Statement of

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Mr. Chairman, Members of the Committee, and Invited Guests:

Unemployment continues to be a focus of national attention and debate. It represents a waste of human resources that is reflected in a lower level of output of goods and services than could potentially be produced. Unemployment also places an undue burden on the individuals concerned. Not only is there the loss of income associated with joblessness, but skills deteriorate, senority may be lost, not to mention the damage to an individual's sense of pride and self-esteem. Because the probability of being unemployed is higher for some persons and groups than others, full employment is not only the economic problem of restoring full-capacity production levels, but a social problem as well. Even at high levels of aggregate employment, differentials result in unequal chances.

Society can use four kinds of strategies to deal with unemployment: The first is expansionary fiscal and monetary policy; the second, targeted expenditure and tax programs that increase public and private employment; third, unemployment can be reduced by government programs that train and educate potential workers and that facilitate the functioning

of the labor market. Finally, the government can supply direct cash assistance to reduce the financial burdens of unemployment.

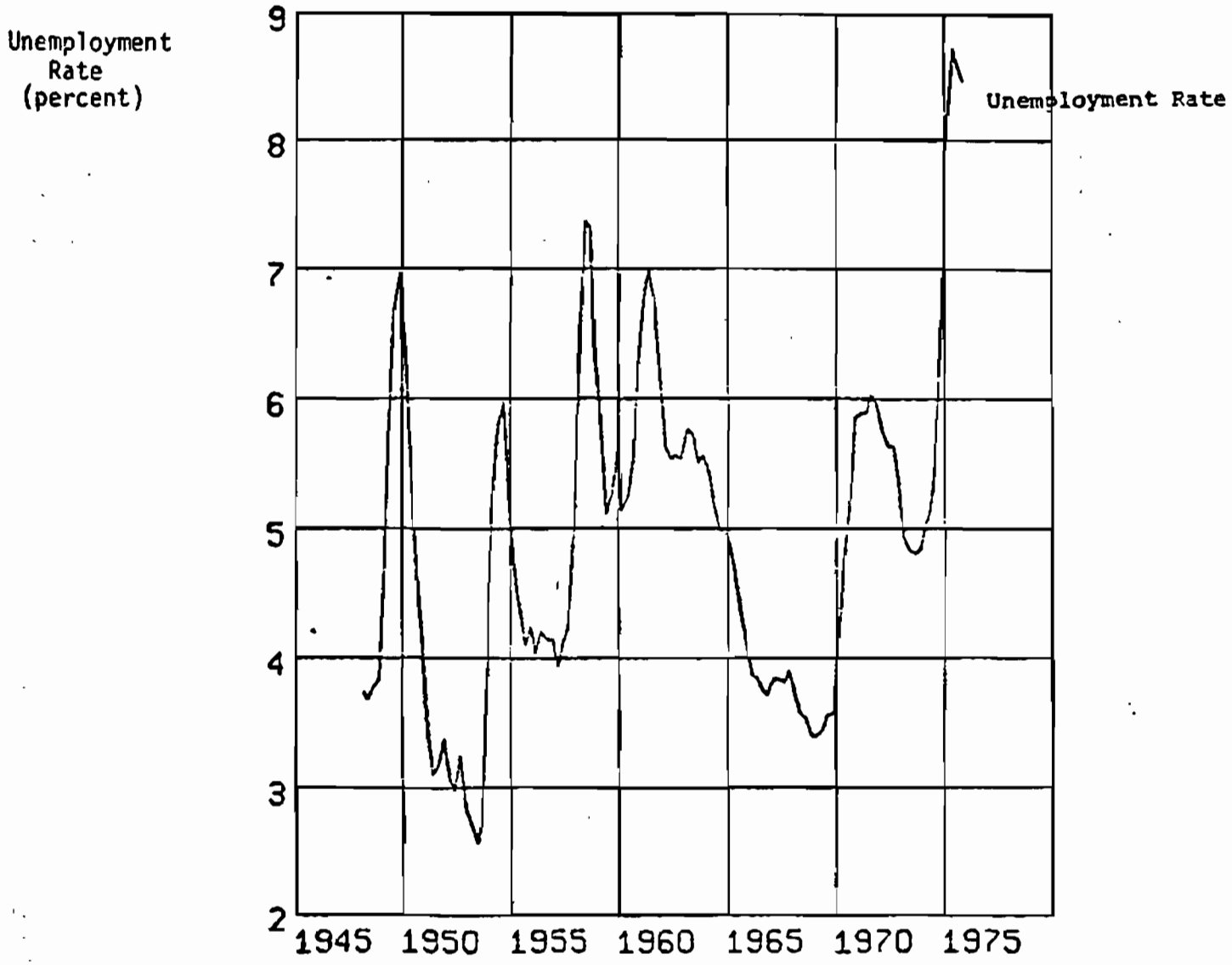
All of these have costs, however. Fiscal and monetary policy tend to accelerate inflation as they reduce unemployment. Targeted employment programs and training programs work only imperfectly. Unemployment assistance meliorates the effects, but does not attach the basic problem. What is needed is a mixed strategy that combines the strengths of all of these.

