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Economic Growth and Structural Unemployment

Address by

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President

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A fundamental issue in the current debate over national economic policy concerns the best way to attack the problem of structural unemployment. The nature of the difficulty is reasonably well understood: even when the economy is expanding and overall joblessness is declining, unemployment within certain groups is cut very little — if at all. Blacks are heavily represented among those suffering from persistent structural unemployment. A number of depressed geographical areas (both urban and rural) also bear a disproportionate share of the types of unemployment that do not respond appreciably to improvement in economic conditions.

The question of structural unemployment was one of the topics discussed at the White House Conference on Balanced National Growth and Economic Development held in January, 1978. I participated in the General Session which focused on the subject: "Structural Unemployment: Should We Move People to Jobs or Jobs to People." In my assignment, I tried to spell out as carefully as possible some of the key background elements which I believe must be considered in any search for ways to reduce structural unemployment.

Given my own professional experiences (which have been mainly in the area of national economic policy rather than in the development or management of manpower programs), when I accepted the invitation to participate in the program, I indicated that I would attempt to provide a macro-economic perspective on the challenges we face (and the opportunities open to us) in the effort to create jobs for disadvantaged workers.

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The problems of structural unemployment have attracted a number of experts who have first-hand experiences gained through frontline contact with — and daily struggles to overcome — the obstacles which impede the employment of labor market participants with few saleable skills. I can make little or no contribution to that part of the agenda.

However, I have identified a number of key elements which I believe should receive consideration in the search for ways to reduce structural unemployment. These are discussed in subsequent sections of these remarks. The highlights can be summarized here:

- A fundamental pre-condition for the success of any specially-targeted program to cope with structural unemployment is a vigorous and sustained expansion in overall economic activity. A sluggish economy (even if recessions are avoided) is a harsh and inhospitable soil for the cultivation of jobs for the hard-to-employ.
- The strategic role of economic growth in the generation of jobs is clearly demonstrated by the experience over the last decade and a half. The 16 years ending in 1977 were divided equally between eight years of sustained economic expansion and eight years of recession, inflation, and stagnation. The effects on jobs stand out sharply: the first half of the period was one of expanding jobs and declining unemployment. The second half was one of slow growth in jobs and sharply rising unemployment.
- Against this background, the Carter Administration's proposed \$25 billion tax reduction for individuals and businesses represents a wise move. Without such action, the American economy would face a "growth recession" in 1979 — meaning a rise in real gross national product less than the 4.0 percent necessary to prevent an increase in unemployment.
- Whenever we focus on structural unemployment, there is no way to avoid an explicit appreciation of the distressing situation among blacks as a group, and not simply among black teenagers. During the 1973-75 recession, blacks had to bear a disproportionate share of the burden of increased unemployment. Moreover, during the last 33 months of economic recovery, blacks have gotten a smaller fraction of the added jobs compared with their relative position in the labor market. Over the same period, the level of unemployment among blacks actually rose slightly, while total unemployment declined noticeably.
- In preparing programs to attack structural unemployment, it is necessary to keep in mind a number of changing demographic characteristics of the civilian labor force, since these will have an impact on the competition for jobs in the years ahead. For example, over the last decade and a half, a dramatic rise in the participation of both women and teenagers in the labor force has aggravated unemployment. However, over the next several years, as the shadow of the 1960's drop in birth rates is cast into the 1970's and 80's, the youth population will decline. The result will be a slight lessening in labor market pressures following from fewer teenagers

seeking jobs. The effect on labor markets of increased job-seeking by women will also moderate somewhat over the remainder of this decade. But, on balance, the above-average participation of both women and teenagers in the work force will continue to make it hard to reduce structural unemployment.

