Statement of Nancy S. Barrett
Deputy Assistant Director for Fiscal Analysis
Congressional Budget Office
Before the 94th
NEW MEMBER CAUCUS
Congress of the United States
House of Representatives

May 17, 1976

Mr. Chairman and Members of the Caucus:

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

Unemployment is a continuing human as well as 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.

The Employment Act of 1946 established the responsibility of the federal government to pursue full employment policies. H.R.50, the Full Employment and Balanced Growth Act of 1976, is an extension of that piece of legislation. It goes beyond the Employment Act of 1946 in that it establishes a numerical full-employment goal (3 percent adult unemployment), provides for new institutions and processes for improved coordination of national economic policy, and mandates an "employer of last resort" program whereby the federal government would stand ready to provide jobs at prevailing wages whenever the actual unemploy-

*Parts of this statement draw heavily from earlier testimony by Alice M. Rivlin, Director of the Congressional Budget Office on H.R.50 and S.50 before the House and Senate Committees. Some of the views expressed, however, are those of the author.

ment rate exceeded the full-employment target. The Employment Act of 1946 has no enforcement component; that is, there is no mechanism whereby the federal government is actually obliged to promote policies that would be consistent with the full-employment mandate. The "employer of last resort" feature of H.R.50 can be viewed, among other things, as that sort of enforcement mechanism in that the federal government would be obliged to provide jobs directly when stabilization policy and other measures fail to achieve the 3 percent adult unemployment goal.

Even though the overall unemployment rate has fallen since it reached a 35-year peak last spring, unemployment continues to be a serious problem. Presently, the overall unemployment rate is 7.5 percent; and very high rates persist for certain demographic groups. The unemployment rate for blacks is about 13 percent, and for teenagers it is 19 percent. Further, projections of economic growth based on current fiscal and monetary policies would put unemployment above 5 percent even by 1980, with higher rates for blacks and teenagers.

Administration spokesmen have testified before Congressional committees that economic policy over the past several years has been consistent with the objectives of the Employment Act of 1946. Yet critics argue that the 8.5 percent unemployment rate experienced in 1975 and the current 7.5 percent rate of unemployment is not full employment. Further, they assert that more expansionary fiscal and monetary policy could bring the unemployment rate down much faster than is currently projected.

The debate about whether current economic policies reflect the best we can do in terms of the mandates of the Employment Act of 1946 suggests that one must have some numerical goal in mind in evaluating full-employment policy. That is, some people argue that 7.5 percent unemployment is the best that can be done in 1976 without threatening the return of very high rates of inflation while others think that a much lower rate of unemployment could be achieved without substantial inflationary costs. The numerical target proposed in H.R.50 does tend to bring this aspect of the debate into clearer focus. Most people would agree that there are benefits to reducing unemployment--more people would be at work and there would be more goods and services produced. The disagreement is over how far we should try to reduce unemployment in view of the risks of added inflation and increased government intervention in the economy.

It must be recognized that there are costs to approaching any full employment goal, be it 3 percent or some other number. It is not possible to state with any certainty what these costs will be in terms of added inflation, increased budget costs, and the potential for a permanent large-scale public employment program. However, most economists agree that substantially more inflation would be associated with unemployment in the 3 percent range than with the current 7.5 percent unemployment rate. Further, it is clear that increased government intervention in the economy would be required to achieve a 3 percent unemployment target by 1980.

While the economic impact and budget cost of H.R.50 are uncertain, they are affected by several different factors:

- The definition of adult unemployment: If adult is defined as nonteenage, the 3 percent target for adults translates to about 4 percent for overall unemployment. If adult is defined as a person 18 and older, it translates to about 3.5 percent overall unemployment. If adult is defined as a person 16 and older the unemployment goal in H.R.50 translates to a 3 percent overall unemployment rate;

- The particular policy mix selected to reduce unemployment to a 3 percent range: Economic impacts and budget costs will vary widely depending on the job-creating measures and employment programs used;

- The underlying strength of private demands in the economy: This determines how much unemployment there would have been without the passage of H.R.50.