I. Background

During the three decades following the passage of the Employment Act of 1946, unemployment has varied widely. During the early 1950s, the unemployment rate fell below 3 percent and in 1975 the average unemployment rate was 8.5 percent. Over this time period, six major recessions and recovery cycles have occurred. While most of the variation in unemployment is the result of cyclical movements in the demand for goods and services, the unemployment rates achieved in relatively good times are higher than many people find acceptable. As shown in Chart 1, unemployment in the United

Chart I

The Unemployment Rate, 1945-1975



Source: Bureau of Labor Statistics

States has not fallen below 4 percent since 1970. Thus, the definition and achievement of full employment and the choice of an acceptable combination of unemployment and inflation rates remain central issues within the federal policy debate.

During the early years following enactment of the Employment Act, fiscal and monetary policies were the dominant mechanisms for lowering unemployment. During the 1960s, the federal role in facilitating and regulating the labor market (e.g., through equal employment opportunity policies) and in increasing work education and skill levels expanded dramatically. In the late 1960s and 1970s, the duration of unemployment compensation benefits and the fraction of workers covered increased and direct federal involvement in the unemployment compensation system expanded.

Two major questions need to be answered as the Congress considers the development of an effective and appropriate anti-unemployment policy:

- How high a level of employment can be achieved using fiscal and monetary instruments alone before the inflationary effects become intolerable?

- What are the effects of different mixes of the available anti-unemployment instruments on unemployment, employment and inflation during periods of high and low unemployment?

The federal budget provides one view of the current employment policy. In fiscal year 1976, $5.3 billion in outlays are devoted to programs that create jobs directly. Outlays for programs that train and educate potential workers (including federal aid to education as a long-run anti-unemployment program) are $18.3 billion, and approximately $19.9 billion in unemployment compensation benefits will be provided to unemployed workers.

The causes of unemployment are varied and create the demand for a mixed federal full employment strategy. Unemployment is both a cyclical and structural phenomenon. As such, it can be caused by a number of factors such as inadequate aggregate demand for goods and services; structural imbalances between the skill levels of available workers and the requirements of jobs; disparities between the geographic locations of workers and jobs; seasonal imbalances between the availabilities of workers and jobs; short-term layoffs or furloughs of workers by employers experiencing shortfalls of demand; and occupational and other barriers to certain

disadvantaged groups in the labor force. Unemployment might also be increased or perpetuated by income assistance programs that aid the unemployed.

Just as its causes vary, so does the level of unemployment vary among segments of the labor force. Among the patterns that have been reflected over time and during the current recession are:

1. By Family Status: Although family heads normally have lower rates of unemployment, their unemployment has increased dramatically during the current recession. In January 1974, 1,533 household heads were unemployed. By November 1975, this number had grown to 2,980,000. Over a similar time period, the unemployment rate for household heads increased from 2.9 to 5.6 percent.[1]

2. By Age: Younger workers have higher unemployment rates during periods of low aggregate unemployment and suffer disproportionately from recession-induced employment.[2] Although 16-24 year old workers account for only approximately 20 percent of the civilian labor force, they accounted for approximately 48 percent of the recession-induced unemployment between 1973 and 1974.

3. By Race: Nonwhite workers--of all sexes and ages--have higher unemployment rates than do their white counterparts during periods of both low and high unemployment. The gap between the unemployment rates of whites and nonwhites has grown from 4.3 to 6.1 percent during the recent recession.[3]

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1. Unpublished Bureau of Labor Statistics data.

2. Recession-induced unemployment is calculated by subtracting the unemployment during periods of low aggregate unemployment from that during periods of high aggregate unemployment.

3. "The Impact of Economic Recovery on Unemployed Nonwhite and White Americans: A Preliminary Assessment," Congressional Budget Office, December 5, 1975.

4. By Education: Unemployment rates of more educated workers are consistently lower than those with less education. In March 1975, the unemployment rate of college graduates was 2.9 percent while the rates for workers who had not graduated from high school and for all workers were 15.2 and 9.2 percent, respectively.[4] Less-educated workers also account for disproportionate shares of recession-induced unemployment.

5. By Type of Work: During recessions workers in some industries are more susceptible to high unemployment rates than are their fellow workers. For example, workers in the manufacturing (for both durable and nondurable goods) and construction industries account for disproportionately high shares of recession-induced unemployment.[5]

Although the economic recovery is now underway, many workers are still unemployed. As shown in Chart 2, in February 1976, the average unemployment rate was 7.6 percent and the rates for teenage and nonwhite workers were even higher. The unemployment rates of workers in cyclically volatile occupations and industries also remain high: for instance, the unemployment rates for construction workers and nonfarm laborers were 15.5 and 14.1 percent in February 1976.

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4. Derived from Manpower Report of the President, April 1975.

5. Ibid.

Chart 2

Unemployment in February 1976

	Unemployment Rate (percent)	Number of Individuals Unemployed (1000s)
Total Unemployment	7.6%	7,100
Males over 20 years old	5.7	2,917
White	5.0	2,296
Nonwhite	11.2	590
Females over 20 years old	7.5	2,522
White	6.7	1,960
Nonwhite	12.2	560
Teenagers 16-19 years old	19.2	1,697
White	17.1	1,358
Nonwhite	35.2	330
Occupation		
Professional and Technical	3.6	489
Craft and Kindred	6.7	808
Nonfarm Laborers	14.1	693
Industry		
Construction	15.5	668
Manufacturing--Nondurable	8.1	713
Wholesale and Retail Trade	8.4	1,418
Government	4.4	693

Source: Bureau of Labor Statistics.

