United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, Committee on Appropriations
House of Representatives

For Release on Delivery
Expected at 2:00 p.m., EST
Wednesday, January 18, 1995

DEPARTMENT OF LABOR

Opportunities to Realize Savings

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061943/153350

GAO/T-HEHS-95-55

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present information on the program activities of the U.S. Department of Labor that we believe will assist you as this Subcommittee considers proposed budget reductions and rescissions.

In understanding the Labor Department's budget, it is useful to keep three points in mind. First, although Labor's fiscal year 1995 budget of $34.3 billion is substantial, much of it--about two-thirds--is composed of mandatory spending on income maintenance programs. Second, of the remaining $10.7 billion financing Labor's other functions, about $6.9 billion is allocated to employment training activities--this is about eight times its planned expenditure of $863 million on enforcing workplace standards governing areas such as minimum wages, pensions, and occupational safety and health. Finally, the remaining $2.93 billion represents planned expenditures primarily on state unemployment insurance (UI) program administration ($2.4 billion),[1] with the remainder representing expenditures on the Bureau of Labor Statistics, Labor's Inspector General, and other activities.

Most of Labor's mandatory spending is composed of state unemployment insurance benefits (UI)--expenditures originating mostly from state employer payroll taxes that pass through various federal trust funds before being paid to unemployed workers. The amount of UI spending in a state is largely a function of the level of economic activity in a particular state.[2]

In recent years, we have reviewed many of Labor's programs and can therefore identify potential areas where this Subcommittee may look for budget savings. Our testimony will focus on programs, such as the Job Training Partnership Act (JTPA) Title IIC, program for disadvantaged youth and the Job Corps program, that may yield budget savings. We will also address program areas, such as the general consolidation of federal employment training programs, that may provide savings in future years, some of which are predicated on legislative action. Although we generally do not highlight

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[1]Although the Congress annually appropriates funds for the administration of state UI programs, the funds are obtained from a trust fund, the Employment Security Administrative Account, which is earmarked for the administration of state UI and Employment Service programs. The fund is financed with revenues from a federal payroll tax on employers, the Federal Unemployment Tax Act tax or "FUTA" tax.

[2]The payment of UI benefits is largely governed by state law. The federal UI trust fund is presently masking some of the federal deficit because of its fiscal year 1994 surplus of about $500 million--the difference between its revenues of $22.5 billion from the payment of taxes and outlays of about $22 billion in the form of benefits to unemployed workers.

specific budgetary savings nor do we provide an exhaustive list of areas for budgetary review, we believe that the program areas we identify can help the Subcommittee in the important but very difficult task at hand.

In developing this information, we relied on three broad criteria to select programs for budget review that were most likely to yield budgetary savings. First, we identified those programs that received budget increases in fiscal year 1995, or who demonstrated an inability to spend prior years' allocations, and whose effectiveness has been questioned in work by us, Labor's Inspector General, or other researchers. Second, we identified those programs that did not receive an increase but whose effectiveness has also been questioned. Finally, we selected areas that we believe may duplicate or overlap services or functions provided by more than one entity in the Labor Department or by other departments in addition to Labor.

BACKGROUND

Since the early 1960s, the Department has focused its training activities on serving economically disadvantaged individuals with little work experience and low skill and education levels through federally administered employment training programs. With the enactment of JTPA in 1982, the Department's role has largely followed a "hands off" approach with respect to carrying out the program and has assumed a role of providing overall policy guidance, technical assistance, and limited oversight. Funding for programs to serve the economically disadvantaged has remained relatively steady over the last decade.[3] However, funding for assistance to dislocated workers, those workers unemployed because of plant closures or permanent layoffs, has increased substantially in the last few years from $283 million in fiscal year 1989 to $1.3 billion in fiscal year 1995. The Department estimates that in fiscal year 1995 these employment training programs will serve over 2.4 million individuals.

Over the last 15 years, the Department's workplace enforcement operations have declined even as the scope of its regulatory mandate has grown.[4] For example, between 1980 and 1994, Labor's Wage and Hour Division, which enforces the Fair Labor Standards Act, the Family and Medical Leave Act, and other laws, has seen the number of its compliance officers decline 34 percent from 1,098 to

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[3]Funding for the Labor Department's employment training activities peaked in 1977 at $12.7 billion.

[4]Labor has also experienced a long-term decline in staffing, from over 24,000 full-time equivalents in fiscal year 1980 to 17,700 in fiscal year 1995.

