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UNTIL 12 NOON (EST)

February 13, 1976

Office of the White House Press Secretary

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THE WHITE HOUSE

BACKGROUND INFORMATION

REASONS FOR THE PRESIDENT'S VETO  
TO H.R. 5247, THE  
"PUBLIC WORKS EMPLOYMENT ACT OF 1975"

Summary of Reasons for the Veto:

The President opposes this bill for the following principal reasons:

- It would not be effective in creating jobs for the unemployed.
- . Relatively few new jobs would be created. The estimates by the bill's sponsors that it will create 600,000 to 800,000 jobs are not supportable. A more realistic estimate is a total of 250,000 person-years of employment spread over a number of years, with a peak impact of only 100,000 to 120,000 jobs.
- . By comparison, the employment statistics for January 1976 showed a one month increase in employment of 800,000, and a reduction of over 450,000 in the number of unemployed in the labor force.
- . Most of the relatively small number of new jobs produced by these programs would come in late 1977 and 1978, not now. Because public works projects are notoriously slow in creating jobs, the peak impact would occur in late 1977 or in 1978, when the economy will be well along the road to full recovery and the added stimulus is likely to be counterproductive.
- . The cost to the taxpayers of producing jobs under this bill would be unreasonably high, probably in excess of \$25,000 per year of employment.
- . Many of the jobs funded under this bill would simply replace jobs funded from other sources, without a real increase in employment.
- . Excessive Federal spending as represented by this kind of bill can close the door on reducing income taxes of families and businesses, which is a far more effective way of stimulating the economy and investment and creating good jobs, both in construction and in the production of goods and services.
- . This bill will contribute significantly to excessive Federal deficits, which draw capital resources away from the private sector, due to increased Federal borrowing, and inhibit the growth of private employment which is needed to sustain economic prosperity.

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- The direct cash assistance to State and local governments under Title II of the bill would provide undesirable incentives and is inequitable.
  - . It addresses the cyclical problems of State and local governments just at the time when those problems are beginning to abate, and when, generally, the revenues of those governments will be rising faster than their expenditures.
  - . It gives preference to those with the highest taxes and the biggest budgets, without any distinction between those jurisdictions which have and those which haven't been efficient in holding down costs. This could weaken incentives to improve government productivity and end low-priority spending.
- The proposed public works programs would result in a poor allocation of capital resources.
  - . Unlike construction in the private sector, public works construction does not add to the tax base of the communities.
  - . Although it won't speed up the creation of jobs, the premium on speed in obligating the funds will encourage many to apply for money for projects which are of low community priority but which can be quickly packaged into a grant request.
  - . The 100% Federal funding of specific public works may encourage irresponsibility by State and local officials who would not have to account to their constituents for the construction of unnecessary or extravagant public facilities with Federal funds.
- The bill would authorize funding which would push Federal spending to even higher levels.
  - . 1977 spending could be increased by about \$2.5 billion. 1978 spending could grow by over \$1 billion, and spending in 1979 and beyond would be increased by another \$1.5 billion or more.
  - . Although over 90% of the outlays from the bill would occur after fiscal year 1976, Congress has proposed this without considering the total budget picture for 1977 and beyond. Congress has not identified acceptable program reductions that could offset the cost increases of this bill.
- Much of the bill is completely unrelated to current unemployment problems.
  - . The allocation formula for Title II does not limit the grants to areas of very high unemployment. The rate of local taxation is a large part of the allocation formula.

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- . The \$1.4 billion increase for wastewater treatment facilities grants is not an anti-recession action. It would have no impact on jobs now. With the current legislation expiring, it is important that the Congress consider the Administration's proposals for program reforms before authorizing additional funds.
  - . The \$100 million for an urban renewal program to be administered by the Commerce Department clearly would have no short-term impact.
- The bill would be almost impossible to administer effectively.
- . Effective allocation of \$2.5 billion for Title I public works on a project-by-project basis would take many months or years.
  - . The provision that project requests be approved automatically unless the Commerce Department acts within 60 days will preclude any useful review of the requests, and prevent a rational allocation of funds.
  - . The bill extends the Job Opportunities program, which is almost impossible to administer effectively due to the complex process for allocating funds through other Federal agencies on a project-by-project basis.
  - . The provision in Title III to permit interest subsidy grants to private businesses provides no criteria for allocating this subsidy. It would be very difficult, if not impossible, to provide this subsidy only to those firms which need it in order to maintain or increase their employment levels.
- The bill would resurrect an ineffective urban renewal program in the Commerce Department.
- . It would create a new categorical grant program for urban renewal less than two years after the Congress replaced a nearly identical program, and others, with the broader, more flexible Community Development block grant program.
  - . All activities and cities eligible under the proposed program already are eligible under the block grant program; the bill merely duplicates existing authorities.
  - . The Commerce Department has no experience with urban renewal, and is not equipped to effectively administer such a program.
  - . The current program of the Commerce Department to assist economic development activities in areas of chronically high unemployment or low income would be disrupted and distorted.
- The President has proposed realistic alternatives to overcome the unemployment problems and avoid a new round of inflation. These proposals will avoid the problems mentioned above.