Considerations in Designing the Unemployment Goals

The requirements for reaching the goal of 3 percent unemployment depends, of course, on who is classified as an adult. A useful rule of thumb in this regard is that since the mid-1960s the unemployment rate for all workers 16 and over has been roughly one percentage point above the unemployment rate for those 20 and over and 0.5 percentage points above the unemployment rate for those 18 and over. Table 1 contains more precise comparisons on a yearly basis. Although demographic factors in the future could reduce the differential, projections by the Urban Institute indicate that this approximate spread will persist through the next decade. Thus, if we speak of a 3 percent non-

Table 1--UNEMPLOYMENT RATES FOR ALL PERSONS 16 AND OVER COMPARED WITH UNEMPLOYMENT RATES FOR PERSONS 18 AND OVER AND 20 AND OVER

Year	(1) Unemployment Rate, 16+	(2) Unemployment Rate, 18+	(3) Unemployment Rate, 20+	(4) (1) - (2)	(5) (1) - (3)
1950	5.3	5.1	4.8	0.2	0.5
1951	3.3	3.1	3.0	0.2	0.3
1952	3.0	2.8	2.7	0.2	0.3
1953	2.9	2.7	2.6	0.2	0.3
1954	5.5	5.3	5.1	0.2	0.4
1955	4.4	4.2	3.9	0.2	0.5
1956	4.1	3.9	3.7	0.2	0.4
1957	4.3	4.0	3.8	0.3	0.5
1958	6.8	6.5	6.2	0.3	0.6
1959	5.5	5.2	4.8	0.3	0.7
1960	5.5	5.2	4.8	0.3	0.7
1961	6.7	6.4	5.9	0.3	0.8
1962	5.5	5.2	4.9	0.3	0.6
1963	5.7	5.2	4.8	0.5	0.9
1964	5.2	4.7	4.3	0.5	0.9
1965	4.5	4.1	3.6	0.4	0.9
1966	3.8	3.4	2.9	0.4	0.9
1967	3.8	3.5	3.0	0.3	0.8
1968	3.6	3.2	2.7	0.4	0.9
1969	3.5	3.1	2.7	0.4	0.8
1970	4.9	4.5	4.0	0.4	0.9
1971	5.9	5.4	4.9	0.5	1.0
1972	5.6	5.1	4.5	0.5	1.1
1973	4.9	4.3	3.8	0.6	1.1
1974	5.6	5.0	4.5	0.6	1.1
1975	8.5	7.9	7.3	0.6	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 for all persons 18 and over. Column (3) is the unemployment rate for the civilian labor force excluding teenagers, that is, persons 16 to 19.

teenage unemployment we are referring to an approximate 4 percent overall rate. Similarly, a 3 percent unemployment rate for persons 18 and over implies about a 3.5 percent overall rate.

Baseline for Evaluating Employment Policy in H.R.50

In determining the starting points for reducing unemployment in H.R.50, it is useful to separate the intentions of the bill into two aspects. In part, H.R.50 is designed to coordinate and insure a vigorous recovery from the current recession. In part, it is designed to improve on past performance and permanently bring adult unemployment close to 3 percent.

It is important to bear in mind that the economy is beginning to recover from its deepest postwar recession. Achieving a rapid recovery will entail very rapid rates of growth and/or large-scale employment programs. If H.R.50 is viewed primarily as a long-range program for maintaining full employment, the cost of recovering from the current deep recession should not be attributed to it. If the role of H.R.50 is to improve the long-run average behavior of unemployment, then a different baseline should be selected. Unemployment since 1960 has averaged 5.2 percent. Some of this unemployment has resulted from the economy operating at less than full capacity in recession periods; some is due to long-run factors. Based on this historical benchmark, the 3 percent adult unemployment target of H.R.50 can be evaluated relative to a 5.2 percent overall rate of unemployment rather than the present 7.5 percent.

Programs Under H.R.50

Countercyclical Programs. H.R.50 outlines a number of policy measures that might be implemented to achieve the full employment target. Standard fiscal and monetary measures might be supplemented by special job-creating policies like public service employment, accelerated public works, grants to state and local governments, and special tax incentives for business. Further, there is a provision for a limited job guarantee for persons able and willing to work and seeking work.

Special employment programs are to be enacted to the extent that fiscal and monetary policies are unable to achieve the 3 percent adult unemployment target. Presumably what this means is that supplementary measures are to be used if the inflationary pressures or budget costs associated with using standard fiscal and monetary policy to achieve the unemployment target become unacceptably high.