- Another long-run trend which must be kept in mind is the differential rate of growth in population, jobs and money income in central cities compared with the suburbs in major metropolitan areas. As is generally recognized, over the last decade and a half, most central cities have experienced an absolute decline in population. But a substantial number of these cities have also had a relatively larger absolute decline in the number of jobs. The net effect has been a clear tendency for the cities to fall behind relative to the suburbs.
- Among many persons concerned with structural unemployment, a considerable amount of hope is being attached to the Humphrey-Hawkins bill, which aims at a significant reduction in the excessively high level of unemployment over the next five years. However, my assessment of the potential impact of the proposal leads me to be less optimistic than most of the bill's proponents.
- In particular, too much hope is being placed on the expected expansion of public service jobs. Instead, we must look to greater efforts to increase openings on private payrolls.
- In this regard, it is clear that private employers will need some kind of federal government subsidy to help offset the extra costs of hiring any significant number of marginal workers. If the \$400 million of subsidy recently recommended by the Carter Administration were used with imagination, perhaps 252,000 entry-level jobs could be created. The same amount spent on public service jobs may generate only 44,000 new openings.
- In addition, private employers will also need inducements to locate production, distribution and service facilities in central cities — from which many firms are continuing to migrate. Liberalized use of the investment tax credit could help offset the extra costs of making investment expenditures in these areas.

Each of the above conclusions is amplified in the rest of these remarks.

Economic Growth and Employment

The strategic role of economic growth in generating jobs shows through clearly in the statistical evidence tracing changes in output and employment during the last decade and a half. The longest sustained expansion in economic activity in the post World War II period occurred during the eight years 1961-1969. As shown in Table 1†, over

† See Appendix, page 59.

these years gross national product corrected for inflation (real GNP) rose at an average annual rate of 4.5 percent. The civilian labor force climbed by 10.3 million; employment rose by 12.2 million, and the number of unemployed workers dropped by 1.9 million. These figures represented annual average rates of change of 1.7 percent, 2.1 percent, and 6.0 percent, respectively. Over these eight years the overall unemployment rate decreased from 6.7 percent in 1961 to 3.5 percent in 1969.

Even more striking was the decrease in long-term unemployment (27 weeks and over). In 1961 there were 804,000 persons in this category — representing 17.1 percent of the total unemployment of 4,713,000. By 1969 the number of long-term unemployed had shrunk to 133,000 and accounted for only 4.7 percent of total joblessness, which in turn had fallen to 2,832,000.

In sharp contrast, between 1969 and 1977 (also a period of eight years), real GNP expanded at an average annual rate of 2.7 percent — far below the historical trend of approximately 3.6 percent over the 30 years ending in 1977. The reasons for this relatively poor performance of the national economy were a mixture of inflation, recession, and stagnation — partly caused by a five-fold jump in the price of oil but also aggravated by a combination of inappropriate monetary and fiscal policies. In this environment the civilian labor force continued to expand — climbing by 17.0 million. However, the number of jobs rose by only 13.1 million; and unemployment jumped by 3.9 million. These figures represented average annual rates of change of 2.4 percent, 1.9 percent, and 11.5 percent respectively. During this second eight-year period, the overall unemployment rate rose from 3.5 percent to 6.9 percent of the civilian labor force.

The impact of these trends on the long-term unemployed was predictable. Between 1969 and 1977 this category of joblessness rose by 813,000 to 946,000. Last year, the latter figure was equal to 14.0 percent of total unemployment — which in turn had climbed to 6,772,000.

In summary, the last decade and a half of American economic history can be divided equally between eight years of sustained economic expansion and eight years of recession, inflation, and stagnation. The effects on jobs stand out sharply: the first half of the period was one of expanding jobs and declining unemployment. The second half was one of slow growth in jobs and sharply rising unemployment.

What is the lesson to be learned from the foregoing experience? It is unmistakable: a sustained, high level of real economic growth is a necessary underpinning for any program to create jobs for the disadvantaged.

What are the prospects for economic growth and employment in the years ahead? At this juncture, the outlook is uncertain — since the outcome depends substantially on the fortunes of the Carter

Administration's tax reduction-tax reform proposals announced on January 21, 1978. In broad terms, the Administration recommended a net reduction of \$24.5 billion of federal income taxes paid by individuals and businesses. This figure is the result of tax reductions amounting to \$33.9 billion partly offset by increases of \$9.4 billion recommended under the heading of "tax reform." Individuals would receive about \$16.8 billion (over two-thirds) of the net tax reductions, and \$5.7 billion (just under one-quarter) would benefit the business sector. The remaining \$2.0 billion would represent a reduction in excise taxes on telephones and the repeal of the recently enacted increase in unemployment insurance taxes. The tax reductions would become effective in fiscal year 1979, which begins October 1, 1978.