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- . The 1976 Budget includes more than \$18 billion in outlays for important public works such as roads, energy facilities, wastewater treatment plants, and veterans' hospitals. The 1977 Budget will increase spending for these public works by more than \$3 billion, or nearly 17%. The spending level already included in the Budget for 1977 will finance public works that are really needed and which can be funded efficiently in the next 15 to 18 months.
- . Tax incentives are proposed for private construction initiated in the next year in areas of high unemployment which will result in much quicker and much more effective creation of jobs.
- . Renewal of the General Revenue Sharing program will permit State and local governments to maintain employment in basic services.
- . Additional permanent income tax reductions of over \$10 billion will permit a quick and major increase in take-home pay, in buying power and in private investment, all of which will create real, rewarding jobs in the private sector.
- . The 1977 Budget provides \$3.2 billion for Community Development block grants to States and local governments -- about \$450 million more than in 1976. These grants are allocated on the basis of relative need, and permit the States and local governments to carefully plan for the use of these funds.
- . Tax incentives are proposed for investment in residential mortgages by financial institutions, to stimulate capital for homes rather than for public monuments.
- . Tax incentives are proposed to induce broader ownership of common stock to stimulate investment which will provide long term productive jobs, rather than increasing public, make-work jobs.
- . The President's economic policies are expected to foster the creation of 2 to 2.5 million additional jobs in 1977. This will include jobs for nearly one million of those now unemployed, as well as about 2.5 million jobs for workers who will be entering the labor force during this period.

In his veto message, the President indicated that he believes an alternative proposal before the Congress, H.R. 11860, represents a more reasonable approach in addressing the immediate needs of those areas of the country with exceptionally high unemployment rates.

- . Under H.R. 11860, the funds would be provided to communities with unemployment in excess of 8% and would provide them in direct proportion to unemployment beyond 8%. The program would be in effect only as long as national unemployment exceeds 7%.

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- . Also under H.R. 11860, funds would be provided for distribution each calendar quarter in an amount determined by multiplying \$15 million times each 1/10 of 1% by which unemployment in the next preceeding quarter exceeds 7%.
- . The Community Development Block Grant Program is already in place with an experienced staff and regulations and could be administered without the creation of a new bureaucracy and without the delay which would be encountered under H.R. 5247.
- . The program would fund eligible activities based on priorities identified by local governments as part of their community development programs.

The following paragraphs discuss several of the above points in more detail.

Public Works Construction Is Not Effective in Creating Jobs Quickly

The bulk of the funds that would be authorized by this bill would be used for public works, including \$2.5 billion for Title I, \$1.4 billion for EPA wastewater treatment facilities and \$600 million for other Commerce Department public works programs.

For more than four years the Economic Development Administration has been trying to find the fastest ways to create jobs through public works projects. This effort, the Public Works Impact Program (PWIP), has shown the difficulty of quickly creating jobs for the unemployed by funding public works.

The facts are as follows. During the year in which the funds are appropriated for accelerated public works, only 10% of the funds are actually spent. During the full second year after appropriations, half of the funds are used. And after four years, 10% of the funds are still not spent for the approved projects.

It is very time consuming for the Federal government to allocate a large amount of money on a project-by-project basis. Even with the small PWIP program, it has required about 9 months to allocate the funds to individual projects. It has taken about 17 months from the time of appropriation to get all of the approved projects under construction. And two years after appropriation of funds, only about 60% of the projects were completed.

Although Title I of the bill requires that the Commerce Department must approve or reject applications for funding within 60 days of receipt of the applications, this will not assure speedy allocation of these funds. The bill provides that appropriations may be provided at any time through the end of fiscal year 1977, which may delay

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allocations. Applications for funding may straggle in over a period of many months. Many of the initial applications might have to be rejected and resubmitted due to inadequate information. Accordingly, even with the 60 day approval or rejection requirement, it could take 18 months or longer to allocate all of the funds.