Special countercyclical measures such as public service employment, special tax incentives, accelerated public works, and special assistance to state and local governments can either provide jobs directly to the cyclically unemployed (as in public employment and public works), or can provide special incentives to private industry and state and local governments to employ more people then they otherwise would have. A recent study by the Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, concluded that some of these measures can potentially have a higher employment impact per dollar spent than across-the-board

spending or tax changes. Further, in some cases, the potential inflation impact per job is less than for standard fiscal and monetary policy, suggesting that using selective measures can improve the inflation/unemployment relationship.

Table 2 shows estimates of the employment impact and the net budget costs (taking into account savings from unemployment compensation and higher tax payments from program participants) of alternative temporary programs. Initially there is a fairly wide variation of cost-per-job, although these differences tend to narrow after a year or two of operation. Public employment has a lower cost-per-job than other measures; after a year of operation, for instance, accelerated public works may cost about one-and-a-half to twice as much per job as public employment. Across-the-board tax cuts could entail a cost of from three to four times that of public employment.

Some of the more costly programs have other benefits such as a higher value of their output. Table 3 provides in summary form some of the considerations discussed in Temporary Measures to Stimulate Employment in making comparisons between programs. While special measures to stimulate employment may be less costly and potentially less inflationary, in the short run, aggregate demand policies are sometimes viewed as a more neutral way to stimulate economic growth and create jobs in the long run.

TABLE 2--ESTIMATES OF EMPLOYMENT AND BUDGET IMPACT OF VARIOUS PROGRAMS COSTING $1 BILLION[1]

Type of program	Initial impact			12 months			24 months		
	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)
Public service employment	80-125	0.07-0.11	$754-$915	90-115	0.08-0.13	$487-$425	90-150	0.08-0.13	$392-$312
Anti-recession aid to State and local governments	70-77	.01-.07	830-716	70-97	.07-.09	590-370	72-100	.07-.09	480-450
Accelerated public works	16-16	.02-.01	915-793	58-70	.05-.07	537-510	64-80	.07-.08	430-390
Tax cut[2]	8-15	.01-.02	980-909	26-35	.02-.05	740-720	30-40	.02-.05	663-637
Government purchases	20-50	.02-.04	918-870	40-70	.03-.05	600-500	60-80	.04-.05	475-425

[1] These estimates assume no monetary accommodation. If the money supply were increased to prevent interest rates from rising as a result of the expansionary fiscal measure, the job-creating effect would be higher and the net deficit cost lower. Accommodating monetary policy would increase the expansionary effect by 25 percent or more which, in turn, would reduce the budget cost by an average of about $125 million.

[2] The income tax cut is assumed to be one-third corporate and two-thirds personal. If the tax cut were entirely personal, the expansionary effect would be about 50 percent greater and the net budget cost about $175 million lower.

Source: See app. B.

SOURCE: U. S. Congress, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975.

TABLE 3--SUMMARY OF THE POTENTIAL IMPACTS OF ALTERNATIVE MEASURES TO STIMULATE EMPLOYMENT

	Employment impact per dollar expenditure	Startup time	Phaseout flexibility	Inflation impact	Value of output	Targetability
Income tax cut.	Relatively low, particularly in the short run.	Subject to lags in individuals' spending.	Potentially easy to terminate.	Same as any aggregate fiscal measure.	Entirely private sector.	None.
Increase in Government purchases.	Higher than tax cut; lower than special employment programs.	Potentially fast; subject to policy initiation lag.	May be hard to terminate, especially if useful output, services involved.	Same as any aggregate fiscal measure, depending on employees' skill mix.	Mostly public sector; 2d round effects on private sector.	Low.
Accelerated public works.	Potentially low if wages are high; greater job impact from low-wage projects.	Potentially long; but with wide variations depending on type of program.	Wide variation; appropriations easier to stop than some other Government programs, but large-scale projects may take long to complete.	Somewhat greater than other programs if workers highly skilled; lower if aimed at less skilled workers.	Mostly public sector; 2d round effects on private sector.	Can be directed at high-employment areas, construction trades.
Public service employment.	Relatively high if wages are low.	Potentially fast if existing programs expanded.	Relatively flexible if job tenure limited.	Low if aimed at unskilled workers and if wages are lower than private sector alternatives.	Low if emphasis is solely on job impact; if combined with training can produce useful skills.	Can be directed at most needy individuals.
Antirecession aid to State and local Governments.	Less than PSE if skill levels high; more than other Government purchases, public works.	Potentially fast; no new programs, only transfer of funds.	Potentially easy to terminate.	Moderate, depending on skill level of employees.	State and local government services.	Can be directed at Governments hit by recession.