II. What is Full Employment?

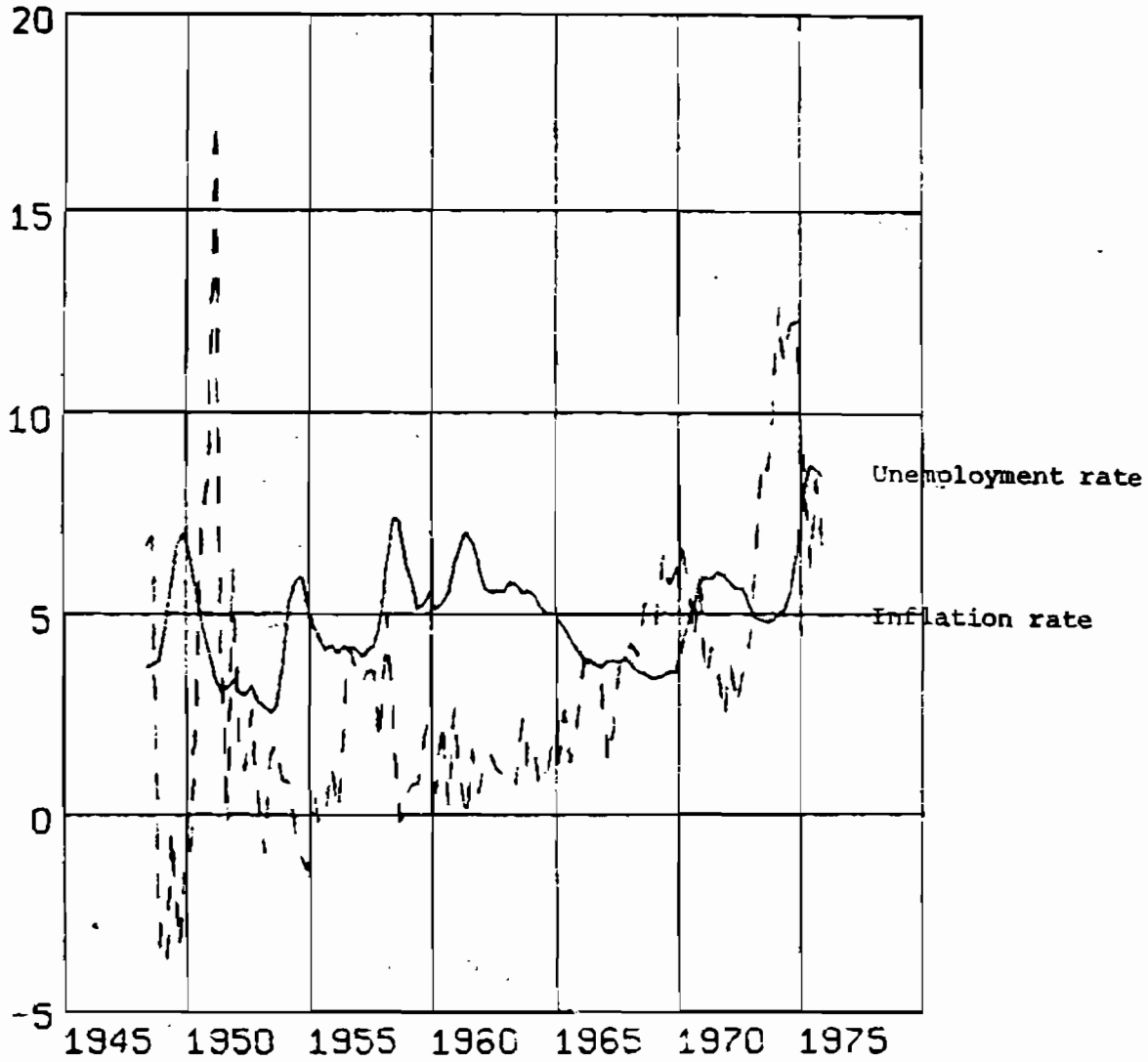
Much of the unemployment in the United States today is the result of the depressed state of the economy. Restoration of a high level of demand for goods and services is a necessary condition for achieving full employment, although high demand will not do the job by itself.

Indeed, one fear is that a rapid increase in demand, propelled by an expansionary monetary and fiscal policy, would rekindle the inflation that only recently has begun to subside. A question that any full-employment strategy must address is how far unemployment can be reduced by raising aggregate demand without threatening another outburst of inflation. While it is not true that unemployment and inflation always go in opposite directions--the last few years have demonstrated that they can both go up together--high unemployment has been associated with low inflation and vice versa, for most of the last three decades. This is shown in Chart 3.

The chart also shows that for the last four years the unemployment inflation trade-off has deteriorated badly, with intolerably high levels of both going together. Various explanations of the perceived worsening of the trade-off have been suggested: increased monopoly power of business

Chart 3

Inflation* and Unemployment, 1947-1975



*Inflation is measured by the rate of change in the Consumer Price Index.