The Administration explained that one objective of the proposed tax reduction is to spur economic growth — which in turn would create extra jobs and speed the reduction in unemployment. The expected impact of the proposals in this regard can be seen in Table 2†, based partly on estimates prepared by the Council of Economic Advisors (CEA). It will be noted that the CEA concluded that, in the absence of a tax cut, the growth rate of real GNP would be about 4.3 percent from the fourth quarter of 1977 through the fourth quarter of 1978. Through 1979 the rate would ease off to 3.8 percent and then increase to 4.9 percent through the end of 1980. If the tax reductions become law according to the recommended schedule, the growth rates for real GNP may be lifted to 4.7 percent through the fourth quarter of both 1978 and 1979 and to 5.0 percent through the end of 1980.

Expressed in terms of overall economic performance, the tax reductions are expected to lift real output by \$20.9 billion above the level it might otherwise reach. Moreover, the added stimulus would help to avoid a "growth recession" in 1979 — meaning a rise in real GNP of less than the 4.0 percent necessary to prevent an increase in unemployment.

If the cut in taxes does not materialize, the overall unemployment rate (which averaged 6.8 percent in the final quarter of 1977) may decline to 6.3 percent by the end of this year. The same rate may prevail in the fourth quarter of next year, and the rate might decline only slightly to 5.9 percent by the end of 1980. With the tax reductions in place, the unemployment rate may decline steadily to 6.2 percent at the end of this year, to 5.8 percent in the final quarter of 1979, and to 5.3 percent by the end of 1980.

The level of employment is also expected to rise as the economy responds to the stimulus of tax reduction. By the end of 1978, an extra 70,000 jobs may have been created. As the full impact of the tax cut benefits are registered, about 700,000 additional jobs would be available by end of 1979. The number would be up to 900,000 by the close of 1980.

† See *Appendix, page 59.*

Finally, the fiscal stimulus is expected to generate a larger increase in output (1.4 percent) than in the rate of inflation (0.5 percent). Thus, on balance — and judged in terms of the impact on economic growth and employment — the proposed tax reduction is clearly desirable.

Differential Employment Experiences: Black vs. White

At this point we can turn to a discussion of the differential job experience of black and white workers in recent years. In general, during the 1973-75 recession blacks had to bear a disproportionate share of the burden of increased unemployment. Moreover, during the last 33 months of recovery they have gotten a smaller fraction of the added jobs compared with their relative position in the labor market. Over the same time period, the level of unemployment among blacks actually rose slightly — while total unemployment declined noticeably.

The major dimensions of labor market trends can be traced in Table 3†, showing changes in the civilian labor force, employment, and unemployment, by color, sex and age from March, 1975, through December, 1977. These months mark the recovery of the economy from the 1973-75 recession — a recovery which began in the Spring of 1975.

These data document the fact that — so far in the recovery — blacks have not participated in the job rebound as fully as have whites. Between March, 1975 and last December, the total civilian labor force rose by 7.5 percent; the corresponding figures for blacks and whites were 13.0 percent and 6.8 percent, respectively. During the same period, total employment expanded by 10.0 percent; black employment climbed by 14.9 percent; and jobs held by whites rose by 9.4 percent. However, the growth in the black labor force (13.0 percent) almost equaled the rise in black employment (14.9 percent). Consequently, over this 33-month period, the number of blacks without jobs rose by 1.8 percent — while total joblessness among whites declined by 23.2 percent.

Reflecting these mixed trends, the total unemployment rate (which had been 8.5 percent in March, 1975) had decreased to 6.4 percent in December of last year. The rate last month for whites was 5.6 percent. The unemployment rate for blacks in December was 12.5 percent — only slightly below the 13.9 percent registered when the national economy reached the bottom of the last recession.

