928

96TH CONGRESS
1st Session

SENATE

REPORT
No. 96-51

THE EFFECTS OF STRUCTURAL EMPLOYMENT AND TRAINING PROGRAMS ON INFLATION AND UNEMPLOYMENT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

MARCH 29 (legislative day, FEBRUARY 22), 1979.—Ordered to be printed

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LETTER OF TRANSMITTAL

MARCH 29, 1979.

Hon. WALTER F. MONDALE,
President of the U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Transmitted herewith, for the use of the Congress, is a report from the Joint Economic Committee concerning structural unemployment, as requested by the Comprehensive Employment and Training Act Amendments of 1978, P.L. 95–524.

The Act directed the Committee to evaluate the ability of targeted structural employment and training programs to achieve and sustain a decrease in unemployment rates among those segments of the labor force having special difficulties in obtaining employment and to evaluate the possibility of decreasing the national unemployment rate without exacerbating inflation. The Act requested the Committee to analyze the subject of incentive grants to private employers to reduce unemployment rates among individuals eligible for assistance under the Comprehensive Employment and Training Act.

In order to carry out its responsibility, the Committee conducted a series of hearings on the problem of structural unemployment in which recognized experts in the field appeared as witnesses. These hearings are being printed and will be made available as a separate publication in the near future.

In addition, the Committee asked several members of the Administration and the Chairman of the Federal Reserve Board to provide information and respond to questions about structural unemployment during the Committee's annual economic hearings held earlier this year. The Committee's 1979 Annual Report includes a section on the problem of structural unemployment which relates to the issues raised in the CETA Amendments of 1978, which mandated this Joint Economic Committee Report. That part of the 1979 Annual Report is included as Part 1 of this Report.

Finally, the Committee directed the Committee staff to analyze the information obtained from the witnesses and to conduct additional analyses relevant to the issues which the Committee was asked to address in the Comprehensive Employment and Training Act Amendments of 1978. That analysis is included as Part 2 of the Report.

The following members of the Committee staff worked on this report: John M. Albertine, David Allen, Lloyd Atkinson, Jane Bennett, William Buechner, Richard Kaufman, Linda Maisel, Jim McIntire, M. Catherine Miller, and Murray Wernick.

The following part of this letter of transmittal includes a summary of Parts 1 and 2 of the Report.

SUMMARY OF 1979 JOINT ECONOMIC REPORT

The 1979 Joint Economic Report of the Joint Economic Committee reaffirmed the Committee's traditional concern about unemployment. The key to our success as a Nation has been freedom, not just political and religious freedom, not just freedom of the press, but the freedom to succeed, the freedom of opportunity. Throughout our history, a job has been the passport to success in America. Too many blacks, too many Hispanics, too many young people remain jobless and often without much hope of participating in the economic life of our Nation. The recommendations included in the JEC Annual Report would not solve the problem completely. But they are sound, solid recommendations that underline the obligation—the economic, moral, and humanitarian obligation—we as a Nation have to foster opportunities for employment.

In the Committee's 1979 Joint Economic Report, we noted that the spectacular growth in the number of jobs created by the economy in 1978 was the best economic news in what was in many ways a difficult and troubling year. Over 3 million Americans found work last year. That was the silver lining in the dark clouds which seemed to hang over the economy in 1978.

Accompanying the employment growth was a substantial drop in the unemployment rate from 6.6 percent in the fourth quarter of 1977 to 5.8 percent in the final quarter of 1978. But in spite of this progress, far too many Americans remained jobless. For 6 million Americans who wanted to work, 1978 was a bitterly disappointing year.

The economy is approaching its fifth year of expansion. Although strong economic growth is a vital precondition in providing employment opportunities, many economists believe we are at the point where further reductions in unemployment through conventional macroeconomic policies will be inflationary.

The arguments for fiscal and monetary restraint in light of the increasing rate of inflation were discussed elsewhere in the Committee's Annual Report. But this policy of restraint does not address the issue of structural unemployment. Special measures are needed to assist the structurally unemployed—those who remain jobless when the economy reaches its potential output. The problem, then is to devise policies and programs to reduce unemployment without resorting to stimulative actions that could be inflationary.

The severity of the problem can be demonstrated vividly by a recount of the unemployment rates for some unemployed people.

By comparison with an unemployment rate of 4.0 percent for adult men in January 1979, the unemployment rate for adult women was 5.7 percent, and for teenagers was 15.7 percent. The unemployment rate for blacks and other minorities was 11.2 percent, more than double the white unemployment rate of 5.1 percent.

A more detailed breakdown of the unemployment statistics in January reveals even greater discrepancies between some groups. Thus, although the overall white unemployment rate was 5.1 percent, for white adult males the unemployment rate was a modest 3.6 percent. For white adult women, the unemployment rate was 13.7 percent. The unemployment rate for blacks and other minorities was more than double that of whites in each of those categories: 7.8 percent for adult

males, 10.6 percent for adult females, and 32.7 percent for teenagers. The figure for all Hispanic workers was 8.9 percent.

These cold statistics mask the human cost of unemployment to jobless Americans and their families. For example, the one sharp difference between female and male heads-of-households is that the former are poor. In 1978, a record one in seven families was headed by a woman. The proportion of these families who live in poverty—one in three—far outnumbers the proportion of husband-wife families in poverty—one in eighteen.

The cost of unemployment also may have greater implications for other groups. For instance, much of the job switching experienced by white teenagers generates labor market information. Unemployment for black teenagers tends to last longer and to affect adversely their earnings potential and long-term employment patterns.

The structurally unemployed are Americans who cannot find work in bad or in good times. They are forgotten Americans. They do not want welfare, they want only the opportunity to become full participants in our economic life. We can't afford to waste the energy, the intelligence and the ingenuity of these people.

Congress already has taken some initial legislative steps directed toward addressing the structural unemployment problem. The Comprehensive Employment and Training Act (CETA) has been refocused to provide a greater proportion of jobs and training to structurally unemployed persons. In Title II and Title VII, public service employment programs (PSE) for the structurally unemployed will expand to 57 percent of all PSE by the end of 1980, compared to 43 percent in 1979.

The Title VII program includes the new private sector program, for which a 1979 supplemental appropriation of $400 million is requested. These funds will be provided through States and localities for training, placement, implementation of the new targeted employment tax credit (described below), and other services, such as on-the-job training, designed jointly with Private Industry Councils.

Several observations should be made about the public service jobs programs and the private sector initiatives. The Committee has no doubt that the reorientation of the public service jobs program toward the structurally unemployed was appropriate and necessary in light of our present economic circumstances. Although there has been some congressional disenchantment with some of the more visible problems of CETA, public sector jobs continue to fill certain functions which cannot be implemented through the private sector. Evidence, although tentative, has shown public jobs can enhance both earnings and employment potential of structurally unemployed workers.

Because structural unemployment is a composite of factors rather than attributable to a single cause, approaches to solve the problem must be multifaceted. The public sector programs must go in tandem with initiatives developed by the private sector. Because the ultimate aim of any structural employment program is to assist the transition of unemployed workers into jobs in the private economy, the involvement of the private sector is vital. The exposure to the "real" world imposes a type of job discipline and provides actual knowledge of job opportunities. In addition, private employers will be sure to train workers with skills necessary to their business operations. This results in reenforcement of the acquisition of additional skills with the exercise of those skills.

The Committee gives wholehearted endorsement to the objectives proposed in Title VII. Initial efforts by concerned public and private parties have caused businessmen to be greatly interested in special training and employment efforts. It would be tragic not to provide funding for such a fundamentally promising approach.

Because many businesses have neither the time nor the initial inclination to seek out structurally unemployed workers, intermediate organizations that provide essentially a match-making service between employers and structurally impaired workers, have evolved. The Private Industry Councils are one example.

A major theme stressed by witnesses appearing in the annual hearings before the Committee was the importance of training for structurally unemployed workers. Training for unskilled and low-skilled workers in order to prepare them for jobs was deemed absolutely essential. Training is also a crucial factor in achieving renewed productivity growth. Furthermore, upgrading the skill levels of average workers in order to reduce the labor bottlenecks present in our high-technology society was given a high priority.

Training can be implemented by the private or public sector, either through jobs programs or through direct or indirect subsidies to employers. One of the key measurements of a training program's success should be whether it gives the individual needed work skills.

Dr. Bernard Anderson said in his testimony before the Joint Economic Committee:

"I think my preference would be (for) * * * a training subsidy or investment in human capital account or something of that type. But, the purpose would be to reduce to the private sector the cost of hiring the structurally unemployed, specifically youth. I think we should do that and we should do it for the purpose of providing specific training to the young people."

Others have emphasized the value of on-the-job training. As was stated by G. William Miller, Chairman of the Federal Reserve Board: "* * * On-the-job training is one of the most effective ways to deal with the problem (structural unemployment problem). There is no question about that. . . . I think you're absolutely correct, that this is something that needs far more emphasis because of a greater probability of a trainee staying with a company where he has been getting his experience on the job. There is a greater probability of his moving into continuing employment than there is when he has to be moved from whatever kind of institution to the worksite." (Testimony before the Joint Economic Committee.)

One initiative for private sector involvement in the hiring of the structurally unemployed is the new Targeted Employment Tax Credit proposed by the Administration, designed to increase private sector employment opportunities for target groups of disadvantaged individuals, primarily youth. This credit is generally equal to 50 percent of the first $6,000 of first-year wages of such an employee and 25 percent of the first $6,000 of second-year wages. The Revenue Act of 1978 also revised the Work Incentive (WIN) Tax Credit, which is available to employers of recipients of Aid to Families with Dependent Children (AFDC), to pattern it more closely after the new targeted tax credit.