SOURCE: U. S. Congress, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975, p. VIII.

Programs to Reduce Structural and Frictional Unemployment. When overall unemployment is in the 4 to 5 percent range, a great deal of the remaining unemployment is due not to any depression in the general economy, but to what are often called structural or frictional factors. Structural unemployment refers to an excess supply of labor in some pockets of the labor market with special long-term problems; for example, a local area which is losing jobs to other regions or an industry whose output is no longer in demand. Discrimination in some occupations against racial minorities or women cause these groups to concentrate their supply in other occupations and overcrowding in these limited occupations is another form of structural unemployment.

Programs to combat structural unemployment include steps to increase the demand for labor in depressed pockets of the labor market, programs to increase the mobility of individuals out of these pockets through encouragement of geographic mobility, training or retraining, and removal of discriminatory barriers, to name a few. Programs of these kinds might be more effective in reducing structural unemployment than across-the-board increases in demand that might have much of their impact on other sectors of the labor market.

Frictional unemployment refers to short spells of unemployment accompanying job turnover or initial entry into the labor force. To some extent frictional unemployment represents a normal period of job search for new jobseekers or for persons

who have left a job to seek a better one. However, some groups of people change jobs frequently resulting in disproportionately high unemployment rates. Unskilled and disadvantaged individuals--among whom blacks and young people are disproportionately represented--experience more frequent spells of frictional unemployment than other groups. These persons tend to hold jobs at the bottom of the labor market hierarchy and they become unemployed frequently because they are fired, because they quit, and because they leave and reenter the labor force more frequently than other workers. Job attachment is weak. There is little incentive for employer or for employee to maintain a long-term work relationship since there is little if any on-the-job training or payoff to seniority. Job satisfaction is low, and this also weakens job ties. Increasing job attachment by providing job training, and chances for upward mobility would certainly be a desirable component of a program designed to reduce relatively high unemployment rates of the unskilled and the disadvantaged. In fact, failure to do so might result in continued high rates of unemployment for these groups making a 3 percent adult unemployment goal difficult or even impossible to achieve.

Potential Costs of H.R.50

Since so many programs and specific program provisions are possible within the framework of H.R.50, I think a cost estimate of the bill would not really be meaningful. In some hypothetical average year in the 1980s, the unemployment goal

in the bill might require some 2 million more jobs than the economy as it performed in the period between 1960 and 1975 would be able to generate. The cost of providing these jobs could easily vary from as little as $8,000 per job to as much as $30,000 per job. Furthermore, any actual year would usually not be an average year--instead there would be years of strong private demands when little or no added stimulus would be needed and years of weak private demands when it would take economic stimulus well above the average to meet the unemployment goal of the bill.