In every demographic category, black unemployment rates by December of 1977 had fallen proportionately less than was true of their white counterparts. The extent to which black unemployment has decreased less during the recovery can be seen in the behavior of the black-white unemployment ratio. In March 1975, the overall ratio was 1.78. For youth, it was 2.26; for adult males 1.85; and for adult

† See Appendix, page 59.

females 1.49. By December, 1977, the overall ratio had climbed to 2.23; the ratio for youths was 2.96; for adult males 2.22; and for adult females, 1.90.

Further insights into the deterioration of blacks' position in the labor market over the last 33 months can also be gotten from the data in Table 3. These figures show blacks as a percentage of the civilian labor force, employment, and unemployment, by color, sex, and age in March, 1975; December, 1976; and December, 1977. By comparing their employment and unemployment percentages with their share of the civilian labor force, one can get a rough impression of the extent of the short-fall in blacks' participation in the recovery. For example, in March, 1975 blacks represented 11.3 percent of the labor force; they held 10.6 percent of the jobs, and they accounted for 18.6 percent of the total unemployment. Thus, in the Spring of 1975, blacks had a "deficit" of 0.7 percentage point in their share of jobs and a "surplus" of 7.3 percentage points in their share of unemployment. Similar calculations are made for blacks by sex and age.

Using these calculations, one can trace the progressive deterioration in blacks' position over the last 33 months. By December of last year, their overall job deficit had risen to 0.8 percentage points, and their burden of surplus unemployment had climbed to 11.4 percentage points. The same pattern of deterioration is evident among all categories of black employment.

These mixed — and distressing — black-white employment patterns must be kept in mind as the quest is pursued to expand job opportunities for the disadvantaged.

We can now turn to an assessment of several long-run trends in the labor force and employment patterns. These will have a direct bearing on the magnitude of the structural unemployment problem in the future.

Long-Term Labor Force Trends

Over the last decade and a half, the growth of the civilian labor force has reflected a number of fundamental changes in the nature and extent of participation by both women and teenagers. As is generally known, the changing composition of the adult population (which in turn is a reflection of variations in birth rates) is a principal determinant of the potential size of labor force. The high birth rates recorded in the aftermath of World War II — combined with the greatly expanded participation of women in the labor market — have caused the civilian labor force to increase rapidly, at a rate averaging over 2 percent per year since 1960. On the other hand, the drop in the birth rate during the 1960's and early 1970's will cause a slackening in the rate of labor force

expansion during the rest of this decade. For example, the population 16 to 19 years old (the youth component of the civilian labor force) rose by 1.3 percent in 1975. However, this population group increased 0.8 percent in 1976, and by 0.1 percent in 1977. But, as the shadow of the 1960's drop in birth rates is cast into the 1970's, the 16 to 19-year-old population will decline by 0.2 percent in 1978; by 0.6 percent in 1979; and by 1.1 percent in 1980.

During the last decade and a half, teenagers accounted for a sizable fraction of the rise in the civilian labor force. For instance, between 1960 and 1977, the civilian labor force rose by 29.3 million persons. About 4.5 million of this increase (or 15.4 percent) was accounted for by teenagers. As a result, teenagers rose from 7.0 percent of the labor force in 1960 to 9.5 percent in 1977. The low job attachment of these young adults and their slow absorption into the labor market have combined to lift the aggregate unemployment rate well beyond what it would have been in the absence of the demographic changes noted above. Moreover, the labor force participation rates of youths 16 to 19 years old declined steadily from the late 1940's until the early 1960's. Following this period, participation rates began to rise, and the uptrend was still evident through last year. This turnaround also expanded the youth component of the civilian labor force. But, as mentioned above, this bulge in the youth population has just about passed through the labor market, and the youth component of the labor force should diminish from here on.