Source: Bureau of Labor Statistics

and labor that facilitated inflationary demands for higher profits and wages; a shift in the demographic composition of the labor force that increased the proportionate representation of teenagers and women--two groups whose relative high unemployment rates can be attributed in part to factors other than inadequate aggregate demand; and an expanded system of unemployment insurance and income transfers that might increase measured unemployment by facilitating longer spells of unemployment, encouraging people to stay in the labor force when they otherwise would have dropped out, and perhaps causing some work disincentive. More generally, it has also been suggested that the expectation of inflation has in itself accelerated inflation as those who had the power to hedge in advance, did so.

None of these explanations has been proven. What is true, however, is that continued inflation or threat of inflation since 1970, has led the federal government to pursue a more restrictive economic policy than would have been consistent with full employment.

III. Fiscal Policy and Full Employment

Historical evidence alone cannot provide a definitive answer to the question of how far fiscal and monetary policy

can bring the economy toward a full-employment goal. Unemployment rates below 4 percent were consistent with low rates of inflation in the early 1950s. Yet when unemployment fell below 4 percent in the late 1960s, inflation began to rise and in 1973, inflation took off once again when unemployment was 4.6 percent. Because we are currently experiencing a legacy of inflationary expectations that has followed in the wake of recent high rates of inflation, it is extremely difficult to predict how much inflation would be associated with any fiscal and monetary policy strategies adopted today.

However, it is likely that monetary and fiscal policies could bring unemployment substantially below its current rate of 7.6 percent without exacerbating inflation in the short run, although the long run effects of a more expansionary policy in accelerating inflation would be greater. In its Annual Report, released this week, CBO projected that if federal spending and tax programs are extended through 1977 on a current policy basis, the unemployment rate would be in the 6.4 to 6.9 percent range by the end of 1977. Inflation is projected to be in the 4.7 to 6.2 percent range in 1977. What would be the implications for inflation and unemployment if a more expansionary fiscal policy were adopted?

CBO has simulated the potential inflationary impact of achieving various unemployment targets. The analysis is based on the assumption that these targets are achieved through standard fiscal and monetary policies, not special tax incentives or jobs programs.[6] The ranges shown for the inflation rates reflect different assumptions about the influence of past price changes on wage changes.

In these simulations, it was assumed that expansionary policies were enacted beginning in 1976:III (the third quarter of calendar year 1976), with the unemployment target achieved 24 months thereafter (in 1978:II) and remaining there through 1980. Further, it is assumed that wages and prices are allowed to rise unchecked, that is, no wage and price controls are imposed as the expansionary strategy is pursued.

Table 1 shows the estimated change in the Consumer Price Index associated with achieving various unemployment rate targets in 1978:II. The effect is shown both for 1978 and for 1980. The two most noticeable effects in the table

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6. The simulations are based on a two-equation wage-price model in which there is a lagged mutual interdependence between wages and prices; price changes depend in part on wage changes and wage changes depend in part on current and past price changes. A technical paper describing the model in detail is available from the Fiscal Analysis Division, Congressional Budget Office.

Table 1

Projections of Inflation for Different
Unemployment Targets

Unemployment Target for 1978:II	5.0	4.5	4.0	3.5
Percent Change in CPI for 1978	5.0 to 7.5	5.3 to 7.8	5.6 to 8.2	5.9 to 8.6
Percent Change in CPI for 1980	4.8 to 7.8	5.3 to 8.4	5.9 to 9.1	6.5 to 9.9

are that inflation is high, related to past history, and that inflationary effects lag, becoming greater later on than they are at the time unemployment is cut.

Predicted inflation even for a 5 percent unemployment target is high, relative to experience in the 1950s and early 1960s. This most likely reflects a legacy of inflationary expectations generated in 1973 and 1974 that will require time to work out of the system. The difference between achieving a 4 percent, versus a 5 percent unemployment target, is 0.6 to 0.7 percentage points on the CPI in 1978 and 1.1 to 1.3 in 1980. When unemployment was reduced to 3.5 percent in these simulations, inflation increased somewhat more, with near "double-digit" rates becoming a threat by 1980. (The high end of the range, 9.9 percent, was derived from an accelerationist version of the simulation model in which the response to wage changes to past price changes is assumed to be unity in the long run.)

Fiscal Policy Alternatives. There is no single unemployment rate that denotes "full employment." The choice of a degree of fiscal stimulus depends ultimately on how much inflation one is willing to live with; (or whether one views wage and price controls as a feasible and effective

supplement to fiscal policy). For purposes of illustration, CBO has simulated three sets of fiscal policy alternatives that would provide an added stimulus to the economy to reduce unemployment to the 4.0 percent range within two years (with inflation rates between 5.6 and 8.2 percent at that time and between 5.9 and 9.1 percent by 1980). To achieve 3.5 percent unemployment (and added inflation) somewhat more stimulus would be required; to achieve 4.5 percent unemployment (and less inflation) less stimulus would be needed.

Three sets of policy alternatives: increased government spending (80 percent purchases; 20 percent transfer payments), tax cuts (80 percent personal; 20 percent corporate), and a combination of the two, are shown in Table 2. Although the paths to the 4.0 percent unemployment target can be timed in different ways, the timing used in this illustration causes unemployment to fall most rapidly in the first year, and then to approach the unemployment target slowly in the second.