Once the funds are allocated, it can be expected that startup and construction of the projects will be no faster, and more likely slower, than the experience with PWIP projects.

Thus, we can expect that it would be late 1977 or early 1978 before all of the projects to be authorized by this bill will be under construction. It will be 1980 or later before all of the projects are completed.

Appendix A is a table that provides the most optimistic estimate of the speed with which the funds would be spent. It is likely to be more realistic to move most of these spending estimates to about one year later than shown on the table.

Estimate that 600,000 to 800,000 Jobs Would be Created is Unfounded

Sponsors of the bill have asserted that it would provide work for 600,000 to 800,000 people, primarily as a result of public works projects. This estimate is entirely unrealistic. A much more likely estimate is 250,000 years of employment over the next five years with a peak of about 100,000 to 120,000 in 1977 or early 1978.

When the House acted on its original bill to provide \$5 billion for public works grants, it was estimated by the Congress that it would produce about 250,000 jobs. We now have a \$6.3 billion bill, which includes \$1.5 billion in programs with almost no new job impact, and yet the employment estimates have suddenly increased by 320%.

Although there are no firm figures on jobs generated by construction, studies of employment in construction conducted by the Bureau of Labor Statistics show that a \$1 billion (1974 dollars) public works program would provide only about 40,000 years of employment, off-site and on-site. Including multiplier efforts there would be 60,000 years of employment created by \$1 billion in public works spending. Based on the optimistic spending estimates shown in Appendix A, the peak spending for public works in 1977 would produce a maximum of about 90,000 years. Since construction wages and other costs will be higher in 1977 and beyond than they were in 1974, these estimates of jobs could be high.

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It is very difficult to estimate the number of jobs that would be created by the \$1.6 billion in countercyclical grants (Title II).

There is substantial indication that State and local governments would not use much of these funds to hire additional personnel. Studies of revenue sharing have shown that State and local governments increased their purchases of goods and services by roughly one-third of the amount they received. The remainder was used to repay debt and reduce taxes. In addition, recent experience with public service employment indicates that, after the first year of funding, State and local governments may increase employment by only 10 to 40 percent of the number of public service jobs directly funded by the Federal government. Despite numerous regulations to make it difficult to substitute public service employment for regular employment, the practice is widespread. Title II of this bill would contain no requirements that these funds be used for additional jobs or even to maintain existing jobs.

The maximum expected payment under Title II of the bill is \$375 million per quarter. If as much as 50% of this were used for added jobs, it might create as many as 75,000 jobs. Given the experience with similar programs, it is more likely that only 10 to 20% of the funds would be used for added jobs, providing only 15-30,000 new jobs.

In summary, the peak employment impact is unlikely to exceed about 150,000, and is more likely to be near 100,000 to 120,000 sometime in fiscal year 1977 or 1978. Total employment is likely to be about 250,000 years, spread over five years or more.

If the bill provided a total of 250,000 years of employment, the average cost per job would be about \$25,000.

The Title II Countercyclical Assistance Grants Would Encourage Government Inefficiency and Would be Inequitable

The recent financial difficulties which have been facing many cities and other local governments have forced many to undertake a long-needed examination of their spending programs to identify the excesses and the inefficiencies. There is no doubt but that some local governments had reached a spending level that they simply will be unable to sustain in the long-term.

Title II allocates funds in large part on the basis of what the governments spend rather than what they need. More funds would be provided to those States and local governments with higher taxes, including those which have been least efficient in holding down costs. The proposed countercyclical assistance grants would take pressures off those States and local governments to more carefully evaluate their activities in terms of benefits produced. If the program becomes permanent, it will allow those governments to avoid economy measures, and then to further expand their programs as their tax revenue increases with the resurgence of the economy. They would be led to expect still more Federal assistance the next time they are in financial difficulty.

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The estimates of allocations to specific states and cities clearly show some of the distortions created by the formula. Eight States would receive about 65% of the Title II funds, including both the local and State allocations. This is over \$1 billion of the \$1.6 billion estimated for the Title. Also the program would disproportionately aid New York City, which would receive about \$150 million of the total of \$1.6 billion. This is more than three times as much as any other city would receive. New York City already is receiving special Federal assistance to alleviate its financial problems.

In addition to the above problems with the program, it would be very costly to administer. The Treasury Department's preliminary estimates show that it would require approximately 750 additional employees and approximately \$43 million to administer the countercyclical aid program, as contrasted to 110 employees and \$11 million currently devoted to administration of the entire General Revenue Sharing program.