The targeting aspect is new, but the proposed employment tax credit as a method of wage subsidization is a modification of the Employment Tax Credit passed by Congress in 1977. While the Council of Economic Advisers was careful to qualify the introduction of the new targeted credit, there have been indications by witnesses before the Committee, based on the previous experiences with tax credits, that credits potentially could be very successful. However, it was noted that one of the major drawbacks with previous credits was the lack of publicity accompanying their introduction. Many employers found only after their accountants prepared their annual tax returns that they qualified for the credit. It is obvious that an unknown tax credit cannot be utilized by business.

The Committee believes different methods should be considered which would reduce the cost to the employer for training a structurally unemployed individual. The Targeted Employment Tax Credit should provide valuable experience as a certain type of job subsidy. However, we believe that other types of subsidies with a training component should be explored. This training should be centered primarily in the private sector.

Policymakers have long since recognized that youth unemployment is a critical national issue. Although the unemployment rate for teenagers has fallen 3.6 percentage points in 1978 from 1975, their unemployment rate averaged 16.3 percent in 1978. Teenagers account for nearly a fourth of the unemployed, and persons under age 25 represent almost one-half of the unemployed. The rate of unemployment among teenagers is two and one-half times the overall rate. Two fifths of black teenagers in the labor force are without jobs. This latter figure does not count discouraged youth, who have dropped out of the labor force because they perceive no available job opportunities.

Although the aggregate statistics are fairly clear, numerous studies into the dynamics of youth unemployment reveal often conflicting and inconsistent characteristics of the youth unemployment problem that make it especially difficult to apply conventional aids for the unemployed.

Youth unemployment is different from adult unemployment in several ways. For example, the number of teenage unemployed who are students has risen from less than 25 percent in the early 1960's to 50 percent today. Teenagers usually seek part-time rather than full-time employment and, as may be expected, their employment and unemployment patterns are seasonal. In addition, few youths are heads of households and less than a tenth of 16–19 year olds in the civilian labor force are married, compared to two-fifths of the 20–24 year olds. Obviously, this lack of family responsibilities translates into looser labor market attachments than is true for older workers. The frequency of entry and exit from the labor force as a result of these combined factors is a major factor in youth unemployment.

Because early employment and unemployment experiences make such a long-lasting impression on adult employment patterns, the Committee believes that linkages between the business world and teenagers are crucial at an early stage. Moreover, the connection between school and work should be strengthened.

The Committee made the following formal recommendations:

Congress and the Administration should assure funding for programs to combat structural unemployment including effective private sector jobs programs under the CETA Act. This assurance is necessary to avoid stop-and-go policies for the structurally unemployed. The $400 million appropriation request for the CETA private sector jobs programs should be enacted.

Private, nonprofit intermediate organizations, which have proven to be highly successful in providing placement and support services to the structurally unemployed, offer a unique source of aid in solving the problem. Their role in public and prlvate sector initiatives should be expanded.

The current Federal manpower training programs should be significantly expanded in order to equip unemployed workers with skills to meet entry level requirements.

We recommend that the Administration undertake a major effort to inform businessmen and women about the new Targeted Employment Tax Credit Program.

The Committee urges development of legislation to provide targeted incentives to private sector employers—particularly small business—to effectively train and hire the structurally unemployed. Training subsidies or other incentives for training should be provided to employers. The Committee wishes to emphasize this support should be paid only for training and not wages.

The full text of the structural unemployment section of the Committee's 1979 Joint Economic Report, together with the section dealing with structural unemployment in the supplemental views of the Minority may be found in Part I of this Report.

SUMMARY OF STAFF ANALYSIS

The staff analysis found that structural employment and training programs can reduce unemployment among the structurally unemployed without exacerbating inflation, but only if they are carefully designed and targeted and if they are accompanied by measures which will increase the rate of capital formation in the American economy. Further, the proper coordination of the unemployment and capital formation actions will be essential to their success. This finding is entirely consistent with the 1979 Joint Economic Report and is one which I personally think is not only correct but is, in addition, a major contribution to our thinking about how to create new jobs for those who are structurally unemployed.

The staff analysis found that under present economic circumstances, conventional macroeconomic policies by themselves will not be able to reduce the unemployment rate to meet the Humphrey-Hawkins unemployment goals without at the same time causing a sharp acceleration of our inflation rate. There are three reasons for this:

(1) There are a large number of unskilled workers seeking jobs, while skilled workers have become very scarce. If we pursue a policy of economic stimulus to create more jobs for unskilled workers, the increased demand for skilled workers would have an upward, and perhaps substantial, inflationary impact on the economy because it would tend to raise their wages.

(2) The tightness and looseness of labor markets varies dramatically from one region of the country to another. Since aggregate demand policies cannot be targeted by region, any attempt to reduce unemployment through aggregate policies in areas where the unemployment rate is excessive will generally also end up adding to inflationary pressures in regions where there is very little labor market slack.

(3) The third reason why conventional policies should not be used now to reduce unemployment is because further increases in overall demand would be severely constrained by productive capacity limits. Capacity utilization rates are currently quite high, and the margin of unused capacity is quite small. Further expansion of output and employment today would necessitate the use of older, less efficient capital which in turn would lower productivity, raise unit costs and accelerate inflation. If the availability of capital was not a restraining force today, it is likely that further increases in demand and further reductions in unemployment could be brought about without adding much to our inflationary pressures.

For these three reasons, the staff determined that the approach to reducing structural unemployment should not only include targeted structural employment and training programs but also measures aimed at raising the rate of capital formation.

Based on the analysis conducted for the staff report, the report defines structural unemployment in the following way:

Structural unemployment consists of that margin of nonfrictional unused labor resources whose employment through conventional macroeconomic policies would result in an accelerating rate of inflation. Stated another way, structural unemployment represents the amount of joblessness that exists when the economy reaches its rate of potential output.

The staff analysis examines the thesis that the non-accelerating inflation rate of unemployment has shifted upwards. During the early 1960s, a 4 percent unemployment rate was widely viewed as being consistent with a non-accelerating rate of inflation. The reason for the increase is not entirely clear, but the report discuss a number of factors, including the increased participation rate of women and teenagers, structural rigidities, a relatively larger number of less skilled and less educated workers, various forms of discrimination, and the sluggish rate of capital formation.

The staff report also finds that selected targeted subsidies and tax credits from the Federal Government can be an effective way of inducing the private sector to hire and train the structurally unemployed.

In conclusion, the staff report found—

(1) that structural employment and training programs can reduce unemployment without exacerbating inflation if they are targeted on low skill workers who are suffering the highest rates of unemployment, and who thus could be provided jobs without creating a shortage or upward pressure on wages;

(2) that targeted structural employment and training programs can also help to alleviate wage pressures in high skilled markets if they provide an increased supply of trained workers to these markets;

(3) that targeted structural employment and training programs can help alleviate inflation in that they reduce unit labor costs, by improving labor productivity or offseting part of employers' wage costs; and

(4) that these programs should be accompanied by measures to increase capital formation. It would also be necessary to coordinate targeted employment programs and actions to increase capital formation so as to avoid a mismatch of job opportunities and the newly trained. Unless programs are coordinated, it is possible that the demand for skilled workers caused by industrial expansion might not be met by training programs for the structurally unemployed.

LLOYD BENTSEN,
Chairman, Joint Economic Committee.

CONTENTS

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MARCH 29 (legislative day, FEBRUARY 22), 1979.—Ordered to be printed

Mr. BENTSEN, from the Joint Economic Committee, submitted the following

REPORT

[Pursuant to sec. 5(c) of Public Law 524 (95th Congress)]

This report is submitted in accordance with the requirement of the Comprehensive Employment and Training Act Amendments of 1978 that the Joint Economic Committee file a report with the Senate and the House of Representatives on the ability of targeted structural employment and training programs to achieve and sustain a decrease in unemployment rates among those segments of the labor force having special difficulties in obtaining employment and a decrease in the national unemployment rate without exacerbating inflation. This report is to serve as a guide to the several committees of Congress dealing with legislation relating to employment issues.

PART I. STRUCTURAL UNEMPLOYMENT—EXCERPTS FROM THE 1979 JOINT ECONOMIC REPORT

The spectacular growth in the number of jobs created by the economy in 1978 was the best economic news in what was in many ways a difficult and troubling year. Over 3 million Americans found work last year. That was the silver lining in the dark clouds which seemed to hang over the economy in 1978.

Accompanying the employment growth was a substantial drop in the unemployment rate from 6.6 percent iu the fourth quarter of 1977 to 5.8 percent in the final quarter of 1978. But in spite of this progress, far too many Americans remained jobless. For 6 million Americans who wanted to work, 1978 was a bitterly disappointing year.

As discussed in some detail earlier, the economy is approaching its fifth year of expansion. Although strong economic growth is a vital precondition in providing employment opportunities, many economists believe we are at the point where further reductions in unemployment through conventional macroeconomic policies will be inflationary.

The arguments for fiscal and monetary restraint in light of the increasing rate of inflation have also been discussed. But this policy of restraint does not address the issue of structural unemployment. Special measures are needed to assist the structurally unemployed—those who remain jobless when the economy reaches its potential output. The problem, then, is to devise policies and programs to reduce unemployment without resorting to stimulative actions that could be inflationary.

The severity of the problem can be demonstrated vividly by a recount of the unemployment rates for some unemployed people.

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A more detailed breakdown of the unemployment statistics in January reveals even greater discrepancies between some groups. Thus, although the overall white unemployment rate was 5.1 percent, for white adult males the unemployment rate was a modest 3.6 percent. For white adult women, the unemployment rate was 5.0 percent; and for white teenagers, the unemployment rate was 13.7 percent. The unemployment rate for blacks and other minorities was more than double that of whites in each of those categories: 7.8 percent for adult males, 10.6 percent for adult females, and 32.7 percent for teenagers. The figure for all Hispanic workers was 8.9 percent.