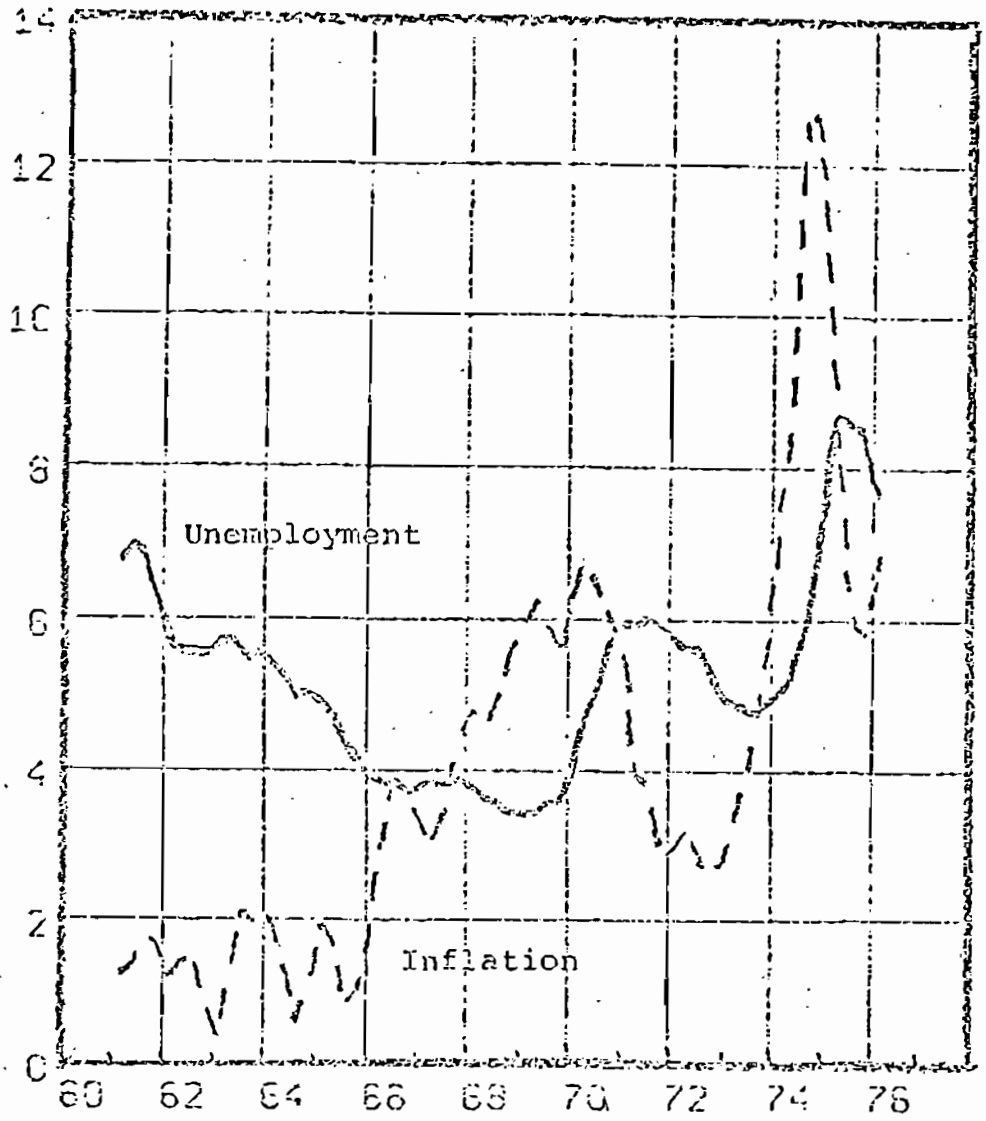
The Inflation Problem

While it is possible that enactment of H.R.50 could result in lower umemployment, this is not without its risks. Perhaps the most frequently cited of the risks is the inflationary potential of the bill. Clearly, a serious problem in pursuing a goal of 3 percent unemployment is the risk of having inflation begin to accelerate as the economy approaches the goal. Unfortunately, economists' understanding of inflation is too limited to warrant confidence in precise estimates of the inflationary risks. The historical record since 1961 is shown in very summary form in Chart 1. The measure of unemployment in the Chart is the overall unemployment rate, while the measure of inflation is the rate of change in the consumer prices omitting food and energy, whose prices have not been closely related to the unemployment situation.

Unemployment and inflation (omitting food and fuel prices) have generally, but not always, moved in opposite directions during this period. The 1961 through 1969 decline in unemployment was accompanied by worsening inflation through early 1970; and the 1970 to 1971 rise in unemployment, by falling inflation. In late 1971 and 1972, price controls under the Economic Statilization

CHART 1

Unemployment and Inflation, 1961-76



Notes: Unemployment is measured by the unemployment rate for all workers 16 and over, seasonally adjusted. Inflation is measured by 2-quarter changes, expressed at an annual rate, in the consumer price index less its food and energy components.

Source: U.S. Department of Labor

Act held inflation down; but eventually, the 1971-1973 fall in unemployment was followed by greatly worsening inflation. The 1974-1975 rise in unemployment was accompanied first by rising prices but was due to the indirect effect of higher food and fuel prices and partly due to the end of price controls; but later the 1974 to 1975 recession saw a reduction in the inflation rate. The early 1976 improvement in unemployment has been accompanied by some acceleration in consumer prices other than food and energy, although falling food and fuel prices have kept down the overall price indexes. I believe no one studying this chart should remain complacent about the possibility of accelerating inflation as the economy nears 3 percent unemployment. Furthermore, the danger is greater the more comprehensive the definition of "adult" under the bill.