Changes in spending and taxes are shown relative to the current policy budget as reflected in the Second Concurrent Resolution on the Budget by Congress. In the current policy budget, the tax policies currently in force are extended and outlays are adjusted for inflation and changes in the number of persons eligible for benefits. If the current

policy budget remained in force, unemployment would be in the 6.2 to 6.4 percent range by the middle of 1978 with inflation running from 5.0 to 6.0 percent.

Achieving 4 percent employment by mid-1978 would require larger budget deficits. The size of the additional deficit would depend on the expenditure/tax package selected, since tax cuts are less stimulative dollar-for-dollar than additional outlays. If government outlays only were increased, the deficit in mid-1978 would be $35 billion to $40 billion higher than if the current policy budget were followed. With the combined fiscal strategy, the deficit would be from $70 billion to $75 billion higher than for a current policy budget by mid-1978.

For purposes of these simulations, monetary policy was assumed to be more expansionary than projected for a current policy budget but less than fully accommodative. That is, interest rates were allowed to increase somewhat in response to the more expansionary fiscal policy. If monetary policy were fully accommodative, then the increased deficit associated with achieving the 4.0 percent unemployment target would be lower.

It should be emphasized that the estimates in Tables 1 and 2 are based on assumptions about relationships that may not hold in this particular recovery. The private economy

could be stronger or weaker than is projected here. Crop failures here or abroad, a major strike, a rapid rise in short-term interest rates--all contrary to the assumptions underlying these estimates--would change the outlook for inflation and unemployment.

It is clear, however, that a rapid return to full employment would require very large departures from a current policy budget. A more gradual path of recovery, bringing unemployment into the 4 percent range by 1980, would require less fiscal stimulus from the federal budget. Further measures such as public service employment and tax incentives especially designed to encourage employment might have a greater job-creating potential per dollar of federal government outlay. If such measures were part of the overall budget policy, the expenditures and tax changes required to reach the 4 percent unemployment target would be somewhat less.

IV. Can We Do Better?

Because insufficient demand for goods and services is not the only cause of unemployment, fiscal and monetary policy alone cannot be relied upon to eliminate it altogether. It is unlikely that aggregate demand measures could reduce unemployment much below 4 percent without risking another

round of high inflation, and, indeed, the inflation that goes with the rapid approach to 4 percent discussed in the last section is substantial. Thus, other measures must be sought to reduce unemployment still further.

Before considering the policies needed to achieve full employment, it is important to examine some factors that contribute to the persistence of unemployment even in tight labor markets. This in turn provides a basis for evaluating alternative full-employment goals (in terms of the percent of the labor force unemployed) as well as considering the potential effectiveness of alternative full-employment policies.

Job-Related Factors. Certain groups of individuals--blacks, teenagers, women, and the unskilled-- have high rates of unemployment even when the overall demand for labor is high. As shown in Table 2, the average unemployment rate for adult white males in high-employment periods since 1950 has been only about 2.3 percent, compared with 5.3 percent for black males, 9.8 percent for white teenagers, 27.8 percent for black teenagers, and 3.4 percent and 6.8 percent for white and black women, respectively.

This persistent inequity, even in prosperous times, suggests that the relatively high unemployment experienced

Table 2

Fiscal Policy Alternative to Achieve a
4.0 Percent Unemployment Target
in Two Years*

	1976:III	1976:IV	1977:I	1977:II	1977:III	1977:IV	1978:I	1978:II
Unemployment Rate	(7.1-7.5)	(6.6-7.0)	(6.0-6.4)	(5.3-5.7)	(4.7-5.1)	(4.2-4.6)	(3.9-4.3)	(3.8-4.2)
I. Increased government purchases only Change in government expenditures ($ billions)	5.0	18.0	34.0	53.0	67.0	85.0	89.0	89.0
II. Tax cut only Change in taxes ($ billions)	-10.0	-35.0	-64.0	-99.0	-121.0	-145.0	-157.0	-157.0
III. Combined fiscal strategy Change in government expenditures ($ billions)	2.5	9.0	17.0	26.5	33.5	42.5	44.5	44.5
Change in taxes ($ billions)	-5.0	-17.5	-32.0	-49.5	-60.5	-72.5	-78.5	-78.5

*These policies represent changes from the current policy budget as reflected in the Second Concurrent Resolution on the Budget. Monetary policy is assumed to be more expansionary than is projected for a current policy budget, but less than fully accommodative.

by some groups will not be remedied by fiscal and monetary policies alone. When unemployment is already low, such policies may only increase demand for skilled, adult white males, driving up their wages without much effect on unemployment and wages for other groups.

To a large extent, the relatively high employment rates of certain groups are related to the jobs these people hold when employed. Blacks, teenagers, and the unskilled have one thing in common. They tend to hold jobs at the bottom of the labor market hierarchy. They predominate as laborers and low-level sales and service workers. Although they are disproportionately represented in the industries with high employment variability, even in stable industries they have relatively high unemployment rates. They become unemployed frequently, because they are fired, because they quit, and because they leave and reenter the labor force. 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 pay-off to seniority. Job satisfaction is low, and this also weakens job ties. The employer can find an equally unskilled replacement and the worker can expect to find another equally poor job, particularly in tight labor markets. Duration of unemployment is not long on the average for these groups, but unemployment occurs frequently.