These cold statistics mask the human cost of unemployment to jobless Americans and their families. For example, the one sharp difference between female and male heads-of-households is that the former are poor. In 1978 a record one in seven families was headed

by a woman. The proportion of these families who live in poverty—one in three—far outnumbers the proportion of husband-wife families in poverty—one in eighteen.

The cost of unemployment also may have greater implications for other groups. For instance, much of the job switching experienced by white teenagers generates labor market information. Unemployment for black teenagers tends to last longer and to affect adversely their earnings potential and long-term employment patterns.

As Chairman Bentsen said during the Committee's annual hearings:

> The structurally unemployed are Americans who cannot find work in bad or in good times. They are forgotten Americans. They do not want welfare. They want only the opportunity to become full participants in our economic life. We can't afford to waste the energy, the intelligence and the ingenuity of these people.

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Because structural unemployment is a composite of factors rather that attributable to a single cause, approaches to solve the problem must be multifaceted. The public sector programs must go in tandem with initiatives developed by the private sector. Because the ultimate aim of any structural employment program is to assist the transition of unemployed workers into jobs in the private economy, the involvement of the private sector is vital. The exposure to the "real" world imposes a type of job discipline and provides actual knowledge of job opportunities. In addition, private employers will be sure to train workers with skills necessary to their business operations. This results in reenforcement of the acquisition of additional skills with the exercise of those skills.

The Committee gives wholehearted endorsement to the objectives proposed in Title VII. Initial efforts by concerned public and private

parties have caused businessmen to be greatly interested in special training and employment efforts. It would be tragic not to provide funding for such a fundamentally promising approach.

Recommendation No. 10

Congress and the Administration should assure funding for programs to combat structural unemployment including effective private sector jobs programs under the CETA Act. This assurance is necessary to avoid stop-and-go policies for the structurally unemployed. The $400 million appropriation request for the CETA private sector jobs programs should be enacted.

Because many businesses have neither the time nor the initial inclination to seek out structurally unemployed workers, intermediate organizations that provide essentially a matchmaking service between employers and structurally impaired workers, have evolved. The Private Industry Councils are one example.

Recommendation No. 11

Private, nonprofit intermediate organizations, which have proven to be highly successful in providing placement and support services to the structurally unemployed, offer a unique source of aid in solving the problem. Their role in public and private sector initiatives should be expanded.

A major theme stressed by witnesses appearing in the annual hearings before the Committee was the importance of training for structurally unemployed workers. Training for unskilled and low-skilled workers in order to prepare them for jobs was deemed absolutely essential. Training is also a crucial factor in achieving renewed productivity growth. Furthermore, upgrading the skill levels of average workers in order to reduce the labor bottlenecks present in our high-technology society was given a high priority.

Recommendation No. 12

The current Federal manpower training programs should be significantly expanded in order to equip unemployed workers with skills to meet entry level requirements.

Training can be implemented by the private or public sector, either through jobs programs or through direct or indirect subsidies to employers. One of the key measurements of a training program's success should be whether it gives the individual needed work skills

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Others have emphasized the value of on-the-job training. As was stated by G. William Miller, Chairman of the Federal Reserve Board:

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Recommendation No. 13

We recommend that the Administration undertake a major effort to inform businessmen and women about the new targeted Employment Tax Credit Program.

The Committee believes different methods should be considered which would reduce the cost to the employer for training a structurally unemployed individual. The Targeted Employment Tax Credit should provide valuable experience as a certain type of job subsidy. However, we believe that other types of subsidies with a training component should be explored. This training should be centered primarily in the private sector.

Recommendation No. 14

The Committee urges development of legislation to provide targeted incentives to private sector employers—particularly small business—to effectively train and hire the structurally unemployed. Training subsidies or other incentives for training should be provided to employers. The Committee wishes to emphasize this support should be paid only for training and not wages.

Policymakers have long since recognized that youth unemployment is a critical national issue. Although the unemployment rate for teenagers has fallen 3.6 percentage points in 1978 from 1975, their unemployment rate averaged 16.3 percent in 1978. Teenagers account for

nearly a fourth of the unemployed, and persons under age 25 represent almost one-half of the unemployed. The rate of unemployment among teenagers is two and one-half times the overall rate. Two-fifths of black teenagers in the labor force are without jobs. This latter figure does not count discouraged youth, who have dropped out of the labor force because they perceive no available job opportunities.

Although the aggregate statistics are fairly clear, numerous studies into the dynamics of youth unemployment reveal often conflicting and inconsistent characteristics of the youth unemployment problem that make it especially difficult to apply conventional aids for the unemployed.

Youth unemployment is different from adult unemployment in several ways. For example, the number of teenage unemployed who are students has risen from less than 25 percent in the early 1960s to 50 percent today. Teenagers usually seek part-time rather than full-time employment and, as may be expected, their employment and unemployment patterns are seasonal. In addition, few youths are heads of households and less than a tenth of 16–19 year olds in the civilian labor force are married, compared to two-fifths of the 20–24 year olds. Obviously, this lack of family responsibilities translates into looser labor market attachments than is true for older workers. The frequency of entry and exit from the labor force as a result of these combined factors is a major factor in youth unemployment.

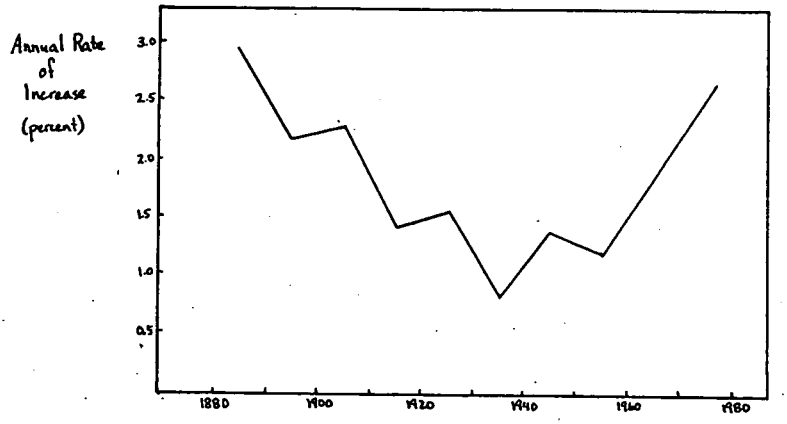
Because early employment and unemployment experiences make such a long-lasting impression on adult employment patterns, the Committee believes that linkages between the business world and teenagers are crucial at an early stage. Moreover, the connection between school and work should be strengthened.

Although we have devoted our discussion primarily to the structural unemployment, the Committee recognizes that the expected slower economic growth in 1979 may well result in a higher level of unemployment. Therefore,

Recommendation No. 15

The Administration should prepare a standby program to increase the number of CETA public sector jobs to be proposed to Congress in the event that the slower economic growth forecast for this year results in a significant rise in unemployment. A large portion of these jobs should be targeted to the structurally unemployed.

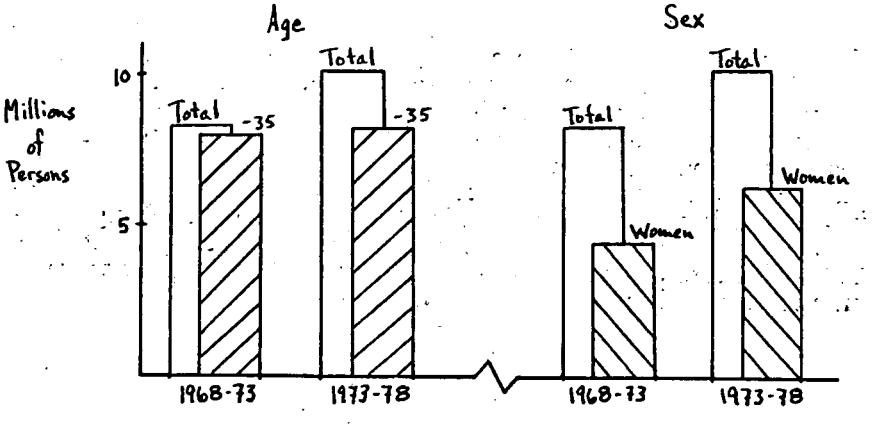
Chart 1 Civilian Labor Force Growth: 1880-1978



Source: Richard A. Easterlin, Population, Labor Force, and Long Swings in Economic Growth. (New York: Columbia University Press) 1968, p190. For 1965-78 data, the Bureau of Labor Statistics. Rates are annual averages for ten year periods.

This massive labor supply increase was interrelated with a large increase in the demand for labor. Since 1968 employment has grown by about 2.2 percent per year. This represents a very rapid absorption of the supply surge of youth and women into gainful employment (see Chart 2), raising the ratio of employment to working age population to an all time high of nearly 60 percent. While this growth in demand has been large relative to earlier periods of growth, it was not sufficient to employ the entire labor supply increase. However, the absorption of this supply surge has accelerated in the past two years. Employment growth has exceeded labor force growth by about 1.5 million persons, and unemployment has declined to the lowest rate in almost five years.

Chart 2 Increases in Civilian Employment



Source: Bureau of Labor Statistics

On the whole, the changing structure of industry and employment growth during this period tended to coincide with the large increase in the potential supply of labor. All industries now employ higher proportions of women and young workers. However, those industries that increased their share of total employment, such as retail trade, insurance and real estate, and professional services, generally have had historically higher proportions of women and younger workers.

