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before the
SUBCOMMITTEE ON MANPOWER, COMPENSATION
AND HEALTH AND SAFETY
of the
HOUSE COMMITTEE ON EDUCATION AND LABOR

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Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to be with you today and to comment on H.R. 50, the "Full Employment and Balanced Growth Act of 1976".

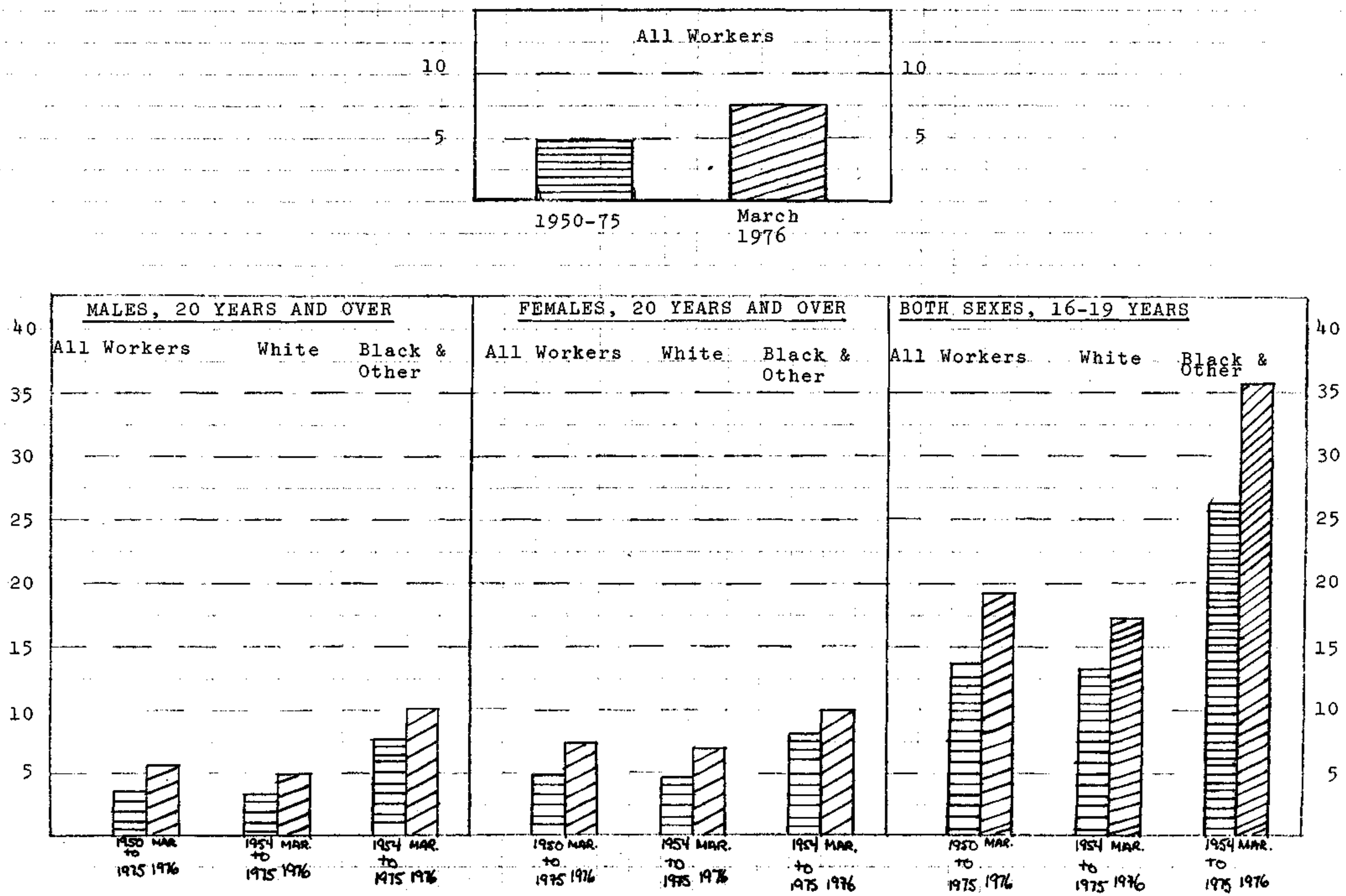
Unemployment is a continuing personal as well as an economic problem. For the economy it represents a waste of resources that is reflected in a lower level of output of goods and services than could potentially be produced. For individuals it represents not only loss of income associated with joblessness, but deterioration of skills and damage to a sense of pride and self-esteem. Moreover, even at high levels of aggregate employment unemployment problems persist for minorities, teenagers, and some other groups. Reducing unemployment is thus important not just to restore full capacity production but also to provide the opportunity to participate in the economy for all groups of workers.