The effect on labor markets of increased job-seeking by women will also moderate slightly over the remainder of this decade. However, women will continue to account for a sizable fraction of the rise in the labor force. In 1977 women constituted 36.8 percent of the total labor force compared with 30.4 percent in 1960. But over this 17-year time span, the number of adult women in the civilian labor force rose by 15.2 million. This represented 52.0 percent of the total rise over this period. The quickened participation of women in the labor force has coincided with a decrease in the fertility rates to 1,862 births per 1,000 women in 1974 compared with a peak of 3,767 in 1957. Data compiled by the U.S. Census Bureau suggest that birth expectations are now averaging two per family, suggesting a continuation of low birth rates. With less time devoted to child-raising, women entered the labor force in increasing numbers during the last two decades. Looking ahead, however, it now appears that the rise in women's participation in the labor force will be at a somewhat reduced pace.

Trends in Population, Manufacturing Employment, and Money Income in Metropolitan Areas

In searching for the best means to attack structural unemployment, we should also keep in mind a number of fundamental long-run trends which have had an adverse effect on job opportunities for blacks and other marginal groups in the economy. This set of trends involves the differential rates of growth in population, jobs, and money income in central cities compared with the suburbs of our major metropolitan areas. As is generally recognized, over the last decade and a half most central cities have experienced an absolute decline in population. A substantial number of these cities have also had a relatively larger absolute decline in the number of jobs. The net effect has been a clear tendency for the cities to fall behind relative to the suburbs.

To enhance understanding of these trends, data relating to population, income, and manufacturing employment were assembled for 26 leading metropolitan areas (SMSA's) in the United States. For the most part, these SMSA's were ranked according to the population of their central cities in 1973. In each case, the SMSA was divided between central city and suburbs. Population and money-income figures for 1960 are shown in Table 4†. The same data for 1973 are shown in Table 5†. Manufacturing employment for 1963 and 1972 is presented in Table 6†. Changes in each central city's share of population, manufacturing employment, and money income between 1960 and 1973 are shown in Table 7†. Figures showing the size of the black and working-age population in the selected central cities in 1960 and 1970 are recorded in Table 8†. Changes in both population categories over that decade can be traced in Table 9†.

A number of insights can be drawn from these statistics. For this purpose, the data in Table 7† are particularly instructive. Again, these figures show changes in the central city's share of population, manufacturing employment, and money income in each of these selected metropolitan areas between 1960 and 1973. All of the 26 central cities shown (except Memphis, Tennessee) lost population compared with the total metropolitan area. In other words, during the 13-year period the suburbs grew at a much faster rate than did the central cities. The same general pattern prevailed with respect to manufacturing employment. In this instance, two of the central cities (Indianapolis, Indiana and Phoenix, Arizona) increased their share of factory jobs in their respective SMSA's. San Antonio, Texas expanded manufacturing employment at the same rate as the suburbs. In the remaining 23 cities, a decline was recorded in their relative share of factory jobs. The trend of money income paralleled the trend of population and employment. Only Indianapolis and Memphis succeeded in expanding money income originating in the central city at a faster rate than was recorded for the SMSA as a whole.

† See Appendix, page 59

Moreover, most central cities saw their share of total SMSA money income decline at a faster rate than their share of total population. In other words, while the typical central city lost population, its relative share of factory jobs and other opportunities for its citizens to earn income shrank even faster than the decline of total SMSA population. This meant that the central cities were left with a relatively weaker economic base than was the case at the beginning of the 1960's.

Along the same lines, the figures in Table 9 show that in all of the 26 central cities (except Phoenix, Arizona) the black population increased as a percentage of the total. The relative changes were particularly striking in Detroit, Baltimore, Washington, D.C., Cleveland, and St. Louis. In the case of Washington, D.C. (where blacks already represented 54 percent of the total population in 1960), the increase lifted blacks' share of the total to over 71 percent. In Detroit, Baltimore, New Orleans, and St. Louis, blacks represented over 40 percent of the population in 1970. In Atlanta the proportion was 51 percent. (In passing, by 1975 blacks represented more than half of the total population in several of the cities named.)

With respect to the working-age population in these cities, another important trend stands out. The number of cities which showed an increase in the working-age population as a percentage of the total (12) just about equals the number showing a decline in this ratio. However, virtually all of the relative decline in the working-age population occurred in the older industrial cities of the Northeast and South. In sharp contrast, the cities which gained in working-age population compared to the total were the relatively young and rapidly growing cities of the West and Southwest. These tend to be the same cities which experienced a relatively smaller decrease in their shares of factory jobs and money incomes compared with their surrounding suburbs.