Occupational changes largely paralleled those in industries, with the shift being away from manufacturing and blue collar jobs to service industries and white collar occupations. Nearly two-thirds of the ten-year employment growth came in white collar jobs, while blue collar occupations accounted for only about one-fifth of the employment growth. Here, too, women and young adult workers made substantial gains in the expanding white collar professional and technical positions, and women appear to have broken many of the barriers to managerial and administrative jobs.

While employment among the working age population has risen to an all time high during recent years, the employment situation of racial minorities with respect to their working age population has deteriorated since 1968. In contrast to the employment to working age population ratio for whites, which rose from 58 to over 60 percent, this ratio for nonwhites has declined from 59 to 54 percent since 1968. This means that racial minorities have enjoyed less than their proportional share of the employment and economic growth of recent years.

LABOR FORCE PARTICIPATION OF PERSONS UNDER 35

The baby boom generation began entering the labor force in large numbers around 1968. Today the oldest members of this group are in their early thirties, while the tail end of the boom generation is just finishing up high school. This means that the entire bulge associated with the baby boom is now in the working age population.

The most dramatic impact of the population's changing age structure on labor force growth has been made by the oldest members of the baby boom, those who entered the labor force first. Over the past decade, these frontrunners of the population bulge have passed through the age range in which labor force attachment increases rapidly. The rate of labor force participation (combined for both sexes) increases from about 47 to 78 percent as persons mature from age 16 to their late twenties. The dynamic effect of the oldest side of the population bulge passing through this age range thus created an initial shock wave of labor force growth.

However, the largest portion or "peak" of the population bulge is still in its early twenties. As this group grows older, the effect of its increasing labor force attachment also continues to be a source of substantial labor force expansion. Compared to the labor force growth provided by the older members of the boom generation, the "peak" group is contributing much smaller magnitudes of growth. Nonetheless, it is important to note that the tidal wave of young workers that crashed through the labor market during the past decade is being followed by a sizable swell of youths that have just begun to enter the the labor force.

As can be seen in Table 1, the baby boom had already registered its most impressive impact on the labor force by 1973. Of the 9.6 million

net growth in the labor force during the 1968–73 period, persons under 35 accounted for 9.2 million.

TABLE 1.—CHANGES IN THE CIVILIAN LABOR FORCE

[In millions]

	Age							
	16 and over	16 to 19	20 to 24	25 to 34	Under 35	35 and over	35 to 44	55 and over
5-YR PERIODS								
Total:								
68:2 to 73:2	9.6	1.8	3.4	4.1	9.2	0.3	−0.2	−0.1
73:2 to 78:2	11.6	1.1	2.3	5.9	9.2	2.4	2.1	.5
Male:								
68:2 to 73:2	4.5	.9	2.0	2.2	5.1	−.7	−.5	−.3
73:2 to 78:2	4.4	.4	1.0	2.4	3.8	.5	.7	.1
Female:								
68:2 to 73:2	5.0	.9	1.3	1.9	4.1	1.0	.3	.2
73:2 to 78:2	7.3	.7	1.3	3.4	5.3	1.9	1.5	.4

Source: Bureau of Labor Statistics.

The epicenter of the boom generation's labor force growth during this period was the 20-to-34 age group. This young adult group encompassed the leading edge of the population bulge throughout most of the five-year period, accounting for 3.4 million additional entrants to the job market. Unusually large numbers of teenagers also made their job hunting debut between 1968 and 1973.

Although the total labor force growth during the following five-year period increased to 11.6 million persons, the addition of persons under 35 remained at 9.2 million. Like the earlier five-year period, the major concentration of growth was led by the baby boom's front-runners, who were and are now passing through the 25-to-34 age range. This group alone accounted for over one-half of the net labor force additions from 1973 to 1978. Meanwhile, the increase among teenagers and young adults (ages 16 to 24) was somewhat lower than the growth rate of the previous five-year period, reflecting the plateau at the height of the population bulge.

The rest of the labor force growth during the past five years came largely in the 35-to-44 age range. This addition reflects, over and above the increased participation of women, a jump in the fertility rate that occurred just at the start of World War II. This surge dropped off toward the end of the war and thus created a fertility "blip," a smaller precursor to the baby boom.

Two major factors have been important in the rapid labor force growth of recent years: the changing demographic structure of the population and changes in labor force participation rates. It is clear that the impact of demographic changes on labor force growth is diminishing. Had participation rates not changed dramatically in the past decade, the rate of labor force growth among persons under 35 would be slowing rather than increasing. The modest increases that would be occurring among the older age groups would not be large enough to offset this decline, leading to a slowdown in the aggregate rate of labor force growth.

LABOR FORCE PARTICIPATION OF WOMEN

An upward trend in the labor force participation of women was evident prior to 1968. Earlier, women generally entered the labor force to add to family income, often on a part-time basis, with the proportion of younger women at work remaining substantially lower than the proportion of older women. However, since 1968, the preponderance of increased labor force participation has been accounted for by younger women. Labor force participation rates over the past ten years are summarized by age and sex in Table 2.

TABLE 2.—CIVILIAN LABOR FORCE PARTICIPATION RATES

	Age							
	16 and over	16 to 19	20 to 24	25 to 34	Under 35	35 and over	35 to 44	55 and over
Total:								
1968:2	59.9	49.5	66.8	68.8	63.0	58.0	72.0	39.7
1973:2	60.8	54.5	72.3	71.6	67.4	56.0	74.1	36.1
1978:2	63.1	58.7	76.8	77.9	73.0	55.6	77.9	33.9
Male:								
1968:2	80.6	57.6	82.9	97.0	82.3	79.6	97.2	57.2
1973:2	79.0	61.1	85.5	95.6	83.6	75.6	96.1	51.7
1978:2	78.1	63.2	86.3	95.3	85.0	72.5	95.6	47.5
Female:								
1968:2	41.7	41.8	54.0	43.0	45.9	39.1	48.7	25.4
1973:2	44.5	48.0	60.4	49.2	52.2	39.3	53.6	23.8
1978:2	49.7	54.3	67.8	61.5	61.6	41.1	61.6	23.2

Source: Bureau of Labor Statistics.

Women's labor force participation rates are not only growing in all the younger age groups, they are growing at accelerated rates. Women under 35 years of age have shown a sharp acceleration in reaching a 61.6 percent participation rate. The most dramatic of these increases is among women ages 25 to 34, a high proportion of whom are married. This group increased its participation rate by 18.5 percentage points during the past five years. Women ages 20 to 24, the group with the highest rate of participation, have also had a rapid participation rate growth, reaching nearly 70 percent. Female teenagers have maintained a constant but substantial upward trend in their participation rates. And among older women, some notable increase has occurred among the 35-to-44 age group as well.

This acceleration of labor force participation has helped women play an unprecedented role in the massive ten-year labor force growth. As seen in Table 1, women accounted for 12.3 million additional labor force participants, 58 percent of the ten-year period's total labor force growth. The largest portion of this growth came in the most recent five-year period when women added 7.3 million to the labor force compared with only 4.4 million men.

Only in recent years have women dominated the labor force growth in the younger ages. During the 1968–73 period, males had larger labor force additions of persons under 35 than did women. However, during the second half of the decade women under 35 outdistanced the labor force additions of their male cohorts by over 65 percent.

This large labor force growth among younger women was the result of the interaction of a rapidly growing working age population with the accelerated increase in women's participation rates. This is particularly true of the 25-to-34 age range, which included the oldest cohort group of the baby boom during the most recent five-year period. This age bracket alone accounted for nearly one-half of the women entrants from 1973 to 1978—the most impressive increase of any age/sex subgroup during either five-year period.

LABOR FORCE PARTICIPATION OF RACIAL MINORITIES

Despite the upward trend in aggregate labor force participation rates, the participation of racial minorities has dropped off during the past decade. Like their white counterparts, nonwhite men are declining and nonwhite women are increasing their participation rates. However, nonwhite male participation has declined much more rapidly than that of white males. And while nonwhite women have increased their participation, they have done so at a much slower pace than white women. The civilian labor force participation rates of whites and nonwhites are summarized by age and sex in Table 3.

TABLE 3.—CIVILIAN LABOR FORCE PARTICIPATION RATES

	Age							
	White				Nonwhite			
	16 and over	16 to 19	Under 35	35 and over	16 and over	16 to 19	Under 35	35 and over
Total:								
1968: 2	59.5	50.5	62.8	57.6	63.0	42.7	64.3	62.0
1973: 2	60.9	56.9	68.1	55.9	60.0	40.9	62.7	57.5
1978: 2	63.3	61.8	74.1	55.4	61.7	41.6	66.1	57.3
Male:								
1968: 2	80.8	58.6	82.8	79.7	78.6	50.7	79.2	78.2
1973: 2	79.7	63.3	84.7	75.9	73.9	47.2	75.5	72.4
1978: 2	78.8	66.5	86.5	72.8	72.2	45.2	74.3	70.1
Female:								
1968: 2	40.7	42.8	45.0	38.1	49.9	35.2	51.8	48.4
1973: 2	44.0	50.3	52.2	38.5	48.4	35.0	51.8	45.4
1978: 2	49.2	57.2	62.0	40.3	53.0	38.1	59.8	47.0

Source: Bureau of Labor Statistics.

The participation rates of white and nonwhite men were fairly comparable in 1968, measuring 80.8 and 78.6 percent respectively. But by 1978 the gap between the two had widened considerably, with white male participation at 78.8 percent and nonwhite male participation at 72.2 percent. Most of this gap is due to the opposite trends among white and nonwhite men under 35 years of age. White males in this group increased their participation while the participation of their nonwhite cohorts declined. This divergence of trends is most pronounced among teenagers; in 1978 the participation rate for white male teenagers was 66.4 percent compared to 45.2 percent for nonwhites. This disparity in labor force participation is an indication of the failure of the economic growth of recent years to benefit nonwhite teenagers.