At present, the rate of unemployment is far above its average during the last 25 years for every sizable group in the labor force. Overall, the latest reading is 7.5 percent, a gap of 2.6 percentage points above the 1950-1975 average of 4.9 percent. For some groups, the gap is smaller; for adult white males, for example, the current rate of 5.1 percent is 1.5 points above the long-term average of 3.6 percent. For some groups, the gap is larger; for teenagers the current rate of 19.1 percent is 5.4 points above the long-term average of 13.7 percent. For nonwhite teenagers the current rate is an alarming 35.9 percent, 9.6 points above the long-term average of 26.3 percent. Chart 1 shows these comparisons of current and average unemployment rates.

Fortunately, unemployment rates have been declining recently and are expected to continue declining at least over the next year and probably beyond then as well. In its recent annual report, the Congressional Budget Office projected an overall unemployment rate of 7.0 to 7.5 percent by the fourth quarter of this year and 6.4 to 6.9 percent by the fourth quarter of 1977. These estimates are based on the assumption of a "current policy" federal budget, one that extends existing spending programs and tax laws without any cutbacks, new initiatives, or substantial changes in government efficiency. Table 1 shows the CBO forecasts for unemployment and several other key indicators.

While the projections clearly point to an improvement over the current situation, they bring unemployment less than halfway from its current 7.5 percent rate to the long-term average of 4.9 percent. Can we do better than this unemployment forecast over the next two years?

CHART 1--UNEMPLOYMENT RATES, LONG-TERM AVERAGE AND MARCH 1976



ECONOMIC PROJECTIONS, 1976 AND 1977

Economic Indicators	Actual, 1975:IV	Projected Range		Projected Growth Rate (percent)	
		1976:IV	1977:IV	1975:IV to 1976:IV	1976:IV to 1977:IV
GNP, billions of current dollars	1,573	1,755 to 1,775	1,955 to 1,975	+11.5 to +12.8	+10.7 to +12.0
GNP, billions of 1972 dollars	1,216	1,285 to 1,300	1,355 to 1,375	+5.5 to +7.0	+5.0 to +6.5
General Price Index (GNP deflator, 1972=100)	129	135 to 138	142 to 146	+5.0 to +6.5	+4.7 to +6.2
Consumer Price Index (1967=100)	166	174 to 177	183 to 188	+5.0 to +6.5	+4.7 to +6.2
Unemployment Rate	8.5	7.0 to 7.5	6.4 to 6.9		

SOURCE: Budget Options for Fiscal Year 1977: A Report to the Senate and House Committees on the Budget, Congressional Budget Office, March 15, 1976, p. 20.

And can we do better than the long-term averages over, say, the next ten years? I believe that the answer to both questions is yes, but that doing better both requires departures from current policies and carries significant risks. Let me turn first to the policies, and then to the risks.