The lesson to be learned from a review of the statistics presented above is quite clear: the older central cities in the industrial heartland of the nation are finding it increasingly difficult to compete for jobs to support their population. Moreover, a rising proportion of the latter is being made up by blacks and members of other minorities groups. Since the latter find it difficult to compete for jobs under any circumstance, they are finding it particularly hard to get jobs in local labor markets that are growing more slowly — or actually declining — compared with the nation as a whole. So, when attention turns to the question of structural unemployment, a major focus has to be on the country's mature urban areas.

Against this background of long-term trends, we can look more closely at one of the widely-supported proposals to reduce structural unemployment over the years ahead. The proposal is embodied in the Humphrey-Hawkins Bill.

Expected Impact of the Humphrey-Hawkins Bill

Among many persons concerned with structural unemployment, a considerable amount of hope is being attached to the Humphrey-Hawkins Bill — which aims at a significant reduction in the excessively high level of unemployment over the next five years. The draft legislation (sponsored by the late Senator Hubert H. Humphrey and Representative Augustus F. Hawkins of California) has been modified sufficiently to attract the endorsement of President Jimmy Carter. Since the bill has the support of the Democratic leadership in Congress as well as of organized labor, it probably will be enacted before the end of 1978.

Given this prospect, one ought to ask whether the faith that is being placed in the measure is justified. My own assessment of the potential impact of the proposal leads me to be less optimistic than most of the bill's proponents.

Expressed briefly, the Humphrey-Hawkins bill would make the reduction of unemployment the single most important objective of national economic policy. It would establish a numerical unemployment rate of 4 percent for the civilian labor force as a whole and 3 percent for adults (defined as those 20 years of age and over). These goals would have to be met over a five-year period — presumably by 1983. Another important goal — although not stated quantitatively — is a significant reduction in the extremely high unemployment rates among young people.

The thinking behind the bill assumes that the private sector will be the primary source of the jobs needed to achieve the specified goals. However, it also would mandate that the federal government use its various economic policy instruments for the same purpose. These would include timely reductions in income taxes for both individuals and businesses — as well as a sizable increase in spending on training and public service jobs. Moreover, the Federal Reserve System (which influences interest rates and regulates the availability of money and credit) would be required to give explicit consideration to the unemployment goals in its conduct of monetary policy. While the revised draft recognizes that inflation is also a serious problem, the fundamental focus remains on the reduction of unemployment.

Rationale Behind Proposal

The motivations which gave rise to the Humphrey-Hawkins bill are easily understood: unemployment among blacks and other marginal groups has risen persistently in the last three years, while joblessness in the nation generally has decreased somewhat as the economy recovered from the 1973-75 recession. As noted above, between March, 1975, and

December, 1977, the civilian labor force rose by 6,937,000 and the black labor force climbed by 1,354,000, representing 19.5 percent of the total rise. Over the same period, the number of jobs in the economy expanded by 8,382,000, of which 1,328,000 (or 15.8 percent) went to blacks. As a result, the level of unemployment in the economy as a whole dropped by 1,445,000, and for whites the decrease came to 1,471,000. But joblessness among blacks rose by 26,000.

Reflecting these mixed trends, the total unemployment rate (which had been 8.5 percent in March, 1975) had decreased to 6.4 percent in December of last year. The rate for whites was 5.6 percent (vs. 7.8 percent in March, 1975), and the rate for blacks was 12.5 percent (vs. 13.9 percent in March, 1975). Moreover, the unemployment rate for black teenagers was 37.3 percent last December, compared with 12.6 percent for white youths. In March, 1975, the rates were 40.3 percent and 17.8 percent for black and white teenagers, respectively.