Participation rates among nonwhite women have historically been higher than those of white women, but the gap has narrowed appreciably in the past decade. Minority women increased their participation rate by only about 3 percentage points during the past ten years,

while white women registered a sharp increase of nearly 9 percentage points. These developments have brought a greater degree of similarity to the labor force participation of white and nonwhite women.

The similarity is perhaps most apparent among women under 35 years of age. In this age group, white women have increased their participation rate by 17 percentage points since 1968, while nonwhite women have upped their rate by less than half that amount. As a result of these changes, white women now participate at higher rates than minority women for the first time.

Many of the changes in the size and composition of the labor force have been due to the changing age structure of the population and shifts in social and economic values of the maturing baby boom generation. However, these labor force changes cannot have been wholly exogenous. In order for the rapidly expanding supply of youth and women workers to be absorbed into gainful employment, comparable increases in job opportunities must take place at the same time.

EMPLOYMENT; GROWTH AND CHANGING STRUCTURES

Growth patterns in labor supply, employment, and personal consumption expenditures have closely paralleled each other in recent years. Labor force increases were most substantial among younger persons, especially women, who historically have held a high percentage of jobs in white collar occupations. Most of this surge in the supply of white collar labor was absorbed by the rapid expansion of the service and trade industries which have accounted for nine out of ten new jobs since 1968.[1] Personal consumer expenditures, meanwhile, have grown from 61.7 to 63.6 percent of GNP during this ten-year period, exerting strong upward pressure on aggregate demand and employment.

Employment has risen by over 10 million persons since 1973. The service and trade industries, which employ a large proportion of these added workers, now account for two-thirds of the economy's employment. The shift away from blue collar jobs to white collar employment is a long-run economic trend which seems to have been reinforced by recent demographic and labor force changes. These changes signal the emergence of a "white collar society."

THE EMERGING "WHITE COLLAR SOCIETY"

The bulk of all employment growth since 1973 has been in the white collar occupations, accounting for over seven out of ten new jobs.[2] As a result of this concentrated growth, white collar occupations now represent half of the economy's total employment.[3] Blue collar occupations comprise one-third of total employment, and service workers[4] account for about one-eighth of the total.

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[1] In the context of this analysis, the "service and trade industries" (or "sector") are defined by the following industries: transportation and public utilities; finance insurance and real estate; household services; miscellaneous services; wholesale and retail trade; and public administration.

[2] This analysis of employment by occupation focuses on the 1973–78 period rather than the 1968–78 period because of changes made in the occupational classifications in the 1970 census. The 1968 data presented in the tables had been adjusted by the Bureau of the Census, but the adjustment did not render strict comparability.

[3] "White collar" occupations include a wide spectrum of skills, ranging from clerical and sales workers to professional, technical, and managerial workers. Wage and salary levels, of course, also vary substantially among the white collar occupations.

[4] Note that service occupations cannot be equated with service industries. "Service occupations" include: child care, private household, cleaning, food service, health service, personal service, and protective service workers.

Most of the additional white collar jobs have gone to workers under 35 years of age, and for the first time, women represent well over half of all white collar employees. The impact which the past decade's employment growth has had on the occupational structure of the economy, and the composition of various occupations, is highlighted by the following trends:

(*a*) White collar occupations have been growing at increasingly faster rates.

(*b*) Blue collar occupations as a whole continue to decline in relative importance.

(*c*) The proportion of employees under age 35 is growing in all occupations.

(*d*) Women have increased their proportion of employment in all occupations, particularly among white collar workers.

(*e*) Racial minorities have increased their proportions of employment in both white collar and blue collar occupations but have declined in the service occupations.

The growth trends of different occupational groups relative to the rest of the economy can be seen in Table 4. The increasing role of white collar occupations has been led by rapid growth in the professional and technical category. And the decline in the importance of blue collar workers has been led by a sharp drop in the proportion of total employment held by operatives. Service workers exhibit a continuation of the historical decline among private household services, while other service workers, especially in the cleaning, food, and health services, have shown substantial growth.

TABLE 4.—OCCUPATIONAL DISTRIBUTION OF EMPLOYMENT

[In percent]

	1968:2	1973:2	1978:2
Total	100.0	100.0	100.0
White collar	46.3	47.2	49.7
Professional and technical	13.5	13.6	15.1
Manager and administrative	10.1	10.2	10.7
Sales	6.0	6.4	6.3
Clerical	16.6	17.0	17.6
Blue collar	36.1	35.6	33.5
Craft and kindred	13.3	13.6	13.1
Operatives	13.9	13.0	11.4
Transport	4.1	3.8	3.7
Laborers	4.8	5.2	5.3
Service	12.7	13.4	13.7
Private household	2.4	1.6	1.3
Service	10.3	11.8	12.4
Farm	4.9	3.8	3.1

Source: Bureau of the Census.

The employment growth concentrated in white collar occupations is related to the concentraged growth in the service and trade industries. Both developments are, at least in part, different sides of the same coin. The service and trade industries tend to employ a high proportion of white collar workers. But in addition, many white collar occupations and service and trade industries tend to employ high percentages of youth and women at relatively low-entry wages. With the large labor supply of youth and women in recent years, it is likely that wage competition within these groups has tended to limit wage increases

in a number of white collar occupations and in service and trade industries.

Occupations are a major bridge between labor supply and employment. When potential workers enter the labor force, they seek a market for their skills and services. These markets are generally identified by occupational categories, and a person's choice of occupation is generally (though not solely) shaped by the expected demand for an occupation's skills and services and the resulting wage.[5] Thus, white collar skills have been in high demand and have experienced rapid growth in recent years even though in many instances the level of entry wages has been relatively low.

On the other hand, blue collar skills and services, while expanding only slowly, frequently offer relatively higher wage incentives for entry level positions in industries that are highly organized by labor unions. The job hunter may bag a bigger trophy by bringing home a more scarce blue collar job, rather than taking one of the more plentiful clerical or sales positions. This situation has increased the incentive for youths, nonwhites, and women to penetrate the blue collar occupations where older white men historically have been predominant.

AGE COMPOSITION OF EMPLOYMENT BY OCCUPATION

Since 1973 persons under age 35 have accounted for nearly two-thirds of the white collar employment growth, more than 90 percent of the additional service workers, and virtually all of the additional blue collar workers (See Table 5).

TABLE 5.—PROPORTION OF EMPLOYED PERSONS UNDER 35 WITHIN OCCUPATIONS

[In percent]

	1968:2	1973:2	1978:2
Total	39.2	44.9	48.8
White collar	39.1	43.7	46.8
Professional and technical	41.8	45.5	48.4
Manager and administrative	20.6	28.4	31.9
Sales	37.6	43.5	48.4
Clerical	48.7	51.7	53.9
Blue collar	40.5	47.1	51.1
Craft and kindred	33.9	40.9	45.4
Operatives	41.8	48.7	51.9
Transport	42.7	44.2	46.9
Laborers	53.3	61.8	66.2
Service:	39.1	46.9	52.4
Private household	33.6	38.2	42.6
Service	40.4	48.0	53.4
Farm	29.7	32.8	39.4

Source: Bureau of the Census.

The number of young white collar workers increased by 4.5 million during the 1973–78 period. Most of this growth was split between professional and technical workers and clerical workers. Historically both of these occupational categories have had high proportions of younger workers; these proportions were substantially increased during the past decade. Younger workers made even larger proportional gains among sales workers and managerial and administrative workers,

[5] Sociological factors, such as parents' occupations, are also very important. However, these factors generally compound the effect of a growing white collar society.

although these occupations are not as large and therefore did not account for as much actual growth as did the professional, technical, and clerical workers. Of the white collar occupations, managerial and administrative positions have the lowest proportion of younger workers, due largely to the maturity and skill requirements for such jobs.

During the past five years, the total employment of blue collar workers increased by 1.5 million, while the number of blue collar workers under age 35 went up by about 2.0 million. Even though the blue collar occupations have experienced slow growth, persons under 35 now comprise over half of blue collar employment.

The blue collar group with the largest proportion of younger workers is nonfarm laborers. This group's concentration of younger workers is due primarily to the fact that most general laborer jobs are unskilled, low-wage positions and are often available for youths entering the job market. The proportion of workers under age 35 in this unskilled group grew from about 53 percent in 1968 to 66 percent in 1978, a direct reflection of the baby boom and the scarcity of jobs for inexperienced youths.

However, the number of workers under age 35 is not above average in all blue collar occupations. Craft and kindred workers and transport equipment operatives have lower than average proportions of younger workers. Although these occupations accounted for the bulk of the blue collar employment gains among younger workers, labor unions, experience, and training requirements still tend to restrict the rate at which younger persons enter these jobs.

Service occupations account for a high proportion of younger workers. During the past five years 1.4 million of the 1.6 million service workers added to the employment roles were under age 35. Well over half of this employment growth among young service workers was in the food services, which accounted for over 167,000 jobs each year. This, of course, reflects the rapid growth of the fast food industry. Cleaning, health, and personal services also added substantial numbers of younger workers.

SEX COMPOSITION OF EMPLOYMENT BY OCCUPATION

Women have had a predominant influence on the employment growth of white collar and service occupations during the past five years. Two-thirds of the persons added to the white collar employment rolls during this period were women, and in service occupations, the contribution of women was almost as great. Even in blue collar occupations, women represented one-third of the added employment. As seen in Table 6, this wave of working women has raised the proportion of women employed in all occupations during recent years.