Policies to Stimulate Employment

Many policy tools which could improve our unemployment performance are referred to in H.R. 50. The bill refers to standard fiscal and monetary policy tools, standby public works, antirecession grants for state and local governments, and skill training in the public and private sectors. It also refers to public service employment programs which could provide job opportunities for adult Americans who are unable to find work until a target of 3 percent adult unemployment is attained. The goal of 3 percent adult unemployment is to be attained in 4 years or sooner. Not only would the President be required in each annual economic report to recommend numerical goals for employment, production, and inflation, but he would also recommend which policies to use in support of these goals.

Further, regional and structural employment policies are identified to reduce unemployment of both labor and capital in certain areas of the country and to reduce unemployment for certain groups within the labor market. These policies do not include modifying the federal minimum wage or the Davis-Bacon Act, standards to which employment under the bill would be required to adhere. For teenagers, the President is required to submit to Congress a comprehensive youth employment program within 90 days after enactment.

The bill also contains recommendations for anti-inflation policies to supplement monetary and fiscal policies. These include measures to ensure adequate supplies of scarce commodities, particularly food and energy, recommendations to strengthen and enforce antitrust laws, measures to increase productivity in the private sector and recommendations for administrative and legislative actions to promote reasonable price stability (presumably some form of price or wage controls or guidelines) if serious inflationary pressures arise.

The Congressional Budget Office analyzed and compared some employment-stimulating policies in a report issued last summer, *Temporary Measures to Stimulate Employment*. The report concluded that a number of these policies ranked higher than standard tax or spending changes in number of jobs which could be created per billion dollars spent or per billion dollars of additional federal deficit. We are now working on an economic analysis of H.R. 50 at the request of the Joint Economic Committee, drawing on the earlier report and other sources. The study is not complete and it would be premature to try to anticipate its findings here.

What may be useful at the present time is some comment on two statistical matters relevant to full employment policies in general and H.R. 50 in particular; namely (1) the relation between adult unemployment and total unemployment, and (2) the relation between unemployment goals and growth rates.

The requirements for reaching the goal of 3 percent adult unemployment depend, of course, on who is classified as an adult. A useful rule of thumb in this regard is that the overall unemployment rate is roughly one percentage point above the unemployment rate of those 20 years and older. Table 2, containing more precise comparisons year by year, shows that since the early 1960s the differential has ranged from 0.6 percent to 1.2 percent. Although demographic factors in the future could reduce this differential, projections by the Urban Institute indicate that this approximate

TABLE 2

UNEMPLOYMENT RATES FOR ALL PERSONS 16 AND OVER COMPARED WITH NON-TEENAGE UNEMPLOYMENT RATES

Year	(1) Unemployment Rate 16 +	(2) Unemployment Rate 20 +	(1) - (2) Difference
1950	5.3	4.8	0.5
1951	3.3	3.0	0.3
1952	3.0	2.7	0.3
1953	2.9	2.6	0.3
1954	5.5	5.1	0.4
1955	4.4	3.9	0.5
1956	4.1	3.7	0.4
1957	4.3	3.8	0.5
1958	6.8	6.2	0.6
1959	5.5	4.8	0.7
1960	5.5	4.8	0.7
1961	6.7	5.9	0.8
1962	5.5	4.9	0.6
1963	5.7	4.8	0.9
1964	5.2	4.3	0.9
1965	4.5	3.6	0.9
1966	3.8	2.9	0.9
1967	3.8	3.0	0.8
1968	3.6	2.7	0.9
1969	3.5	2.7	0.8
1970	4.9	4.0	0.9
1971	5.9	4.9	1.0
1972	5.6	4.5	1.1
1973	4.9	3.8	1.1
1974	5.6	4.5	1.1
1975	8.5	7.3	1.2

SOURCE: Bureau of Labor Statistics.

NOTE: Column (1) is the unemployment rate for the civilian labor force for all persons 16 and over. Column (2) is the unemployment rate for the civilian labor force excluding teenagers, that is, persons 16 to 19.

spread will persist through 1980. Thus, if we speak of 3 percent non-teenage unemployment we are referring to a 4 percent overall rate. If we include some or all of the under-20 group in the definition of adult, then a 3 percent goal for adults moves closer to a 3 percent overall rate.