According to one set of simulations that we have prepared, the added inflation associated with achieving a 3.5 percent overall unemployment rate rather than the long-term average of 5.0 percent is around 1.25 percentage points in the Consumer Price Index in the year the target is achieved and around 2 percentage points two years after achieving the target. In other words, if inflation were 5 percent per year in a 5 percent unemployment economy, it would be 7 percent per year two years after achieving a 3.5 percent unemployment economy. Furthermore, if unemployment were to be held at the 3.5 percent rate indefinitely, the simulations show a growing inflationary impact. These or any other estimates are based on many uncertain assumptions and consequently the precise numbers should not be viewed

with any great degree of confidence. Instead they give some indication of the general order of magnitude of the problem. For some the added inflation associated with achieving a lower unemployment target would be well worth the gain in terms of added employment and output; but for others the risk of returning to higher rates of inflation is far too great to warrant acceptance of the unemployment goal in H.R.50.

A second potential source of added inflation in H.R.50 is the requirement that wages in public employment programs must meet certain standards. They must, for example, be equal to prevailing wages paid by the local government if the local government is the employer, and they must meet Davis-Bacon standards in the case of construction jobs.

Particularly since persons who refuse private sector jobs at less than prevailing wages or "fair rates of compensation" would be eligible for "employer of last resort" jobs, these provisions would tend to drive up wages in private industry, where many workers do not now earn these wage rates. While higher wages, particularly in special programs targeted at the poor and unskilled might have other benefits--both as an income maintenance device and a way to reduce job turnover and frequent occurrences of unemployment--these provisions of H.R. 50 are likely to result in a higher average level of wages economy-wide than would otherwise prevail, adding to the inflationary pressures that could arise from the economy operating close to capacity. No estimate of the added inflation from this source can be made however, without a more specific statement of the wage provisions envisioned.

It is possible that the careful coordination of employment programs proposed in H.R.50 could reduce the inflationary risks. Well-designed programs could be targeted on pockets of unemployment instead of spreading their effects over all sectors of the labor market. Training programs, if successful, could shift workers from situations of labor surplus to those of labor shortage. Pursued over a period of years, such measures could improve the inflation/unemployment tradeoff. As a long-range goal, therefore, pursuit of a 3 percent adult unemployment target would seem more realistic (in terms of its potential inflationary consequences) than if it is viewed as a short-range target.

If should be noted that the unemployment rate for adult, white males has been below 3 percent in six years since 1965. In 1965 it was 1.9 percent. High rates of structural unemployment in the United States are confined to certain disadvantaged groups in the labor force. Further, other countries are able to achieve overall unemployment rates below 2 percent. Viewed in these terms, a 3 percent adult unemployment target does not seem unrealistic if employment programs are effective in dealing with the special factors contributing to higher unemployment for certain groups and are not limited to across-the-board measures or programs that simply create jobs without increasing employment stability or job attachment. (Focusing on a single unemployment target for the entire labor force may give the misleading impression that once the target is achieved unemployment is no longer a problem. Serious unemployment problems may persist even if the overall target is met.)

The anti-inflation section of H.R.50 lists some of the possible approaches to the reduction of inflationary pressures. These include actions to insure adequate supply of scarce commodities, particularly food and energy, recommendations to strengthen and enforce anti-trust laws, measures to increase productivity in the private sector, and recommendations for administrative and legislative action to promote reasonable price stability (presumably some form of price and wage controls or guidelines) if serious inflationary pressures arise.

The bill does not, however, call explicitly for an incomes policy. By an incomes policy I refer to a mechanism whereby incomes from various sources, that is, wages, profits, and prices of commodities like food and raw materials, are determined by a coordinated negotiating process, rather than by the various constiuencies attempting to increase their incomes by simply seeking higher wages and prices. For example, if it is know that real growth next year might be around 7 percent, then it would be unrealistic for any sector to expect a 10 to 15 percent increase in its income. Instead it might be agreed that one sector would get an 8 percent increase and another a 6 percent increase, if some real redistribution is negotiated. If each sector were to get, let's say a 10 percent increase in its nominal income, and real growth were only 7 percent, then the difference, that is 3 percent, would have to be inflationary. An incomes

policy would attempt to eliminate this type of inflation that comes from unachievable income demands.