TABLE 6.—PROPORTION OF EMPLOYED WOMEN WITHIN OCCUPATIONS

[In percent]

	1968:2	1973:2	1978:2
Total	36.6	38.5	41.0
White collar	46.1	49.0	51.7
Professional and technical	37.6	40.7	42.5
Manager and administrative	16.0	18.9	23.6
Sales	41.4	41.5	43.7
Clerical	73.1	76.7	79.5
Blue collar	16.7	17.4	18.2
Craft and kindred	3.1	4.3	5.5
Operatives	38.3	39.0	40.5
Transport	2.8	4.6	6.5
Laborers	3.5	6.9	10.0
Service	65.8	62.9	62.9
Private household	98.2	98.2	98.0
Service	58.2	57.9	59.3
Farm	18.4	18.5	19.6

Source: Bureau of the Census.

Women's employment in white collar occupations accounted for 4.7 million new jobs in the past five years, nearly half of the employment growth for the entire economy. With these gains, women now represent well over half of all white collar workers. Most of this growth was located among clerical workers, who absorbed a total of 2.2 million additional women workers.

The greatest relative gains by women were made in the managerial and administrative occupations. Compared to the rest of the white collar occupations, managers and administrators still have relatively few women in their midst. However, while their proportion stood at 16 percent in 1968, it has grown rapidly to almost 24 percent in 1978. During the past five years, this has meant about 750,000 jobs for women as opposed to 713,000 jobs for men. As the increasing numbers of women enrolled in M.B.A. and other professional programs continue to enter the job market, and as younger women gain work experience, these figures should continue to rise substantially.

Although women appear to account for a high proportion of professional and technical workers, most of this employment has been in occupations with historically high proportions of women. Nurses, dietitians, therapists, and teachers (excluding college and university) represent well over half of all women who are professional and technical workers.

The proportion of women employed in blue collar occupations has shown significant growth but continues to remain relatively low. Since 1973 women's blue collar employment has grown by just over half a million jobs. Craft and kindred occupations accounted for almost 200,000 of these jobs, with over 60,000 women finding jobs as mechanics and supervisors. Women also increased their numbers among the ranks of laborers by about 200,000, upping their proportion to 10 percent of all laborers. However, among operatives, where women have historically held a higher than average proportion of the jobs, women's employment grew slowly and their proportion fell below the economy-wide average. Much of this delcine in representation is due to the slow growth of industries employing operatives.

The service occupations accounted for a net employment growth of 1 million women during the past five years. The food service workers dominated this growth, adding an average of over 110,000 workers per year, nearly all of whom were under 35 years of age. Employment gains by women in the personal services, airline stewardesses, recreation attendants, hairdressers, offset employment losses in the private household services during the past five years.

RACIAL COMPOSITION OF EMPLOYMENT BY OCCUPATION

Racial minorities increased their total employment by 1.4 million persons between 1973 and 1978. More than two-thirds of this employment increase was among white collar occupations. This concentrated growth has raised the proportion of racial minorities employed in white collar occupations. However, the proportion of minorities in white collar jobs is still far below the economy-wide average. By contrast, minorities have maintained their slightly higher than average proportion of blue collar employment during the past decade, while their high relative proportions among service workers has declined somewhat. These trends can be seen in Table 7.

Most of the white collar employment growth of racial minorities was among professional and technical workers and clerical workers. The number of nonwhite engineers increased by 90 percent during the past five years, while the number of engineering and science technicians more than doubled. However, despite affirmative actions policies, nonwhites gained less than 10 percent of the total number of managerial and administrative jobs added during the 1973–78 period. On the other hand, nonwhites gained more than 17 percent of the employment growth among sales workers. Thus, although racial minorities have made significant relative gains in the white collar occupations, they still account for a very low proportion, not quite 8 percent, of all white collar workers.

TABLE 7.—PROPORTION OF EMPLOYED NONWHITE PERSONS WITHIN OCCUPATIONS

[In percent]

	1968:2	1973:2	1978:2
Total	10.8	10.7	11.1
White collar	5.6	6.9	7.9
Professional and technical	6.1	7.6	8.7
Manager and administrative	3.0	4.3	5.1
Sales	3.4	3.7	5.0
Clerical	7.5	9.2	10.1
Blue collar	12.5	12.3	12.7
Craft and kindred	6.6	7.1	7.1
Operatives	14.0	13.6	15.5
Transport	13.2	14.8	15.5
Laborers	23.5	20.3	17.6
Service	24.7	20.5	19.3
Private household	45.7	37.2	32.3
Service	19.7	18.3	18.0
Farm	13.1	8.5	8.6

Source: Bureau of the Census.

Among the blue collar workers, racial minorities have maintained a fairly high proportion of employment. Nonwhite employment is above the economy-wide average in all blue collar occupations except craft and kindred workers. Much of the resistance here can be attributed

to the difficulty which racial minorities experience in gaining access to skilled trade unions and training programs. Among laborers, nonwhites have been declining in their actual level of employment even though the occupation as a whole has experienced substantial growth. This situation may reflect increases in both competition from young whites and discouragement among young nonwhites, particularly males; it may also reflect the desire among those who remain in the labor force to pursue higher skilled occupations. Some evidence of the second explanation is indicated in the climbing proportions of racial minorities employed in the more skilled operative and transport occupations.

The decline in the high proportion of employment held by racial minorities in the service occupations is a direct reflection of their long-term exodus from private household service jobs. Excluding private household services, nonwhites have upped their employment in other service occupations by about 300,000 workers since 1973. This increase has helped nonwhites retain a relatively high proportion of the service occupation jobs.

Chapter II. Structural Unemployment Issues—A Macroeconomic Perspective

This section is intended to respond to 2 questions: *Can targeted structural employment and training programs reduce the unemployment rates of those segments of the labor force having special difficulties in obtaining employment? Can targeted structural employment and training programs achieve and sustain a decrease in the national unemployment rate without exacerbating inflation?* The short answer to both questions is yes, provided programs are carefully designed and targeted to reach the structurally unemployed, provided measures are also taken to increase capital formation, and provided the unemployment and capital formation actions are properly coordinated. This qualified response, however, is not a universally accepted proposition.

There are those who argue that structural employment and training programs cannot result in any net job creation. Additional government spending, however designed, results simply in the displacement of an equal amount of private spending; additional employment for the targeted groups comes at the expense of employment elsewhere.

Another group argues that the evidence supports the view that the overriding determinant of inflation is the excessive creation of money relative to the growth rate in the supply of goods and services in the economy. This viewpoint states that there is no trade-off between unemployment and inflation because inflation is determined by excessive increases in the money supply and is not affected by the tightness or looseness in labor markets. Labor market conditions only determine the relative prices of skill factors but do not affect the overall GNP price deflator. Further, this group believes that government efforts to reduce unemployment will most likely result solely in a transfer of purchasing power. These measures can also be inflationary if they require that taxes must increase to finance the program and that these additional taxes have the economic impact of reducing output while the money supply does not decline to offset this decline in output.

Others argue that structural employment and training programs can reduce unemployment with little or no additional inflationary pressures, and with little or no displacement of people from other jobs.

Under current economic conditions, the truth lies somewhere between these views. The argument that additional government spending crowds out an equivalent amount of private spending applies only to an economy characterized by fully employed resources, a condition that is not now present in the American economy. Indeed, given an unemployment rate of nearly 6 percent, there still exists a sizable margin of unused labor resources in our economy. Capital resources are in relatively short supply, but labor resources are not. The challenge, of course, is to design programs to minimize both the inflationary wage pressures and job displacement.

The assumption that targeted structural employment and training programs can reduce the national unemployment rate without

exacerbating inflationary pressures rests on three propositions about the labor market:

1. Employment increases in low-wage occupations will have little effect on the overall inflation rate. Support for this contention derives from the fact that most low-wage occupations are characterized by conditions of excess supply. Thus, an increase in the demand for low-wage workers results in significant employment gains with little or no attendant increase in wages.

2. Employment increases in high-wage occupations, on the other hand, tend to raise the overall inflation rate. In most high-wage occupations, labor is currently in short supply. Thus, an increase in the demand for high-wage workers results in only marginal employment gains but significant wage increases. However, programs to upgrade low-wage workers can reduce these inflationary pressures, the more so when the upgrading occurs in occupations for which there are skill shortage bottlenecks.

3. Upwards of 70 percent of the additional employment in low-wage occupations has historically come about through increases in the labor force and not through reductions in unemployment. This phenomenon reflects the fact that large numbers of people have, for one reason or another, chosen to remain outside the labor force until presented with job offers. Thus, when these people are without jobs, they are not officially counted as unemployed or as part of the labor force since they do not satisfy the criterion of actively seeking employment. The largest group in this category are the so-called "discouraged workers"—individuals who "drop out" of the labor force because of their inability to find suitable employment, and who "drop in" when jobs are available. No one knows for sure how many unemployed people are missed by the *official* count, but their numbers are sizable. Some indication of the relative sizes of the groups of non-labor force participants, and the reasons for their non-participation are provided in Table 1. The Bureau of Labor Statistics estimates that there are now more than three-quarters of a million so-called "discouraged workers" in the U.S. economy, though the reliability of the data for this category is open to question and the number could be much larger.

In any event, in view of the labor force entry and exit patterns of these groups of individuals, changes in employment in low-wage occupations are much wider than the reported swings in unemployment. This means, therefore, that the attainment of a targeted reduction in the unemployment rate will necessitate the provision of job opportunities in numbers that are substantially in excess of the reported number of unemployed. A reduction in the national unemployment rate from 6 percent to 4 percent would necessitate, under current labor market conditions, the provision of many more job opportunities than the 2 million implied by official unemployment statistics.