Under these circumstances, reaching the Humphrey-Hawkins objectives will be a difficult task. Apparently no firm federal government estimates have been made of the number of additional jobs that will have to be created if the goals are to be fulfilled. In late November, 1977, Secretary of Labor Ray Marshall suggested that, during the five years ending in 1983, at least two tax reductions of a minimum of \$20 billion each plus 1.0 million extra public service jobs will be required to get the overall unemployment rate down to 4 percent. Under the existing 1973 Manpower program, 700,000 public service jobs have already been funded; and the new Youth Employment program introduced in January by the Carter Administration authorized another 300,000 public service jobs. The work requirements of the Administration's welfare reform scheme would necessitate 700,000 openings on public payrolls; and the original draft of the new urban policy called for an additional 300,000. These figures add up to 2 million public service jobs by the early 1980's — about double the present number.

But, as mentioned above, the framers of the Humphrey-Hawkins bill are clearly counting on the private sector to generate the bulk of the new jobs. In Brimmer & Co. we have estimated that, given the outlook for the growth of the national economy, between 1977 and 1983 the civilian labor force may expand from 97.3 million to 107.5 million, a gain of 10.2 million persons. During the same period, total employment may rise by 11.4 million (from 90.4 million to 101.8 million). The level of unemployment might decrease by 1.2 million (from 6.9 million to 5.7 million), cutting the unemployment rate from 7.1 percent to 5.3 percent.

If this projected 5.3 percent rate is to be cut to 4 percent, an additional 1.4 million jobs would have to be found, which would hold the unemployment level to 4.3 million in 1983. For the private sector to

accomplish this task, gross national product (GNP) would have to expand in real terms at an average annual rate in excess of 5 percent during the next five years. Such a pace would be considerably above the long-run growth trend which is somewhat less than 4 percent.

If sustained for such a long period of time, this above-trend rate of growth in GNP would push output close to the limits of production capacity and stimulate substantial inflationary pressures in an economy in which the general price level may already be rising at an annual rate close to 6 percent. Consequently, the inflationary potential of the public policies required to implement the Humphrey-Hawkins bill militates against its mandates being pursued as vigorously as its advocates anticipate.

Moreover, the budget cost of sustaining 2 million public service jobs is another factor working against this approach. No precise figures are available on the anticipated cost of the program. However, the U. S. Department of Labor estimates that in late 1977 each public service job costs about \$9,000. Thus, even without allowing for the effects of inflation over the next five years, the 2 million public service jobs would cost at least \$18 billion. Given the Carter Administration's expressed determination to restrain the growth of federal spending, it seems highly unlikely that it would request an appropriation of this magnitude or spend the funds if they were voted by Congress over the Administration's opposition.

In conclusion, both the inflationary potential and the budget cost of the Humphrey-Hawkins bill suggest that its goals are not likely to be pressed with a great deal of vigor. So, while the measure will undoubtedly continue to attract support, its advocates ought to scale down somewhat the overall employment benefits they expect to flow from its passage.

Additional Measures to Reduce Structural Unemployment

The evidence presented in the foregoing discussion has convinced me that little real headway will be made in the reduction of structural unemployment if heavy reliance is placed on public sector jobs. Instead, we must look to greater efforts to expand openings on private payrolls. After all, the vast majority of American jobs are found in the private arena rather than in the public sector. For example, in October, 1977, there were 82.9 million persons on nonagricultural payrolls. Of this number, 67.6 million (81.5 percent of the total) were in private employment, and 15.4 million (18.5 percent) held public sector jobs. Among the latter, federal government employment stood at 2.7 million (3.3 percent), and state and local governments accounted for 12.6 million (15.2 percent) of the total.

Unfortunately, however, while the incidence of structural unemployment is most acute among blacks, the latter have historically depended relatively more heavily on the public sector for employment than was true of the labor force as a whole. This has been especially true of those in professional positions. For instance, although blacks represented about 10 percent of total nonfarm workers in private industry in 1974, they accounted for 16 percent of all civilian employees in the federal government. Moreover, while federal employment represented 2.8 percent of the total jobs in the economy in 1974, about 4.8 percent of the blacks in civilian jobs were on the federal payroll.