\$1.4 Billion for EPA Sewage Treatment Grants is Unneeded and Irrelevant to Current Unemployment Problems

The purpose of this provision of the bill is completely unrelated to the purported desire to create jobs quickly for the unemployed.

Even if EPA were to use these added funds now, they would have almost no job creating impact in the next two years. It is simply not practical to significantly accelerate the construction of such facilities.

The real purpose of this provision is to change the formula for the allocation of funds under the wastewater treatment grant program of EPA. This would provide an additional \$1.4 billion to a large number of states without having considered essential reforms to the current law which could require an expenditure of at least \$333 billion to fully implement.

It Would Be Administratively Impossible to Effectively Allocate Over \$3 Billion for Public Works Projects Quickly

This bill requires that the Commerce Department attempt to allocate over \$3 billion, on a project-by-project basis, in a matter of a few months. All past experience would force a conclusion that this would be reckless and irresponsible.

Even without any substantive review of requests for funding, it is highly unlikely that the Department could physically process the tens of thousands of requests and the thousands of awards that would be involved, in less than nine months.

The Department's recent experience with the Job Opportunities program illustrates the point. After its initial experience in allocating \$125 million, it still required six months for Commerce and the cooperating agencies to allocate the additional \$375 million. Also, that allocation was done with only a minimum amount of substantive review of the proposals by the agencies.

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The Department received a good deal of criticism from Congress for relying too heavily on objective criteria to make the \$375 million allocation, rather than reviewing each particular project.

With over \$3 billion to award, the Department is likely to be faced with the choice of taking many months to do a responsible job, or taking nine months or more to throw Federal tax dollars at projects as they come through the door.

Large Amounts for Spending on High Priority Public Works are Already In the 1976 and 1977 Budgets

The attached table shows the amounts of expected spending for public works in the President's Budgets for 1976 and 1977. In 1976, a total of over \$18 billion is provided. This includes over \$11 billion in grants to state and local governments. In 1977, the spending for public works would increase by 17% or by over \$3 billion.

The spending for public works in the Budget is focused on the highest priority national needs, including energy, pollution abatement, flood control, and transportation. The Budget estimates reflect expected spending on projects which are already in the planning stages or under construction. Therefore, the \$3 billion increase will be providing jobs in 1977, rather than in 1978 or 1979. These projects will be helping us achieve important national objectives while at the same time providing employment opportunities.

There are adequate spending levels already in the 1977 Budget for those public works projects that are really needed.

Additional stimulus to private sector employment also would be provided by a 23% increase in spending in the 1977 Budget for major equipment purchases. Spending for this purpose is to increase by \$3.9 billion over 1976, to \$20.7 billion.

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Changes in Public Works Outlays, Fiscal Year 1976-77  
(in millions of dollars)

| <u>Description</u>   | <u>1976</u>   | <u>1977</u>   | <u>Change</u> |
|--|---------------|---------------|---------------|
| <u>Direct construction</u>   |               |               |               |
| Civilian programs:   |               |               |               |
| FAP: Strategic petroleum storage.....                                  | 11            | 164           | 153           |
| Agr: Forest Service roads and trails<br>and other.....                 | 135           | 173           | 38            |
| Corps of Engineers: construction and<br>flood control.....             | 1,367         | 1,424         | 57            |
| Int: Bureau of Reclamation.....  | 410           | 507           | 97            |
| Bonneville.....  | 135           | 150           | 15            |
| NPS, BIA, and other.....   | 273           | 252           | -21           |
| HEW: Indian health facilities,<br>NIH, other.....                      | 162           | 138           | -24           |
| DOT: Coast Guard facilities.....                                       | 78            | 63            | -15           |
| FAA airway systems.....  | 231           | 236           | 5             |
| ERDA: Plant, capital equipment, other..                                | 439           | 672           | 233           |
| NASA: Plant and equipment.....   | 115           | 126           | 11            |
| VA: Hospitals and other.....   | 186           | 303           | 117           |
| TVA: Power facilities.....   | 1,038         | 1,137         | 99            |
| All other.....   | 174           | 165           | -9            |
| Subtotal, civilian programs.....                                       | <u>4,754</u>  | <u>5,510</u>  | <u>756</u>    |
| Defense programs:  |               |               |               |
| DOD: Military construction.....  | 1,713         | 1,710         | -3            |
| Family housing.....  | 320           | 287           | -33           |
| ERDA: Plant and equipment.....   | 204           | 215           | 11            |
| Subtotal, defense programs.....  | <u>2,237</u>  | <u>2,212</u>  | <u>-25</u>    |
| Total, direct construction.....  | <u>6,991</u>  | <u>7,722</u>  | <u>731</u>    |
| <u>Grants to State and local governments</u>                           |               |               |               |
| FAP: Appalachian regional development..                                | 248           | 242           | -6            |
| Agr: Water and waste disposal, rural<br>development, conservation..... | 198           | 190           | -8            |
| Com: EDA and other.....  | 183           | 154           | -29           |
| HEW: Health.....   | 213           | 184           | -29           |
| Education and other.....   | 51            | 36            | -15           |
| Int: Land and water conservation<br>and other.....                     | 274           | 275           | 1             |
| DOT: Airports.....   | 375           | 355           | -20           |
| Highways.....  | 6,202         | 6,711         | 509           |
| Mass transit.....  | 573           | 1,179         | 606           |
| EPA.....   | 2,350         | 3,770         | 1,420         |
| All other.....   | 563           | 442           | -121          |
| Total, grants to State and<br>local governments.....                   | <u>11,230</u> | <u>13,538</u> | <u>2,308</u>  |
| Total public works.....  | <u>18,221</u> | <u>21,260</u> | <u>3,039</u>  |