UNEMPLOYMENT, INFLATION AND CAPITAL FORMATION

There is a growing consensus among economists that, under present economic circumstances, *conventional macroeconomic policies* by themselves will not be able to reduce the unemployment rate to meet the Humphrey-Hawkins unemployment goals without at the same time

causing a sharp acceleration of the inflation rate. This view has apparently been endorsed by the Administration and serves as the basis for its present program of overall demand restraint. In order to meet the requirements of the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978, the Federal Government will need to develop nonconventional selective policies designed to promote directly the creation of jobs that ensure adequate incomes for families with workers and that simultaneously do not add to domestic inflationary pressures.

There are several reasons why conventional macroeconomic policies need to be supplemented with nonconventional policies if we are to significantly reduce the national unemployment rate without adding to inflationary pressures. In the first place, unskilled workers currently constitute a disproportionate share of the pool of job seekers. Skilled workers, on the other hand, are in relatively short supply. Thus, an *overall* expansion of the economy through macroeconomic policies would, at the present time, raise the demand for both skilled and unskilled workers.

The increased demand for unskilled workers would cause little or no increase in inflation. But, the increased demand for skilled workers would impart an upward, and perhaps substantial, inflationary impact on the economy because it would tend to raise their wages. As Deputy Assistant Secretary of Labor Donald A. Nichols testified:

> The ability to reduce the overall unemployment rate through economic growth is limited by inflation. When the lowest unemployment rate consistent with the inflation barrier is reached, the unemployment rate or low-skilled will still be high and will be substantially higher than that of high-skilled workers. Shortages of low-skilled workers will be rare and a reduction in the unemployment rate of this group by itself would not cause inflation to increase. The high-skilled group, on the other hand, will have shortages and an attempt to reduce their unemployment rate further would tend to lead to wage increases rather than employment increases. Therefore, an attempt to reduce unemployment among the low skilled by increasing economic activity is stymied by the fact that it will lead to shortages in the high skilled market and therefore to inflation.

There seems to be little question that labor markets for skilled workers have tightened considerably over the past year. The unemployment figures for February 1979 illustrate the fact that the unemployment rate among several skilled occupations—including white collar workers, craft workers and transport operatives—is significantly lower than that among less-skilled occupations—operatives, nonfarm laborers and many service workers. These figures are presented in Table 2. Furthermore, since the unemployment rates in Table 2 only include workers who have previously held jobs and do not include new entrants into the labor force—mostly women and teenagers with low skills—these figures understate the unemployment among unskilled workers in these occupations.

The second reason why conventional macroeconomic policies will be ineffective in meeting the Humphrey-Hawkins targets has to do with the fact that the tightness and looseness of labor markets varies

dramatically from one region of the country to another. Since aggregate monetary and fiscal policies are difficult, if not impossible, to target by region, any attempt to reduce unemployment through aggregate policies in areas where the unemployment rate is excessive will generally also end up adding to inflationary pressures in regions where there is very little labor market slack. A Dun's Review article in March 1979 points out that severe discrepancies exist among regions in their employment situation:

> The fact is that in traditionally labor hungry parts of the Southeast, unemployment rates at the end of 1978 had dropped to under 3.5 percent from almost 5 percent a year earlier. In several of the Plains States, which have low rural population densities, rates were even lower. In Knasas, for example, rates fell to 2.7 percent at year end, creating severe labor shortages in the aircraft industry * * * An extreme example? If so, many parts of the country are in extreme circumstances. Employers across the country, from southern New Hampshire to the Carolinas to middle Tennessee, through virtually all of the Plains States and large parts of Texas to the San Jose area of California, have suffered from tight labor markets over the past year.

The third reason why conventional macroeconomic policies should not now be relied upon to reduce unemployment is because further increases in overall demand would be severely constrained by productive capacity limits. Capacity utilization rates are currently quite high. According to the Federal Reserve Board's index, capacity utilization reached 85.7 percent in manufacturing in the fourth quarter of 1978; in materials, the capacity utilization rate was 87.3 percent. Since an index value in the range of 88–90 percent is widely viewed as constituting full capacity, the margin of unused capacity is currently quite small. Thus, independent of any inflationary wage pressures that might arise as a result of further increases in demand, additional inflationary pressures would mount because of the unavailability of capital. The point that needs emphasis is this: If the availability of capital and rates of return on investment were not restraining factors today, further increases in demand and further reductions in unemployment could be brought about without adding as much to our inflationary pressures. The difficulty is that, under present market conditions, further expansions of output and employment would necessitate the use of older, less efficient capital which in turn would lower productivity, raise unit costs and accelerate inflation. This means that the approach to reducing unemployment should include targeted structural employment and training programs as well as measures aimed at raising the rate of capital formation.

Productivity and Inflation

Capital formation and productivity growth are closely related and have a direct bearing on inflation.[1] A higher rate of capital formation would be required to reverse the slowdown of productivity growth. A higher rate of productivity growth, in turn, is essential to the success of the long-run goal of significantly slowing inflation. There is a direct

[1] These matters are discussed more fully in the 1979 Joint Economic Report.

link between inflation and the rate of capital formation. Present law requires that firms charge off their plant and equipment purchases on an "historic" rather than a "replacement" cost basis. This reduces the after-tax real rate of return to investment in a period of rising inflation. Unless the real rate of return can be raised significantly, businessmen will continue to be reluctant to expand their stocks of capital.

The problem, simply, is that the U.S. economy has for some time been putting too few of its resources into the expansion of its capital stock. We need to raise the ratio of business fixed investment to GNP to levels above the 10 percent rate achieved in the 1960's and early 1970's. This must be done for two reasons. First, such an increase is necessary in order to make up for the cumulative loss of capital stock due to the 1974–75 recession. Real capital spending fell sharply during that recession and revived less rapidly than in preceding recoveries. Second, the rapid labor force increases experienced in the last decade in combination with projections for further rapid increases in the foreseeable future, means that capital formation must likewise grow rapidly in order to arrest and reverse the alarming reduction in the growth of our capital-labor ratio which is likely to cause a further erosion of productivity advance.[2]

In the 1979 Economic Report of the President, the Council of Economic Advisers (CEA) concluded that the long-term trend of productivity growth was now significantly below the estimated trend they believed was reasonable when they wrote their reports in 1977 and 1978. As a consequence, the CEA revised downward its estimate of potential GNP. The downward revision was substantial. Based on the estimates employed by the CEA just a year ago, actual GNP in 1978 was 5.6 percent below its potential. The downward revisions used by the CEA this year imply that the actual GNP last year was only about 2.7 percent below its potential, and in the fourth quarter of 1978 it was only about 1.8 percent below its potential.

The CEA concluded that the "margin of unused resources" is now so small that restraints must be placed on the growth of demand. It is apparent, however, that the constraining factor is the availability of capital, although it is likely that the tight supply of skilled labor also limits productivity advances. The volume of unused, less skilled labor resources is high. According to official published statistics, almost 6 million American residents are today without jobs. Unofficially, the number is much larger than that figure, as noted before, However, because we are close to our productive capacity limits, it is clear that conventional macroeconomic policies alone cannot be used to reduce this margin of idle labor resources without exacerbating inflation.

If the restraints on productive capacity were eliminated, conventional macroeconomic policies might not need to be as restrained as they now are. In that event, it might be possible to use conventional demand management tools to reduce the margin of idle labor resources without risking further inflation. Even under such circumstances conventional policies alone probably could not be relied upon to reach the 4 percent unemployment rate goal.

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[2] For a detailed discussion of this issue see "Review of the Economy, October 1978", Report of the Joint Economic Committee, October 10, 1978 and "The 1979 Joint Economic Report," Report of the Joint Economic Committee, March 15, 1979.

STRUCTURAL UNEMPLOYMENT: A MACROECONOMIC DEFINITION AND THE CHANGED DIMENSIONS OF THE PROBLEM

The definition of structural unemployment must be linked to total unemployment, frictional unemployment, seasonal unemployment and cyclical unemployment, as well as to employment vacancy rates and labor force participation rates.

Regardless of the level of unemploymept, there are always some people who are unemployed because they have quit their former jobs and are looking for something better. This natural process of looking for better alternatives and voluntarily moving between jobs results in frictional unemployment. This kind of unemployment exists because of the difficulty of matching qualified workers and employment vacancies quickly.

When joblessness increases in some occupations and industries because of bad weather, or because of a sudden but predictable drop in sales due to consumer buying habits, or because of the completion of planting or harvesting, the result is an increase in seasonal unemployment.

When the total output of the economy's goods and services falls below the economy's productive capacity, cyclical unemployment occurs. Cyclical unemployment is directly attributable to variations in the economy caused by inadequate demand or supply. However, as demand increases relative to supply and the economy approaches capacity, the generally accepted signal that cyclical unemployment is being eliminated is the generation of an accelerating rate of inflation, as was pointed out above. The remaining category is structural unemployment.

The discussion of the problem to this point implies a straightforward definition of structural unemployment.

Structural unemployment consists of that margin of nonfrictional unused labor resources whose employment through conventional macroeconomic policies would result in an accelerating rate of inflation. Stated another way, structural unemployment represents the amount of joblessness that exists when the economy reaches its rate of potential output.

In the early and mid-1960s, a 4 percent unemployment rate could be achieved through macroeconomic policies with a nonaccelerating rate of inflation. It is widely believed today that macroeconomic policies alone will not reach this goal without accelerating the inflation rate. To many government and private economists this change has been due largely to the changes in the structure of the labor markets described in Chapter I. The sharply increased labor force participation rates[3] of women and teenagers combined with their relatively high rates of entry and exit from the labor force account for the bulk of the change in the labor force structure over the past two decades.