As we focus on the expansion of job opportunities in the private sector, it is clear that employers will need some kind of federal government subsidy to help offset the extra costs of hiring any significant number of marginal workers. The Carter Administration apparently recognizes this point. The fiscal year 1979 budget submitted to Congress last week contains \$400 million for this purpose. Unfortunately, there was no indication of how the funds are to be used nor of the number of additional jobs expected to result from the expenditure. However, even a brief analysis suggests that one ought to be reserved in estimating the probable impact.

If one assumes that the subsidized private sector jobs would be at the entry level and paid the present minimum wage (\$2.65 per hour), the annual payment to an employee working a 40-hour week would amount to \$5,512. The employer would have some additional out-of-pocket costs which might run as high as 15 percent of the payment to the worker. This factor would raise the total annual cost to \$6,339 per job. Of course, there is no way to estimate how large a subsidy an employer would require to induce him to offer such a job. But given the prospect that such a new worker's productivity is likely to be substantially below that of the average employee, the necessary subsidy may be as large as 25 percent of the firm's cost. If this ratio were applied, the needed subsidy would be in the neighborhood of \$1,585 per job. At this rate, the \$400 million in President Jimmy Carter's budget would help to generate about 252,000 extra jobs.

This last figure should be contrasted with the number of jobs which might result if the \$400 million were spent to create public service jobs. As noted above, an official in the U. S. Department of Labor recently estimated that such jobs on the public payroll might cost about \$9,000 each. At this rate, the \$400 million would finance about 44,000 openings — a figure less than one-fifth of the number that may result from using the funds in the private sector.

If private firms were asked to provide an additional 252,000 jobs, partly with federal government assistance, the impact on each employer would not be very great. For example, in 1975, the 500 largest

industrial corporations in the United States had 14,413,000 employees, an average of 28,826 per firm. If these 500 firms alone were asked to provide the extra 252,000 jobs, each would have to absorb about 504 additional workers. This latter figure would represent around 1.7 percent of the average number of employees on the payroll of each of these largest corporations. Clearly, they could manage such a task and, in fact, go far beyond such a modest request.

In addition to subsidies for new entry-level jobs, private employers will also need inducements to locate production, distribution, and service facilities in central cities. It was shown above that such cities are being left with a disproportionate share of total metropolitan populations, compared with the number of job opportunities in their respective metropolitan areas. On the other hand, the growing migration of firms and the jobs they offer from central cities to suburbs reflects real incentives (such as lower taxes, less crime, and greater availability of skilled workers). If central cities are to compete successfully for such employers, the latter must be offered strong incentives to remain — or to return.

One such inducement might be found in allowing firms to draw down, or assign, a large proportion of the unused investment tax credits (ITC) many of them have accumulated if they establish job-creating facilities in central cities.

In 1972 (the latest year for which U. S. Treasury figures are available), American corporations claimed \$3.8 billion in new investment tax credits (against \$62.8 billion of investment outlays eligible for the ITC). They already had \$2.7 billion in carryovers from previous years, making a total of \$6.5 billion in credits that could have been used. However, in that year, these firms claimed only \$3.0 billion of the total available, leaving unused \$3.5 billion (or 53.8 percent of the total).

Businesses do not use all of their ITC eligibility for a variety of reasons, the main one of which appears to be the lumpiness of capital expenditures relative to taxable income. (The ITC can be used to offset only 50 percent of tax liability.) A substantial part of the unused credits will eventually be drawn down, but some portion will expire. So, in one sense, such unused credits would be "wasted." Alternatively, firms which cannot use such credits before they are scheduled to expire might be allowed to assign their potential claims to another business who could use them to help offset the costs of investment expenditures, provided the latter was made in central cities or other areas suffering from a substantial amount of structural unemployment. The extra budget costs of such a proposal would not be very large, certainly no larger than the potential loss in tax revenue to which the U. S. Treasury is already exposed if firms elect to claim the tax offset for investment in suburbia or other vigorously growing areas. The extra administrative

burden of this approach to the management of the ITC would not be particularly heavy since the Treasury Department has already accumulated considerable experience in administering the ITC with differentiations on the basis of varying standards of eligibility.

In the meantime, this type of linkage of the ITC to specific investment targets might enable central cities and other needy locations to turn in a somewhat better performance in attracting job-creating facilities.