somebody who you hired to work 5 days a week was scheduled—we got into the logic of it and back and forth. That's when we went and spent all the extra time with people who don't have good work history or just a good work ethic, just to know what's required. And in a way, yes, they do target that type of group, but they do give them a lot of extra time and effort in the beginning of it idealistically.

Mrs. THURMAN. Ms. Sterner, could you give me your view on that question as well?

Ms. STERNER. Sure. Could you repeat the question?

Mrs. THURMAN. Sure. Do you believe that giving the credit to employers for hiring the disadvantaged is a form of stereotyping? And are we saying that these groups are necessarily less productive or desirable workers?

Ms. STERNER. I don't believe it's stereotyping. These people that we serve have often never had the opportunity to work in the community in independent, integrated settings. And so certainly there's a certain amount of stereotyping that will go with people's attitudes as they see these people enter the work force.

Our presence with them, because we do offer job coaching, you could say could be added to further stigmatizing them. However, never given that opportunity to see them gain work skills and then advance along a career path and become, a member of the work force, the alternative would be worse.

Mrs. THURMAN. When employers hire TJTC workers whom you refer, do you provide training or other special services for them?

Ms. STERNER. Yes, we do. We always offer that, anyway. It's our belief that the training can enhance the person's retention, so we try to educate the employer that we can be used as an extension of their training process. Typically, these individuals do need more training than the average person. It involves some of the blood, sweat and tears that's been alluded to on the employer's part. But once you can get past that point where the person has learned the job and is doing very well, then that investment was worth it.

And Mr. Shays mentioned about a longer period before the credit kicked in. I think that would be an advantage to ensuring the retention and having less abuse occur for people who take advantage of the program solely to get the credit and then turn it over and hire another person.

Mrs. THURMAN. Now, do they pay you——

Ms. STERNER. No.

Mrs. THURMAN [continuing]. For doing this?

Ms. STERNER. No. We are funded by the State and county, so the State of Minnesota and the counties of Hennepin and Itasca, which we are located in. No, there's no cost at all to the employer. That's another incentive that we offer. We market ourselves that way.

Mrs. THURMAN. Since the Americans with Disabilities Act became effective, do you find less need for the cash inducement of the tax credits to persuade employers to hire your clients?

Ms. STERNER. I don't know if I've ever looked at the two together like that. We've never used TJTC as an incentive unless—you know, if it wasn't needed. If an employer will hire someone on their own merits, on their own qualifications, we always think that's preferable. Not everyone is eligible for TJTC that we serve as well. They don't fit the criteria of the people we do place with TJTC, I suppose it's about 50 percent of the people we place.

Mrs. THURMAN. OK. Mr. Zeliff.

Mr. ZELIFF. No further questions.

Mrs. THURMAN. Let me just thank all of you—oh, Mr. Shays, I thought you had——

Mr. SHAYS. I'm all done.

Mrs. THURMAN. The witnesses for their testimony, and we'll certainly, I think, probably have some interesting arguments on the floor if we ever get to this issue again in ways that we might contribute it better. But we thank you for being so honest and up front with us and letting us know how you feel. And this hearing is adjourned.

[Whereupon, at 12:24 p.m., the committee was adjourned.]

[Additional information submitted for the hearing record follows:]

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D C 20210

NOV 8 1994

The Honorable Collin C. Peterson
Chairman, Subcommittee on
Employment, Housing and Aviation
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Peterson:

This is in reference to your letter of September 23, 1994, requesting specific information on the Targeted Jobs Tax Credit (TJTC) program:

- What did the Macro Systems study of TJTC cost? What was the cost of any other Labor Department studies of the program over the past 10 years?

The cost of the Macro Systems study in 1986 was $416,802.60. The study of TJTC done by TVT Associates in 1991 cost $119,000.

- What changes in the program have been made or recommended to Congress on the basis of these studies?

No changes nor recommendations were made to the TJTC program as a result of these studies. However, changes made since 1986 include:

- 50% to 40% limitation on an employee's qualified wages for the first year; and

- elimination of 23-24 year old disadvantaged category.

- Since you have requested no funding for the program for Fiscal Year 1995, how will the program be administered if it is reauthorized?

If the TJTC program is reauthorized, we would ask for a supplemental budget to administer the program.

- We heard testimony that the Employment Service funding is quite inadequate for its responsibilities under TJTC. How much money would be required to implement the current law satisfactorily?

-2-

We estimate that $25 million would be needed to implement the current provisions of the TJTC program.

We hope these responses will answer your inquiries sufficiently.