For teenagers, frequent job changes may reflect an attempt to sample the job market, and hence, may be productive in the long run, enabling the youth to seek an occupation he most enjoys. For blacks, the unskilled, and disadvantaged persons, however, frequent job changes reflect a lack of upward mobility in the labor market hierarchy, engendering an attitude of futility and alienation in a society attuned to progress and individual opportunity.

The situation for women workers is somewhat different. While some women workers, particularly blacks, hold very low-level jobs, many women hold fairly stable, white-collar jobs, such as secretary, nurse, and teacher. The major barriers facing these women are occupational. Most women are concentrated in a small number of occupations where women predominate.

Frequency of unemployment is not as serious a problem for women as for blacks and teenagers since women hold more stable jobs and quit rates are no higher than for men. Rather, they experience more longer spells (durations) or unemployment because, once unemployed, they spend more time looking for work. If they are second earners in a family, women might take longer to find a job because there is less urgency to take the first offer available. Women may also be

less flexible in their job requirements due to their lack of mobility and their household responsibilities. Some analysts contend, however, that family characteristics play little if any role in explaining duration of female unemployment. According to this view, limited opportunities in the job market and limited aspirations of women themselves have produced an excess-supply situation in traditional female occupations as women have entered the labor force in increasing numbers without broadening their occupational representation.

One could argue that unskilled individuals, teenagers, and women will always have relatively high unemployment rates. For the unskilled, there will always be a weak job attachment, particularly in society whose ethic is progress and individual opportunity. In some other industrial countries of Europe and Japan, unskilled workers change jobs less frequently, jobs are taken for life and there is a strong resistance to layoffs on the part of labor unions. Yet in those countries, there is less chance of an individual improving his lot by finding a better job and upward mobility is less likely.

Frequently sampling of various jobs may enable a teenager to select a career and hence, some of the high rates

of teenage unemployment may reflect a necessary adjustment to the realities of work. Women, too, given the established pattern of sex role behavior may incur more unemployment than men, even if all occupational barriers were removed. Some married women, for instance, may view their jobs as secondary to their household responsibilities, and hence may remain unemployed longer due to inflexible job requirements.

Even for those with a looser attachment to the labor market, jobs that provide some sort of on-the-job training and upward mobility within their firm will increase incentives for both employer and employee to maintain the work relationship. As a short-run measure, subsidized training programs to upgrade skills could both increase the employability of such workers and strengthen their job attachment. By reducing turnover for disadvantaged workers, such policies would reduce the high-employment rate, allowing an increase in the full-employment target.

Reducing teenage unemployment would also mean a higher full-employment goal. To the extent that a certain amount of "sampling" of the labor market is deemed desirable, the acceptable unemployment rate is likely to be somewhat higher for teenagers than for other groups. However, some measures to reduce teenage unemployment could be effective. These include improved career and vocational counseling and increased career and vocational emphasis in school curricula that would reduce the incidence of job mismatches and job

search through trial and error. Training programs that ease the transition from school to a working environment might also be beneficial.

Measures to reduce the cost to employers of hiring teenagers might also offset some of the risks associated with such hiring (such as lack of previous work history and anticipated high turnover rates). One such proposal is to reduce the minimum wage for teenagers. But minimum wages do result in higher wages for those workers who are able to obtain employment, and thus other measures could be sought to reduce the cost to employers of hiring teenagers and other low-productivity workers. Exemption from social security taxes or outright subsidies to firms hiring teenagers are possible alternatives. Since such measures might displace unskilled adult workers from jobs, however, their results are not unambiguously favorable.

In the case of women, unemployment results in part from limited job opportunities and barriers to entry from many occupations. It may also be traced to attitudes held by women themselves who limit their goals to traditional female pursuits. If, by breaking down occupational barriers and widening women's labor market goals, as well as ending discrimination against females, women become more equally

distributed among occupations then it is likely that female unemployment will decline more rapidly in response to overall economic growth. More competition between women and men in the labor market as women increase their labor force participation and attachment could potentially moderate inflationary wage pressures in occupations traditionally held by men. In addition, career counseling and retraining may widen occupational choices and reduce excess supply problems in certain female-dominated occupations. Special programs for older women reentering the labor force after the child-bearing years have been extremely successful in reducing female unemployment in some European countries.

Targeted Employment Policies and the Full Employment Goal. As shown in Table 3, adult women represented 35.6 percent of the labor force in 1975 compared with 26.8 percent in 1950. Teenagers are 9.5 percent of the labor force today compared with 6.8 percent in 1950.

Suppose that measures to broaden the occupational distribution of women could bring the female unemployment down to within 0.5 percentage points of the male rate. Teenagers are likely to have much higher unemployment rates than adults, even under optimal conditions, but their unemployment rates could conceivably be brought to within 2 percentage points of the adult rates with appropriate transitional

Table 3

Unemployment Rates by Demographic Groups In Selected High Employment Periods

	1951:II[1]	1952:IV[1]	1953:II[1]	1956:I	1957:I	1966:IV	1968:IV	1969:II	1973:IV	Average (All Periods)
White										
16-19 years	7.6	8.1	6.8	10.6	10.2	10.7	10.6	10.7	12.8	9.8
Male 20+	2.3	2.2	2.3	3.0	2.8	2.1	1.8	1.8	2.8	2.3
Female 20+	4.0	3.0	2.5	3.5	3.7	3.3	3.2	3.4	4.2	3.4
Nonwhite										
16-19 years	NOT AVAILABLE			16.1	18.7	23.7	25.3	25.0	28.2	22.8
Male 20+				7.1	6.8	5.0	3.8	3.6	5.4	5.3
Female 20+				7.2	6.2	6.8	6.1	6.1	8.1	6.8
Total	3.1	2.8	2.6	4.0	3.9	3.7	3.4	3.4	4.8	3.5

[1]Unemployment rates by race are not available before 1954. These numbers apply to all races taken together.