These changes in the demographic composition of the labor force, however, are not sufficient by themselves to explain the 2 percentage point increase in the nonaccelerating inflation rate of unemployment from 4 percent to 6 percent. As the Council of Economic Advisers points out in the 1979 Economic Report of the President:

> In 1956 the overall unemployment rate was 4.1 percent. If the unemployment rates of each of the various age and sex

[3] The labor force participation rate for any group of individuals is defined as the proportion of that group that is in the labor force—i.e., that is working or actively seeking work.

groups in the labor force today were the same as in 1956, the overall unemployment rate would be 4.6 percent. Changes in the demographic composition of the labor force since 1956 have thus added about one-half of 1 percentage point to the unemployment rate.

The question arises: What accounts for the additional 1½ percentage points? The answers to this question are varied and difficult to quantify. Part of the explanation may have to do with the fact that the labor force entry and exit patterns of the current population of women and teenage participants differ from the patterns observed in those respective populations in the late 1950s. Part of the explanation may also be due to the fact that the increased labor force participation rates of women and teenagers have caused an increase in structural rigidities: there are now a *relatively* larger number of less skilled, less experienced, and in the case of teenagers, less-educated individuals in the labor force. Additionally, several groups also face various forms of discrimination in labor markets, the most notable groups being women and minorities. And finally, there is the effect exerted by past slow rates of growth of capital formation.

Unfortunately, there is a dearth of information on the quantitative significance of all of these factors. As a result, it is difficult to assess what the nonaccelerating inflation rate of unemployment is. In any event, most economists appear to agree that the nonaccelerating inflation rate of unemployment is somewhat higher today that it was 10 to 15 years ago. It will be difficult to achieve the 4 percent rate required by the Humphrey-Hawkins Act through macroeconomic policies alone without increasing inflation. If we attempt to reduce unemployment from the current level, it can be seen that nonconventional policies must be devised to reduce the unemployment rate by about 1.5 to 2.0 percentage points in a manner consistent with a stable inflation rate. At a minimum, this means the creation of 1½ to 2 million new jobs under present circumstances. In view of the likely increase in participation rates accompanying the availability of new job openings, it probably means the creation of new jobs well in excess of 2 million.

A review of existing and projected programs indicates a shortfall of over 1 million jobs. The budget proposed by the Administration for fiscal 1980 provides funds to support a total of 467,000 public service jobs under CETA. Additionally, the Administration is seeking funding to create about 500,000 job opportunities in fiscal 1980 for the disadvantaged through the use of the targeted employment tax credit which was first enacted in the Revenue Act of 1978. The Administration thus proposes about 1 million jobs targeted for the structurally unemployed. This would leave 1 to 1½ million new jobs to be created in order to fill the gap between present programs and needs.

PRIVATE SECTOR INCENTIVES

This section is intended to answer the question: *What private incentives can induce employers to hire the structurally disadvantaged?* Until recently, the Federal government's efforts to reduce structural unemployment were concentrated almost entirely in the public sector. While the purpose of most of these programs was to prepare individuals who were chronically unemployed with the basic skills needed

for private sector jobs, most of the programs were designed and administered by government officials or by private organizations under government contract. Under the Manpower Development and Training Act, the Federal government was the overall administrator while under the Comprehensive Employment and Training Act, overall responsibility for the programs was transferred to some 450 State and local government prime sponsors. In neither case was responsibility for program design or implementation lodged in private for-profit businesses.

The private sector, of course, has and still does voluntarily provide basic skill training programs for the structurally unemployed, such as the programs sponsored by the National Alliance of Businessmen and the AFL–CIO. In addition, there are a number of examples of private non-profit intermediate organizations which place the structurally unemployed in private jobs and then provide follow-up services. In the 1979 Joint Economic Report, the Committee recommended that these voluntary private sector initiatives be encouraged and expanded.

Private sector job training and other programs to upgrade the employability of the structurally unemployed can be significantly expanded through financial incentives provided by the Federal government such as training subsidies or tax credits. The 1979 Joint Economic Report recommended that these initiatives be expanded. The argument in favor of providing financial incentives is that employers will hire individual workers only if they expect that the output of the additional workers will exceed their wages and other costs. The costs of hiring poorly educated persons with low skills typically exceeds their productivity, and thus businesses have little incentive to hire them. Only during periods of very high growth in aggregate demand will a significant portion of these marginal workers be hired, and they will be the first fired when growth slows.

In addition, there is some evidence that a portion of low-skill workers may have high entry and exit patterns by choice, such as mothers with small children or full-time students. For these groups job sharing initiatives may be helpful.

Of course, some of those who are structurally unemployed, will develop needed job skills beginning with their first, entry-level job. For many others, recurrent periods of unemployment and low-skill, low-wage jobs can become a way of life, with little hope of improvement. A vicious cycle is created, as employers provide them only minimum training because of their high turnover rates. Thus these workers are precluded from the possibility of advancement and better-paying jobs. The complexity of this problem was best described by Professor Charles Holt in his testimony to the Committee:

> When aggregate demand is low relative to the number of people who want to work, then many people remain unemployed and others, because of discouragement in looking for jobs, drop out of the labor force. The groups that bear these burdens most heavily are those that experience frequent spells of unemployment. Their jobs do not last long because the probabilities of being laid off or of quitting are both high. In general, these are people with low seniority, they lack experience and skills, and they are confined to occupations and areas where wages and work quality are low.

> They usually are young, women, or minorities. Employers anticipating high quits and short job tenure for these groups try to protect their own interests by offering little skill training and relatively low wages. Since employer investments in skills for these workers are low, firms are quick to lay off workers when production declines. These workers respond to low wages, little training, and high layoff risks by quickly quitting when slightly better jobs appear or when household work is needed—such poor jobs come on the market frequently.

There are two ways to break this vicious cycle: (1) raising the productivity of those who are structurally unemployed, and (2) providing training and jobs to the structurally unemployed who have a better prospect for future advancement and skill enhancement.

These objectives can be accomplished in the private sector through Federal incentives for training and hiring the structurally unemployed. Incentives can include training subsidies to private employers as well as targeted employed tax credits.

Again, financial incentives may expand the private sector demand for these workers by reducing the cost of hiring and training relative to their expected output. If the incentive is large enough, the output of those who were previously unemployable will now exceed their net wage and training costs.

It should be noted that such programs face particular problems. It may be difficult to insure that they are targeted on the right people and are distributed in loose labor markets. Programs should be monitored to insure the provision of effective training rather than simple work experience with little transferability.

Financial incentives have not until recently formed a major part of the Federal arsenal against structural unemployment. Prior to enactment of the Revenue Act of 1971, most Federal subsidies were for on-the-job training under the MDTA. The Revenue Act of 1971 created the first significant employment subsidy, the WIN credit, for hiring individuals who were receiving welfare assistance or who had been placed in jobs through the WIN program. In addition, various trade assistance adjustment programs provided relocation grants and training assistance for workers who had been displaced by imports.

The Tax Reduction and Simplification Act of 1977 created the new jobs tax credit, a broadly based countercyclical job creation measure. While the new jobs tax credit was an effective countercyclical tool, it was not very effective against structural unemployment because it was not targeted. Various studies, however, indicate that this financial incentive created as many as several hundred thousand additional jobs during 1977 and 1978, while holding down the rate of inflation. The Revenue Act of 1978 replaced the new jobs tax credit with a targeted employment tax credit which conforms much more closely with the kind of financial incentive needed to increase hiring of those who are structurally unemployed. Since this credit is only now becoming available, there is little evidence concerning its effectiveness.

CONCLUSIONS

If targeted structural employment and training programs are used to reduce the national unemployment rate without exacerbating inflation they would need to be aimed at workers in "loose" labor markets;

that is, markets in which wages are either unresponsive or only mildly responsive to increased demand. For the most part, this criterion fits many labor markets for low-skilled workers. The supply of labor to these markets is highly elastic, or they are characterized by an excess supply of workers. In either case, additional employment gains can be achieved with little or no upward pressure on wages.

Targeted structural employment and training programs can also help to alleviate wage pressures in high skilled markets if they provide an increased supply of trained workers to these markets. Supplying additional workers to such "tight" labor markets can help alleviate bottlenecks among skilled workers that push up wages.

Targeted structural employment and training programs can help to alleviate inflationary pressures to the extent that they reduce unit labor costs. Such reductions are possible if the programs function to improve labor productivity or offset part of employers' training or other costs.

It should be emphasized, however, that targeted structural employment and training programs constitute only part of the solution to the structural unemployment problem. As discussed earlier, unemployment programs should be accompanied by measures to increase capital formation. It would also be necessary to coordinate targeted unemployment programs and actions to increase capital formation so as to avoid a mismatch of job opportunities and the newly trained. Unless programs are coordinated, it is possible that the demand for skilled workers caused by industrial expansion might not be met by training programs for the structurally unemployed.

A caveat is in order. It would be incorrect to judge the success or failure of targeted structural employment and training programs solely on the basis of changes in the national unemployment rate. As Donald Nichols emphasized in testimony before the Committee:

> If a substantial portion of the workers who take low wage jobs are not previously counted as unemployed, the group desiring jobs is larger than the unemployment statistics indicate. There is an important role for structural programs to play in meeting these needs even if the effect of the programs on the reported unemployment rate is modest.

Thus, the success or failure of these programs should also be determined on the basis of the gains made in employment, in addition to the change in the unemployment rate.

With regard to private sector incentives, it is important to note that the amount of financial incentive alone will not determine an employer's willingness to hire structurally unemployed individuals. Paperwork burdens, difficulty in job and employee search and administrative costs can prevent employer participation in a private sector initiative regardless of financial incentives. Consequently, private sector incentives must be accompanied by considerations to reduce these burdens.

In addition, the effectiveness of a private sector initiative will be greatly determined by the success of the targeting variables. Without proper targeting of the structurally unemployed, the result of private sector initiatives to aid the structurally unemployed will be less than desired. However, properly designed and targeted private sector initiatives can substantially reduce the structural unemployment problem.

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