It is not, I feel, discriminatory or insulting to young workers to recognize that their unemployment problem has special causes and can to some extent be dealt with separately from the unemployment of other workers. Among special causes of youth unemployment are recent rapid increases in the teenage population, problems of work-school transition, and legal regulations governing employment and labor conditions which have their greatest impact on youth.

Policies to deal with some of these special factors may have relatively little effect on the unemployment of those 20 and over, while policies which bring the 20-and-over unemployment rate down to 3 percent will in all likelihood leave the teenage unemployment rate far above 3 percent.

It would take an extremely rapid rate of growth to get from today's 7.5 percent unemployment rate to a rate consistent with 3 percent adult unemployment in 4 years or less, even if adults are defined to include only those

20 years and over. The President's budget message for this year contained a set of long-run projections assuming an average growth rate of 6.3 percent from 1977 to 1980, and found this rate to be consistent with reaching a 5.2 percent unemployment rate in 1980. A three-year rate of growth of 6.3 percent starting after two years of recovery would be well above the range of U.S. experience during the last 30 years, and yet the terminal unemployment rate is well above 3 percent for adults. Other projections might not produce exactly the same numbers as the administration's--in particular, the rapid drop in unemployment since December should lower slightly the growth rate required to reach 5.2 percent by 1980--but the same general conclusion would emerge. Sustained highly expansionary general fiscal and monetary policies or special employment-creating policies are probably needed to achieve the goals of the bill within a few years, unless there is much more strength in the private sector than is suggested by any current evidence or recent economic projections.