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APPENDIX A

Estimates of Outlays  
Local Public Works Capital Development and  
Investment Act (H.R. 5247)

(Dollars in Millions)

| <u>Program</u>   | <u>Total<br/>Amount<br/>Authorized</u> | <u>Outlays<sup>1/</sup></u>  |              |              |             |                       |
|--|--|------------------------------|--------------|--------------|-------------|-----------------------|
|  |  | <u>1976<br/>&amp;<br/>TO</u> | <u>1977</u>  | <u>1978</u>  | <u>1979</u> | <u>After<br/>1979</u> |
| Title I, Public works grants <sup>2/</sup>               | 2,500                                  | 248                          | 1,230        | 638          | 137         | 247                   |
| Title II, Countercyclical grants                         | 1,625 <sup>3/</sup>                    | 750                          | 875          |              |             |                       |
| Title III  |  |                              |              |              |             |                       |
| . Interest subsidies <sup>4/</sup>                       | 125                                    | 5                            | 25           | 25           | 25          | 45                    |
| . Job opportunities grants <sup>5/</sup>                 | 500                                    | 50                           | 246          | 128          | 27          | 49                    |
| . Urban Development <sup>6/</sup>                        | 100                                    | 1                            | 19           | 29           | 22          | 29                    |
| . EPA wastewater treatment facility grants <sup>7/</sup> | 1,418                                  | 0                            | 30           | 300          | 700         | 388                   |
| <b>Total</b>   | <b>6,268</b>                           | <b>1,054</b>                 | <b>2,425</b> | <b>1,120</b> | <b>911</b>  | <b>758</b>            |

<sup>1/</sup> The outlay estimates assume that initial appropriations would be provided by about March 1, 1976.

<sup>2/</sup> This assumes that all funds would be obligated between May 1 and September 30, 1976. Since appropriations are authorized through fiscal year 1977, it may not be realistic to assume that all of the funds would even be available by September 30, 1976. In any case, it would be very difficult, if not impossible, to allocate this sum in such a short time, on a project-by-project basis. The estimate of outlays is based on four years of actual experience with EDA's Public Works Impact Program, which provides for accelerated public works to create temporary jobs. Considering the large size of this proposed program, and the likely resulting delays in starting projects, it would be more likely that the outlay peak would occur in 1978 rather than 1977.

<sup>3/</sup> This amount would depend on national unemployment rates. This estimate is based on the rates used in the 1977 Budget projections.

<sup>4/</sup> The outlays for this interest subsidy program would likely be spread out over the terms of the loans being guaranteed. It is assumed that loans would have terms of about 5 years.

<sup>5/</sup> In view of the changes in the Job Opportunities program in this bill, it is expected that most of these funds would be used for public works. The outlay estimate assumes the same spending rate as for Title I projects.

<sup>6/</sup> This program would have the same timing characteristics as EDA's regular development programs. The outlay estimates are based on actual experience with EDA's regular public works programs.

<sup>7/</sup> This estimate assumes that these funds would be obligated in 1977 and that outlays would occur approximately at the same rate as for the current EPA grants.