In my opinion, it is unfortunate that the bill does not have a numerical inflation goal as well as an unemployment goal. Lacking a numerical specification of an inflation goal, the implication is that the unemployment goal would be pursued regardless of its inflationary consequences. While the potential for anti-inflation policy certainly is inherent in the general broad mandate of H.R.50, there is much less focus in the bill on these anti-inflation suggestions than on full-employment policies.

It is, I believe, in further analysis and pursuit of these anti-inflation steps that the greatest hope lies for achieving the unemployment goal in the bill. This does not mean that we need to use unemployment as a weapon for fighting inflation. I think that most economists would agree that pushing unemployment to 9 percent as a means of controlling inflation last year was unnecessary. As far as I know, no other of the industrial countries experienced unemployment rates of this magnitude, despite the fact that all of these countries experienced the inflationary shocks of higher food and energy prices. Table 4 shows unemployment rates in 1974 and 1975 in a number of the industrial countries compared with the unemployment rate experienced in the United States. Of these countries, only the Canadians came anywhere near our unemployment experience, and this was certainly due in part to the high degree of dependence of the Canadian economy upon economic conditions in the U.S.

TABLE 4--UNEMPLOYMENT RATES, 1974
AND 1975 IN EIGHT COUNTRIES
(Seasonally Adjusted, Adjusted to U.S. Concepts)
(Percentages)

Country	1974	1975
Canada	5.4	7.1
France	3.1	4.3*
Germany	2.1	3.9*
Great Britain	2.9	4.9*
Italy	3.1	3.6*
Japan	1.4	1.9*
Sweden	2.0	1.7*
United States	5.6	8.5

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

*Preliminary

But while the unemployment experience of the last two years may have been unnecessarily severe, a worsening price situation as a result of pursuing the mandates of H.R.50 could cause substantial pressure to retreat from this 3 percent unemployment goal. This means that the more we learn about dealing with inflation, the more we will be able to achieve in reducing unemployment.

Government as Employer of Last Resort

I mentioned that the Employment Act of 1946 fails to provide an enforcement mechanism to ensure that full employment will be achieved. Section 206 of H.R.50 attempts to provide such a mechanism by mandating the federal government to stand as employer of last resort for adult Americans unemployed in excess of the 3 percent goal. It states that adult Americans able, willing and seeking work who are unable to find jobs through other provisions of H.R.50 shall be provided jobs through federally-operated public employment projects and approved nonprofit employment projects. This so-called job guarantee is not necessarily unlimited, however. According to H.R.50, the size of the public employment program may be limited as long as adult unemployment is not in excess of 3 percent. Further, eligibility or priority criteria based essentially on need could be established under the provisions of H.R.50.

Two major questions come to mind in connection with the job guarantee program. First, section 206 stipulates that the

federal job guarantee shall also carry with it a guarantee of the prevailing wage for that type of work in the labor market in which the job occurs. In the case of construction jobs, they must meet Davis-Bacon Act standards; they must be at least equal to prevailing wages paid by a local government if the local government is the employer. This provision would undoubtedly drive up the average level of wages for the economy as a whole, both in government and in the private sector as private employers are forced to compete with the government for workers. To some extent, the inflationary impact would depend on how limited the job guarantee concept is. Theoretically, in a truely unlimited program, the prevailing wage provision would result in a never-ending upward wage spiral. This is because in order to attract workers from the public employment at prevailing wages, private employers have to pay higher wages. But as private employers raise their wages the prevailing wage provision would mean higher wages for public jobs as well. Of course, if the public employment program were strictly limited, then this process would not be able to continue indefinitely. In fact, some workers excluded from the public employment program due to its limited size would take jobs in the private sector at the prevailing wage or even below. However, the prevailing wage provision in the federal job guarantee would undoubtedly add to the potential inflation impact of H.R.50, unless offsetting anti-inflation measures were adopted.

A second problem is that if these wage standards attract workers from the private sector, the possibility arises that the employer-of-last-resort feature of H.R.50 would result in a large

and unwieldly public employment program. 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.