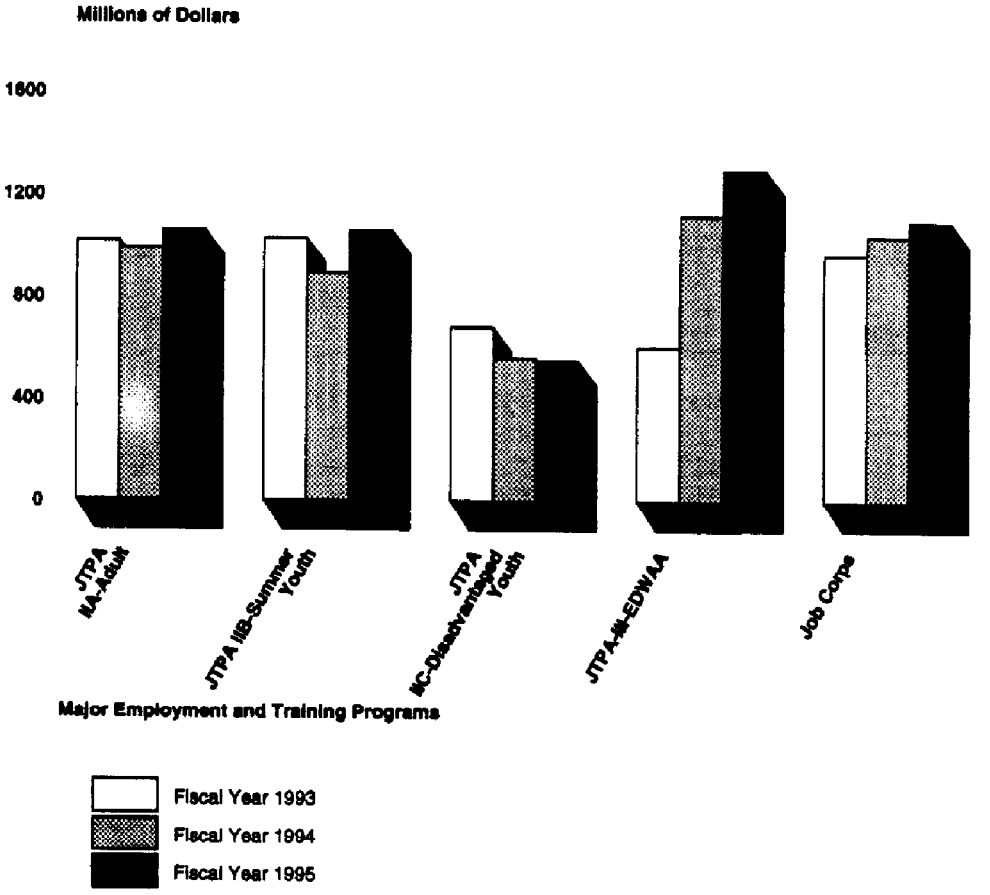
727. The Office of Federal Contract Compliance (OFCCP), which enforces federal laws and regulations that prohibit federal contractors and subcontractors from discriminating in employment and hiring, experienced a 37-percent decline, from 780 to 488. And, today about 2,000 federal and state Occupational Safety and Health inspectors are responsible for over 6 million workplaces. These declines occurred despite a growing economy that brought millions of new workplaces and employees under the protection of these agencies. In addition, the Labor Department's workplace mission has been expanded. Since 1970, 11 laws requiring Labor's enforcement have been enacted.

EMPLOYMENT TRAINING PROGRAMS

In Labor's employment training area, we identified several programs with the potential for savings. These programs all come under the JTPA, which is funded on a program year[5] basis. That is, fiscal year 1995 appropriations will not be available to states until July 1, 1995. Most of these programs experienced budget increases during fiscal year 1995, despite the overall reduction in the Department's budget from 1994 to 1995. Figure 1 illustrates the budget changes in these programs since fiscal year 1993. The programs for dislocated workers experienced the largest growth in funding, doubling in 2 years, while, taken together, funding for programs assisting disadvantaged youth and adults were largely unchanged. The JTPA Title III Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) program has had difficulty spending its prior year allocations and has carried over amounts of funds from prior years. Researchers have identified other programs, notably the JTPA Title IIC program for disadvantaged youth, as being of limited effectiveness. Finally, some savings may be achieved by consolidating the many employment training agencies operated throughout the federal government, eliminating overlap and duplication in the process.

[5]A program year begins on July 1 and ends the following June 30.