Sincerely,

Doug Ross

American
Hotel & Motel
Association

James E. Gaffigan
Vice President, Governmental Affairs

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September 20, 1994

The Honorable Collin C. Peterson
Chairman Subcommittee on Employment,
Housing and Aviation
House Government Operations Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Peterson:

The American Hotel & Motel Association, the trade association of the lodging industry, representing in excess of 10,000 properties through a federation of state and local lodging associations offers the following comments for the record of the Subcommittee's September 20, 1994, hearing on the Targeted Jobs Tax Credit.

The Targeted Jobs Tax Credit (TJTC) has proven to be an effective program for companies in our industry, having a positive effect on the hiring of individuals in the designated categories. The existence of a partial tax credit has helped offset higher training costs, initial lower productivity, and the extra expenditure of management time necessary to bring these employees up to levels of productivity equivalent to others in the work force. By allowing companies a method of offsetting those costs, TJTC has created a positive incentive to seek out and hire qualifying individuals.

Much has been made of statements suggesting that many if not most individuals hired under TJTC would have been hired anyway to fill positions and that therefore TJTC is ineffective. We believe this is not the case. While it is admittedly true that positions in our industry and other industries will be filled when vacancies exist, it is less likely that they would be filled with individuals who are TJTC qualified absent the program. The very lack of job skills and access to the job market which has kept these individuals out of the job market would continue to be a bar to them absent the TJTC program. The program exists because it was recognized that some individuals need help in breaking into the job market. TJTC provides that help by creating an incentive for employers

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which balances out the extra costs associated with bringing a less qualified person into the work place. In addition it identifies individuals for willing employers to bring into the work force. It is a classic win-win situation.

Despite the fact that this program has been disrupted several times by limited extensions which have been allowed to lapse and by short term renewals, it continues to be strongly supported both by business groups and individuals who are benefited by the opportunities created. TJTC should remain available on a reliable basis into the future to continue the salutary effect it has had on bringing into the work force individuals in the disadvantaged categories targeted by this law.

Sincerely,

James E. Gaffigan

James E. Gaffigan
Vice President, Governmental Affairs

JEG:kmj

Marriott

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October 21, 1994

The Honorable Collin C. Peterson
Chairman
Employment, Housing & Aviation Subcommittee
2157 RHOB
Washington, D.C. 20515-6143

Dear Congressman Peterson:

Thank you for your inquiry of September 27, 1994 regarding Marriott's experience with the TJTC program. In response to your questions:

1) IS TURNOVER OF TJTC WORKERS A BIG PROBLEM OR ARE YOU ABLE TO CLAIM THE FULL $2,400 FOR MOST OF THEM?

Turnover for TJTC workers is the same and often less than non-TJTC workers. It is not a problem for us, and in many cases we are able to claim the full credit. At Marriott, because of the Corporate tax-rate, we claim a maximum of $1,560 net tax credit. However I would like to point out that since an employer may not claim the business expense for the deduction of wages to the extent he claims the credit, the maximum credit is worth only $1,560.00, not $2,400.00.

2) ALTHOUGH YOU DID NOT TESTIFY ABOUT AN INCREASED RETENTION PERIOD, DO YOU BELIEVE IT WOULD IMPROVE THE PROGRAM? WHAT ABOUT A CREDIT FOR THE SECOND YEAR?

I believe an increased retention plan would be helpful, but is not necessary. As I have testified, I believe the most difficult adjustment for TJTC workers is during the first six months of employment. That is the time when it is most necessary for employers to invest more time in them. They have little or no work ethic, as many of them have been on welfare or some form of assistance. I want to take the opportunity to clarify what I believe is a complete misunderstanding of the corporate psychology. No employer would fire a worker who had been with them for a number of months merely to get the TJTC credit, which hardly covers the costs involved in training a new worker. What employer would disrupt his workplace for a meager tax incentive? It makes no sense.

3) WOULD A REQUIREMENT THAT TJTC WORKERS BE VOUCHERED OR CERTIFIED BEFORE HIRING BE AN OBSTACLE TO MARRIOTT'S USE OF THE PROGRAM?

If Congress would propose a system whereby we could SCREEN AND IDENTIFY TJTC eligible persons before making a hiring decision, this would not be an obstacle and would most likely increase our involvement in the program. I urge you to consider the terminology that is used when looking at this option. If you were to consider having the TJTC workers vouchered or certified, it would be a tremendous obstacle if we were dependent on the job services, or other government entities, to perform these administrative tasks. The amount of time necessary to complete this task by their office would definitely end any participation in the program. If the employer was to pre-screen during the application process (with the blessing of the EEOC, of course) then TJTC would be taken into consideration in every case prior to the job offer. After all, isn't that what you really want?.

I hope my responses adequately respond to your inquiries. If there are any other questions that I may respond to, please do not hesitate to ask.

Sincerely,

Janet M. Tully
Director
Community Employment & Training Programs

JMT/jh

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