Source: Bureau of Labor Statistics

counseling and training programs. (Experience in other countries suggests this is not an unrealistic target.) Finally, imagine that upgrading skills and improving chances for upward mobility among blacks could bring their unemployment rates to within 0.5 percent of the rate for whites.

If effective policies to achieve these goals had been pursued in 1973, the overall unemployment rate would have been 3.3 percent rather than 4.9 percent. In 1956, the overall unemployment rate would have been 3.3 percent rather than 4.1 percent. That is, in 1956 the unemployment rate would have been 0.8 percentage points lower; in 1973, it would have been 1.6 percentage points lower. Thus, it appears that special measures to reduce high unemployment rates of those particular demographic groups would, if effective, contribute even more today to reducing unemployment (and raising the full-employment target) than in the past. It should be noted, however, that measures to increase the access of these demographic groups to jobs predominantly held by adult white males are likely to raise the unemployment rate for adult white males somewhat. Thus, the effect on the overall unemployment rate could be overstated. However, even if the full-employment unemployment target could be reduced by 1 percentage point as a result of measures to reduce the relatively high unemployment rates of blacks, women, and

Table 4

Changes in the Demographic Composition of the Labor Force

Year	No. in Labor Force	Share of Labor Force: Adult Male (20+)	Share of Labor Force: Adult Female (20+)	Share of Labor Force: Teen-agers (16-19)	Percent Growth Over Five-Year Period: Total	Percent Growth Over Five-Year Period: Adult Male	Percent Growth Over Five-Year Period: Adult Female	Percent Growth Over Five-Year Period: Teen-agers
1950	62,208	66.4	26.8	6.8				
1955	65,023	64.8	28.9	6.3	4.5	1.9	12.9	(2.9)
1960	69,628	62.6	30.4	7.0	7.1	3.6	12.5	18.3
1965	74,455	60.2	31.8	7.9	6.9	2.9	11.8	22.1
1970	82,715	57.0	34.2	8.8	11.1	5.2	19.4	22.6
1975	92,613	54.9	35.6	9.5	12.0	7.8	16.5	21.6
1980[a]	99,809	56.3	35.6	8.1	7.8	10.5	7.8	(8.0)
1985[a]	105,716	57.1	36.4	6.6	5.9	7.4	8.3	(14.5)
1990[a]	110,576	57.2	36.6	6.2	4.4	4.9	5.2	(1.1)

[a]Projections.

Source: Manpower Report of the President, April 1975.

teenagers, such measures combined with expansionary fiscal and monetary policy could potentially bring the overall unemployment rate to the 3 percent range.

Unemployment Insurance. The foregoing has emphasized high unemployment rates for certain demographic groups in the labor market. A different sort of effect on the measured unemployment rate stems from the unemployment insurance system and other income maintenance programs.

Unemployment insurance is sometimes thought to increase the amount of unemployment, in good times and bad. For one thing, it may increase the length of time an unemployed person spends between jobs; the income support provided enables him to seek a preferred job rather than being forced to accept any work at the risk of starvation. In addition, the availability of unemployment insurance will increase measured unemployment to the extent that it provides an incentive to potentially discouraged workers not to drop out of the labor force. Further, in some cases, the unemployment insurance system may even result in a work disincentive because some individuals may prefer to collect unemployment benefits rather than work.

Some empirical evidence suggests that measured unemployment is perhaps as much as 0.3 to 0.7 percentage points

higher under the existing unemployment insurance system than it would be with a much more limited system. The net effects of this disincentive are probably greater during periods of low unemployment when jobs are actually available. However, it is not possible to distinguish whether this is due to a work disincentive, the retention of potentially discouraged workers in the labor force, or to an increase in the time devoted to job search. While a work disincentive may be viewed as an undesirable result of unemployment insurance, it is not at all clear that providing income support for potentially discouraged workers or for a more productive job search for unemployed individuals is undesirable.

V. Job Creation

Fiscal and monetary policy to reduce unemployment rapidly run the danger of accelerating inflation. Improvements in the job market like those discussed in the last section work only slowly. Thus, to reduce unemployment still further in the short run, special programs to provide jobs for the unskilled and disadvantaged who have high unemployment in good times can provide major help. Jobs can be designed to strengthen the job attachment of these individuals: by enhancing their skills, providing unemployment stability, and a vested interest on the part of the individual and the

employer to maintain the work relationship. Further, the jobs should provide new opportunities that widen the participation of such groups in the labor market and increase their chances for upward mobility. Such jobs could be public sector jobs that would provide a transition to regular private sector employment, or they could be subsidized private sector jobs: the cost to employers of providing such transitional experience to unskilled and disadvantaged workers would be temporarily reduced until the transition is completed.