Figure 1: Funding Changes in Major Employment Training Programs, Labor Department, Fiscal Years 1993-1995



We found that employment training programs only provide assistance to a small minority of the eligible population--from about 6 percent for the JTPA Title IIA program for disadvantaged workers to about 30 percent for the dislocated worker program, based on fiscal year 1995 funding levels. Budget reductions in some of these areas would likely result in a reduction in services provided to these populations.

JTPA Title IIC--Program for Disadvantaged Youth

The JTPA Title IIC Youth Training program provides training to in-school youth aged 14 and 15 and out-of-school economically disadvantaged youth, aged 16 to 21. Title IIC goals include helping youth increase long-term employability; enhancing occupational, educational, and citizenship skills; and increasing employment and earnings. The program's fiscal year 1995 budget totaled $549 million, $10 million lower than fiscal year 1994 levels. A recent evaluation[6] of the earnings gains of out-of-school program participants compared to nonparticipants found the program to be ineffective. This is a program where further budget review may be warranted.

JTPA Title III--EDWAA

At $1.3 billion, Labor's largest training program provides employment training assistance to dislocated workers. It received increases of $516 million in fiscal year 1994 and $178 million in fiscal year 1995. We determined that this program has had difficulty spending its allocations, carrying over funds of $54 million from fiscal year 1993 to 1994. However, there currently is little information available on whether this program is making a difference--that is, we do not know if participants are more likely to find jobs than nonparticipants.

Job Corps

The Job Corps program is primarily a residential program for severely disadvantaged youth. It targets youth aged 16 to 21 with severe economic and educational deficiencies (such as being a school dropout or lacking reading or math skills) and other employment barriers. The Job Corps funding for fiscal year 1995 is $1.1 billion, an increase of $59 million over 1994. The increased funding is earmarked primarily for program expansion--through increasing the number of Job Corps centers. However, the Department's Inspector General has pointed out, in recent testimony, relatively low program performance at some Job Corps

[6]Abt Associates Inc. (Jan. 1993).

centers and the need for overall program improvements.[7] Given some questions concerning the program's effectiveness, the Subcommittee may wish to review its budget increase for additional centers.

JTPA IIA--Program for Disadvantaged Adults

The JTPA Title IIA program provides employment training services to economically disadvantaged adults to enable them to enter and advance in the labor force. The program was funded at $1.06 billion in fiscal year 1995, a $57 million increase over fiscal year 1994. Although a recent study indicated that the program had generally positive, although modest, effects on the earnings and employment of participants,[8] its growth alone may warrant revisiting the program.

JTPA Title IIB--Summer Youth Program

The JTPA Title IIB Summer Youth program targets disadvantaged youth aged 14 to 21 to expose them to the world of work, enhance basic education skills and citizenship skills, and encourage school completion. The program was appropriated about $1.06 billion in fiscal year 1995--an increase of $168 million--and, according to Department estimates, will serve over 620,000 participants. Two recent studies concluded that the program succeeded in providing participants with work experience but that the remedial education component was not being consistently applied throughout the nation.[9] Effectiveness evaluation studies, however, have not been conducted.

Consolidation of Federal Employment Training Programs

During the last several years, we have studied the overlap and duplication among the government's employment training programs. In fiscal year 1995, 163 programs scattered across 15 federal agencies accounted for $20 billion in federal spending.[10] We

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[7]Statement by Charles C. Masten, Inspector General, U.S. Department of Labor, before the Senate Committee on Labor and Human Resources (Oct. 4, 1994).

[8]The National JTPA Study: Title IIA Impacts on Earnings and Employment at 18 Months, Abt Associates, Inc. (Jan. 1993).

[9]Audit of the 1992 Summer Youth Employment and Training Program, U.S. Department of Labor, Office of Inspector General, (Washington, D.C.: Feb. 24, 1993); and Study of the JTPA Title IIB Program During the Summer of 1993, Westat, Inc. (Apr. 1994).

[10]For example, see Multiple Employment Training Programs: Major Overhaul Needed to Reduce Costs, Streamline the Bureaucracy, and Improve Results (GAO/T-HEHS-95-53, Jan. 10, 1995); Multiple

recently reported that most federal agencies do not know if their programs are really helping people find jobs and that a major overhaul of the system is needed.[11] Labor's share of the federal employment training system is large, totaling about $6.9 billion for 37 programs.