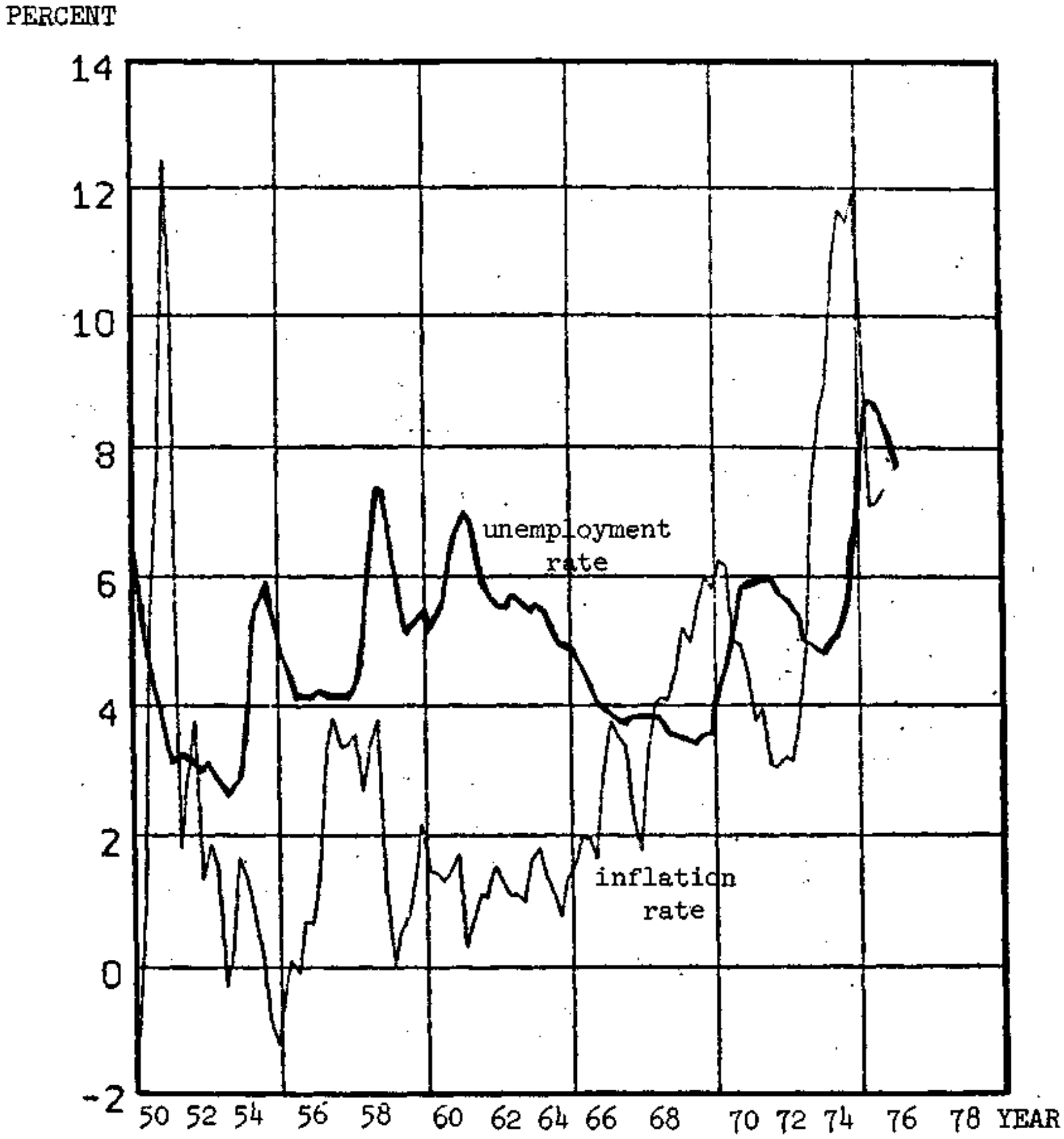
Risks of a Low Unemployment Goal

Two of the risks of vigorous pursuit of a low unemployment rate are that inflation will accelerate and that some of the special measures to create jobs or to restrain inflation will prove ineffective and wasteful. The inflation risk is probably greatest if standard monetary and fiscal measures are the main policy tools used to achieve low unemployment. Reliance on special employment-creating policies should reduce the inflation risk, but at the cost of increasing the danger of inefficient and wasteful programs.

Economists are far from agreement about the magnitude of the inflation risk. Generally, accelerating inflation has corresponded to falling unemployment, and vice versa, as Chart 2 illustrates; but the relation is far from perfect or unchanging. Those who worry the least about this risk can point to 1952-53, when unemployment rates of 3 percent coexisted with a zero rate of inflation. Those who worry the most can point to 1973, when an unemployment rate which only briefly fell below 5 percent accompanied an inflation rate rising from 5 to 10 percent.

Special factors can explain some, but not all, of the variations in the inflation-unemployment tradeoff. In 1952-53 these factors included controls over prices, wages and consumer credit as well as the fallback from the worldwide speculative runup of prices at the start

CHART 2--INFLATION AND UNEMPLOYMENT, 1950-1976



SOURCE: Bureau of Labor Statistics.

NOTE: Inflation is measured by the percent change from two quarters earlier in the Consumer Price Index, expressed at an annual rate.

of the Korean War. In 1973 special factors included cutbacks in world food supplies, the formation of OPEC, and the gradual shift in the composition of the labor force toward a lower proportion of adult males and a higher proportion of teenagers. Even after taking account of these factors, however, the most that can be concluded is that there is some significant risk that a return to 4 percent overall unemployment or less within 4 years would bring with it a signficant acceleration of inflation. The risk is greater the more comprehensive is the definition of "adult unemployment."

The risks of inefficient or wasteful programs depend on whcih special employment-creating or inflation-restraining policies receive the greatest emphasis. I shall restrict my comments for now to public employment programs, although it is important to keep in mind that public employment is only one among many policy tools which could be utilized under H.R. 50.