A number of targeted expenditure instruments can reduce unemployment or maintain it at lower levels than those achievable by fiscal policy alone. Properly designed, they may have less inflationary impact than broad fiscal and monetary instruments. Such measures include:

1. Public Service Employment--Job creating programs that either fund jobs in state and local governments or in federal programs. These programs can be used either countercyclically by hiring workers during periods of high unemployment or structurally by hiring workers who remain unemployed even during periods of low aggregate unemployment.

2. Accelerated Public Works--Countercyclical programs that fund manpower intensive and short-term public works projects during periods of high unemployment.

3. Countercyclical Assistance to State and Local Governments--Aid to state and local governments designed to allow them to maintain services and employment levels during periods of high unemployment.

4. Employment Tax Credits and Wage Subsidies--Tax expenditures and direct outlays aimed at increasing or maintaining employment in the private sector. These can be used

either countercyclically or to reduce unemployment during periods of low unemployment and they can either be general subsidies o targeted toward less skilled workers and new or additional jobs.

5. Job Guarantees--Programs that combine job placement services, private sector employment subsidies; and public service employment programs in order to publicly guarantee employment to workers. These may be used either countercyclically or to further reduce unemployment beyond those levels achievable by general fiscal and monetary instruments.

The effects of these expenditure programs and tax policies are uncertain because most of them have not been tried on any substantial scale. When implemented as demonstrations, they have not been carefully evaluated.

The net effect on employment of such programs is a function of the extent to which they add new jobs rather than simply replace existing jobs, the average salaries of the jobs they provide, and the proportion of their outlays accruing to wages and salaries. Their effect on the unemployment rate depends on the proportion of the newly created jobs that are held by formerly unemployed individuals. Both public service employment and countercyclical aid to state and local governments may be used to employ former state and local employees. To the extent that these individuals would have been laid off if federal support had not been provided, their jobs should be counted positively as direct program effects.

To the extent that these state and local workers would have been otherwise employed by these units of government but have been shifted to payrolls supported by federal funds, fiscal substitution occurs and net program effects decline.

CBO has estimated the effects of a number of these programs. A countercyclical public service employment program with average salaries of $7,500 and nonwage costs of 10 percent will probably increase employment by 73,000 to 121,000 per $1 billion in outlays within twelve months following their initiation.[7] Because these outlays will create tax payments and the additional employment will reduce unemployment compensation benefits, the net budget cost per $1 billion of outlays will be approximately $470 million.

The net effects of accelerated public works and countercyclical revenue sharing are different from those of public service employment because of differences in wage levels; proportions of expenditures going to wages; and expected rates of fiscal substitution. A countercyclical revenue sharing program might increase employment by 70,000 to 97,000 jobs at a net budget cost of approximately $580 million per $1 billion in outlays. An Accelerated Public Works program could create between 57,000 and 70,000 jobs

7. See "Temporary Measures to Stimulate Employment; An Evaluation of Some Alternatives," Congressional Budget Office, September 2, 1975, assuming 25-75 percent fiscal substitution and 1.6 multiplier.

per $1 billion in outlays at a net budget cost of approximately $525 million.

To compare these targeted programs with a broader application of fiscal policy, a general increase in government purchases would increase employment by 40,000 to 70,000 jobs per $1 billion in outlays. This is a bit more than half the estimated effect of public service employment.

The effects of tax and tax expenditure instruments oriented to stimulating increased private sector employment are more difficult to predict. There has been little experience with employment tax credits, and the responses of private employers to subsidies that reduce labor costs are highly uncertain. These provisions may alter employment patterns in one of two ways. A provision which provides workers with incentives to enter the workforce will increase the supply of labor and, if demand is sufficient, reduce the unemployment rate. Second, employers' demand for labor may be increased directly by reducing the cost of labor relative to the cost of capital through targeted tax expenditures.

Currently, the earned income credit offers a credit to low income earners in an attempt to induce more people into the workforce. This credit is not a universal approach to reducing unemployment since it is only available to low

income workers who have dependent children. The credit to employers for employing public assistance recipients under the work incentive (WIN) program is the only tax provision which is explicitly designed to increase the demand for labor. A 1975 amendment temporarily broadened this credit to apply to other AFDC recipients besides those in the WIN program.

One possible new approach using the tax system would be an employment tax credit designed to increase the demand for labor by providing a tax credit to employers for hiring more people. An ETC would tend to increase the amount of labor and decrease the amount of capital used. Substituting an employment tax credit for the existing investment tax credit would provide some incentive for firms to hire more labor rather than buying additional capital equipment. The short-run employment effect would have to be weighed against the long-run effect of reducing overall productivity in the economy.

The long-term and short-term effects of a job guarantee policy are even more difficult to estimate. To the extent that high unemployment rates for disadvantaged groups in the labor force result from frequent job changes associated with job satisfaction and attempts to improve one's labor market posi-

tion, the guarantee of a job is not likely to reduce unemployment for these groups unless the job provides some upward mobility that will increase job attachment. However, if public service jobs are made more attractive than private sector alternatives, workers will be drawn from the private sector, increasing the cost of the public jobs programs and driving up wages in the private sector. Over the longer run, however, this could result in improved working conditions in the private sector.