Despite the efforts of people providing services to meet admirable program goals, our fragmented employment training system suffers from a variety of problems stemming from all of these narrowly focused programs delivered by agencies that often compete for clients and funds. Although we are unable to estimate the amount of savings that could accrue from consolidation, this conglomeration of programs adds unnecessary administrative costs and confuses and frustrates clients, employers, and administrators.

Although the amount of money spent administering employment training programs cannot be readily quantified and is generally not even tracked by program, the administrative costs at all levels of government are substantial. Comprehensive legislation to consolidate and streamline federal employment training programs across all departments could likely result in substantial budget savings in future years and improve the assistance provided to the target populations.

OTHER PROGRAM AREAS FOR BUDGET REVIEW

We have also identified program areas where budget reductions could be considered--often in conjunction with other legislative action. Certain administrative savings can be achieved from ensuring the nonrenewal of the Targeted Jobs Tax Credit (TJTC), repealing the Davis-Bacon and Service Contract Acts, and implementing certain changes in the administration of the Employment Retirement and Income Security Act (ERISA).

Employment Training Programs: How Legislative Proposals Address Concerns (GAO/T-HEHS-94-221, Aug. 4, 1994); Multiple Employment Training Programs: Overlap Among Programs Raises Quest ions About Efficiency (GAO/HEHS-94-193, July 11, 1994); Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, Jan. 28, 1994).

[11]Multiple Employment Training Programs: Basic Program Data Often Missing (GAO/T-HEHS-94-239, Sept. 28,1994); Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/T-HEHS-94-88, Mar. 2, 1994); Multiple Employment Training Programs: Major Overhaul Is Needed (GAO-T/HEHS-94-190, Mar. 3, 1994).

Administration of Davis-Bacon Act and the Service Contract Act

The Davis-Bacon Act requires that workers on federally funded construction projects be paid wages and fringe benefits at least at levels determined by Labor to be prevailing in the area.[12] In 1979, we urged the repeal of the Davis-Bacon Act,[13] expressing major concerns about the accuracy of the wage determination and the act's effect on federal construction costs. The Congressional Budget Office has suggested that full repeal of the act could yield $3 billion in budget savings--as a result of reduced wages paid to workers on federal construction projects--which would accrue throughout the government. For Labor, the Department estimates that repealing the Davis-Bacon Act could yield approximately $10 million in reduced administrative costs.

The Service Contract Act provides for the payment of prevailing local wages to and fringe benefits for employees of contractors and subcontractors providing services under federal contracts. In 1983, we recommended repeal of the Service Contract Act,[14] again expressing major concerns about the accuracy of Labor's wage determination surveys and the act's effect on federal contract costs. Labor estimates that repealing the Service Contract Act would yield about $12 million in reduced agency administrative costs.

Administration of the TJTC

The Congress enacted the TJTC program to expand employment opportunities for the economically disadvantaged by providing incentives to employers to hire these workers. The tax credit available under the TJTC program compensates employers for hiring and retaining individuals from groups such as economically disadvantaged youth, welfare recipients, and the handicapped. Our past work[15] on the program, as well as that of Labor's Inspector

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[12]Other laws providing for federally assisted construction apply the wages determined by Labor under the authority of the Davis-Bacon act.

[13]The Davis-Bacon Act Should Be Repealed (GAO/HRD-79-18,Apr. 27, 1979) and The Davis Bacon Act, correspondence to Congressional Requesters (GAO/HEHS-94-95R, Feb. 7, 1994).

[14]Congress Should Consider Repeal of the Service Contract Act, (GAO/HRD-83-4, Jan. 31, 1983).

[15]Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary (GAO/HRD-91-33, Feb.20, 1991).

General,[16] strongly suggests that it is an inefficient vehicle for increasing employment among the economically disadvantaged, often rewarding employers who would have hired disadvantaged workers anyway. For example, we found that over half of the employers in our analysis took advantage of the tax credit without making special efforts to hire, train, or retain members of the targeted groups. TJTC expired for employees hired as of the beginning of 1995. Labor officials estimate that, had the credit not expired, the Department would have provided $25 million to state employment service agencies for the tax credit's administration. Labor officials have stated that in most cases, this allocation would not have fully funded the administration of the tax credit, requiring the states to finance the remainder. Assuming that TJTC is not resurrected, Labor estimates that it will save about $25 million during fiscal year 1995, with an additional, undetermined savings accruing to many state employment services.[17]

Administrative Changes in ERISA Reporting Requirements

Some future budget savings can also be generated by Labor's Pension Welfare Benefits Administration's developing a separate data processing system and computer software to monitor various ERISA welfare plan reporting requirements. Although implementation of a new data processing system would necessitate an initial additional one-time outlay of about $5 million, cost savings eventually totaling $5 million annually--split between Labor and the Internal Revenue Service--would begin 2 years after initial implementation.[18] In addition, small savings[19] could be achieved by narrowing Labor's rule requiring the automatic submission by plan

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[16]Labor's Inspector General concluded that the "ineffective TJTC program should be eliminated." See Semiannual Report to the Congress, Office of the Inspector General, U.S. Department of Labor, (Washington D.C.: Apr. 1 - Sept. 30, 1994) p.ii.