It is useful to separate public employment to deal with structural problems of high, long-run unemployment of certain groups from public employment as a countercyclical policy. A public employment program to deal with structural problems would be directed toward unskilled and other disadvantaged individuals. Such a program could be a supplement to standard fiscal and monetary policies even if full reliance were placed on these policy tools for combating cyclical unemployment. Unskilled and disadvantaged workers have high unemployment rates even in relatively tight labor markets. They hold jobs at the bottom of the labor market hierarchy, predominating as laborers and low-level sales and services workers. They experience far more frequent spells of unemployment than other workers. There is little incentive for employer or employee to maintain a long-term work relationship since there is little, if any, on-the-job training and hence, no payoff to seniority. Job satisfaction is low, and this also weakens job ties. The employer can normally find an unskilled replacement. And, in tight labor markets, the worker can find another poor job.

A structural program to reduce the unemployment rates of the unskilled and disadvantaged should focus on measures to strengthen job attachment. Training, together with the provision of opportunities for upward mobility, would presumably be important components of such a program. A risk of a program of this kind is that it might be ineffective, and hence add to the cost of government with little resulting benefit. Training programs of the 1960s do not offer strong ground for encouragement on this score.

Another possible outcome of a structural public employment program is that it would provide more attractive jobs than private employers. Indeed, this feature would be inherent in the program. A disadvantage of this result could be that it would drive up wages in low-level private sector jobs. At the same time, however, this feature could draw more attention to improving the quality of working life in the private sector. This has been the case in certain European countries that enacted job guarantee programs in the 1960s. Upgrading working conditions in low-level private sector jobs could be facilitated by appropriate subsidies to business for providing training and an improved working environment. To the extent that increased training and better working conditions enhance worker productivity, the inflationary effects of wage increases would be offset.

A countercyclical public service employment program should not be confused with the structural program because its aims are different. The idea behind a countercyclical public employment program is to provide work as an alternative to income transfers for persons who are unemployed because of temporary cyclical factors. Providing work for the cyclically unemployed makes sense in that useful services can be performed by people who would otherwise be idle. Further, work as an alternative to income transfers may improve an individual's sense of pride and self-esteem while at the same time maintaining work habits and skills.

If a public service employment program is to remain strictly countercyclical--that is, automatically fading out as private employment recovers--it should not offer options that are more attractive than the private sector. Wages should be kept lower than private sector alternatives (although higher than unemployment compensation) and working conditions should not be unduly attractive. Individuals should be encouraged to move into private sector (or regular state and local government) jobs when openings become available. In these respects a well-designed countercyclical program differs from a structural program.

One risk of a countercyclical public employment program goes under the name of displacement. Usually, displacement refers to the use of public employment funds by state and local governments to hire persons they would have hired anyway or to shift job categories so that persons they have hired anyway qualify for a subsidy. In this case the program is like a general grant to state and local governments. It may not result in any special stimulus to employment per dollar spent; but it is important to realize that even in this case the program is providing the same kind of stimulus to demand as general revenue sharing or a tax cut.

Studies of past experience with public employment programs suggest that significant displacement does take place. The programs which have been studied, however, resemble structural programs more than countercyclical programs. For countercyclical programs there are several plausible ways of attempting to limit displacement. Eligibility could be restricted to persons who have been unemployed for some weeks or months. Activities qualifying under the program could emphasize jobs not usually performed by state or local governments. A program could be administered by the federal government instead of state and local governments.

The suggestion of this last paragraph--that new ways can be sought to solve old problems--is a fitting theme with which to conclude this statement. As long as substantial numbers of workers are looking for jobs and can't find them, new ways should and will be sought to improve the labor market and the economy. The function of the Congressional Budget Office is not to advocate one or another policy but rather to analyze possible approaches, including the costs and risks as well as the benefits and promises. I sincerely hope our work can be helpful to the Congress as it develops workable and permanent solutions to the unemployment problem.