[17]The Office of Management and Budget estimates that TJTC cost the federal government about $305 million dollars in lost revenue during fiscal year 1994.

[18]Estimates savings calculated by the National Performance Review. For a summary of the review, see From Red Tape to Results: Creating a Government That Works Better and Costs Less, Report of the National Performance Review, Vice President Al Gore, (Sept. 7, 1993).

[19]The National Performance Review has estimated that the savings from this regulatory change would total approximately $50,000.

sponsors of Summary Plan Descriptions[20] to require submission only where plan participants make an official request to Labor to review the document.

CONCLUSION

Although much of Labor's budget comprises mandatory spending, several employment training programs--JTPA Title IIC Program for Disadvantaged Youth, Job Corps program and Title III (EDWAA)--might be candidates for budget review. These programs have either received increases in fiscal year 1995 funding, have had some concerns raised about their effectiveness, or have demonstrated difficulty in spending prior year allocations. They represent sizable investments in socially laudable objectives and the total funding for these programs is only a fraction of resources necessary to serve the entire eligible population. Nevertheless, they may warrant review during these difficult budgetary times.

In addition, other reductions may be considered through congressional deliberation on proposals to consolidate federal job training programs, repealing the Davis-Bacon and Service Contract Acts, not renewing the TJTC program, and implementing administrative changes for enforcing ERISA.

As this subcommittee continues to seek areas for savings, we are committed to assisting you in any way we can.

* * *

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

For more information on this testimony, please call Sigurd Nilsen at (202) 512-7003 or Charlie Jeszeck at (202) 512-7036. Other major contributors included George Erhart, Larry Horinko, Tom Medvetz, and Lori Rectanus.

[20]A summary plan description is a detailed explanation of a benefit plan's provisions, including its operation, benefits calculation, eligibility criteria, and other information.

Table 1: Labor's Budget Authority, Fiscal Years 1994 and 1995

dollars in millions

Category	1994	1995	Change	Percent Change
Income Maintenance	$27,418	$23,425	($3,993)	(14.6)
Employment and Training	6,573	6,900	328	5.0
Labor Regulation/Enforcement	820	863	43	5.2
Employment and Standards Administration	237	249	12	5
Pension and Welfare Benefits Administration	64	69	5	7.6
Office of the American Workplace	27	31	4	13.6
Occupational Safety and Health Administration	297	313	16	5.3
Mine Safety and Health Administration	195	201	6	3.1
Other	3,443	2,933	(510)	(14.8)
Unemployment Insurance Administration	2,961	2,374	(587)	(19.8)
Bureau of Labor Statistics	292	352	60	20.5
Department Management	143	155	12	8.3
Office of the Inspector General	47	52	5	10.2
Total[21]	$38,510	$34,289	($4,221)	(10.9)

Totals do not add due to rounding.

Source: Department of Labor.

[21]This table excludes certain administrative expenditures Labor has for the Pension and Benefits Guaranty Corporation (PBGC).

Table 2: Funding Changes in Major Employment and Training Programs, Labor Department, Fiscal Years 1994 and 1995

dollars in millions

Program	1994	1995	Change	Percent Change
Job Training Partnership Act				
Title IIA-Disadvantaged Adult	$998	$1,055	$57	5.7
Title IIB-Summer Youth	888	1,056	168	18.9
Title IIC-Disadvantaged Youth	559	549	(10)	(1.8)
Title III-EDWAA	1,118	1,296	178	15.9
Job Corps	1,040	1,099	59	5.6
Native Americans	64	64	-	-
Migrants	86	86	-	-
Older Americans Program	410	410	-	-
Employment Service Grants	833	922	89	10.7
One Stop Career Centers	50	120	70	140
School-to-Work	50	117	67	134
Total[22]	$6,573	$6,900	$273	5.0

Source: Department of Labor.

[22]Total includes funding for employment training programs not included in this table.

RELATED GAO PRODUCTS

Multiple Employment Training Programs: Major Overhaul Needed to Reduce Costs, Streamline the Bureaucracy, and Improve Results GAO/T-HEHS-95-53, Jan. 10, 1995).

Multiple Employment Training Programs: Basic Program Data Often Missing (GAO/T-HEHS-94-239 Sept. 28, 1994).

Multiple Employment Training Programs: How Legislative Proposals Address Concerns (GAO/T-HEHS-94-221, Aug. 4, 1994).

Multiple Employment Training Programs: Overlap Among Programs Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994).

Employment Discrimination: How Registered Representatives Fare in Discrimination Disputes (GAO/HEHS-94-17, Mar. 30, 1994).

Multiple Employment Training Programs: Conflicting Requirements Underscore Need for Change (GAO/T-HEHS-94-120, Mar. 10, 1994).

Multiple Employment Training Programs: Major Overhaul is Needed (GAO/T-HEHS-94-109, Mar. 3, 1994).

Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, Mar. 2, 1994).

Occupational Safety and Health: Changes Needed in the Combined Federal-State Approach (GAO/HEHS-94-10, Feb. 28, 1994).

EEOC's Expanding Workload: Increases in Age Discrimination and Other Charges Call for New Approach (GAO/HEHS-94-32, Feb. 9, 1994).

Davis-Bacon Act (GAO/HEHS-94-95R, Feb. 7, 1994).

Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, Jan. 28, 1994).

Legislative Employment: Operations of the Office of Fair Employment Practices Could Be Improved (GAO/GGD-94-36, Dec. 9, 1993).

Occupational Safety and Health: Differences Between Programs in the United States and Canada (GAO/HRD-94-15FS, Dec. 6, 1993).

U.S.-Mexico Trade: The Work Environment at Eight U.S.-Owned Maquiladora Auto Parts Plants (GAO/GGD-94-22, Nov. 1, 1993).

Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized (GAO/HRD-93-107, Sept. 28, 1993).

The Job Training Partnership Act: Potential for Program Improvements but National Job Training Strategy Needed (GAO/T-HRD-93-18, Apr. 29, 1993).

Private Pensions: Protections for Retirees' Insurance Annuities Can Be Strengthened (HRD-93-29, Mar. 31, 1993).

Mine Safety and Health: Tampering Scandal Led to Improved Sampling Devices (GAO/HRD-93-63, Feb. 25, 1993).

Dislocated Workers: Worker Adjustment and Retraining Notification Act (WARN) Not Meeting Its Goals (GAO/HRD-93-18, Feb. 23, 1993).

Family and Medical Leave Cost Estimate (GAO/HRD-93-14R, Feb. 1, 1993).

Underfunded State and Local Pension Plans (GAO/HRD-93-9R, Dec. 3, 1992).

Employee Drug Testing: Opportunities Exist to Lower Drug-Testing Program Costs (GAO/GGD-93-13, Nov. 23, 1992).

Minimum Wages and Overtime Pay: Change in Statute of Limitations Would Better Protect Employees (GAO/HRD-92-144, Sept. 22, 1992).

Pension Plans: Pension Benefit Guaranty Corporation Needs to Improve Premium Collections (GAO/HRD-92-103, June 30, 1992).

Child Labor: Information on Federal Enforcement Effort (GAO/HRD-92-127FS, June 15, 1992).

Occupational Safety & Health: Worksite Safety and Health Programs Show Promise (GAO/HRD-92-68, May 19, 1992).

Hired Farmworkers: Health and Well-Being at Risk (GAO/HRD-92-46, Feb. 14, 1992).

Employment Service: Improved Leadership Needed for Better Performance (GAO/HRD-91-88, Aug. 6, 1991).

Job Training Partnership Act: Inadequate Oversight Leaves Program Vulnerable to Waste, Abuse, and Mismanagement (GAO/HRD-91-97, July 30, 1991).

Advance Notice: Public and Private Sector Policy and Practice (GAO/T-HRD-91-19, Apr. 18, 1991).

Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary (GAO/HRD-91-33, Feb. 20, 1991).

Unemployment Insurance: Adminsitrative Funding is a Growing Problem For State Programs (GAO/HRD-89-72BR, May 24, 1989).

Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs (GAO/HRD-89-52, June 9, 1989).

Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988).

The Congress Should Consider Repeal of the Service Contract Act (GAO/HRD-83-4, Jan. 31, 1983).

The Davis-Bacon Act Should Be Repealed (GAO/HRD-79-18, Apr. 27, 1979).

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