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Employment and Poverty

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Master

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The single most important step toward ending poverty in America is achieving and sustaining ~~will be taken when~~ tight full employment, ~~is achieved and sustained~~. This ~~Tight full employment~~ exists when over a broad cross section of occupations, industries, and locations employers prefer to hire more workers, at the going wages and salaries, than they in fact do. In the specific context of the war against poverty tight full employment means two things: (1) employment opportunities for those now unemployed or underemployed (2) labor market conditions which tend to raise low wages relative to high wages.

Other anti-poverty measures, such as community facilities, enrichment of education, job training and relocation may be important as supplements. -- These ~~many~~ aspects of the war on poverty are good in themselves and should be a part of the services available to all without a means test ~~, but~~ But unless tight full employment exists the anti-poverty campaign will ~~can only~~ result only in spreading poverty more equitably through the community. Without a realization that employment opportunities are vital to the success of the effort, the anti-poverty campaign will only ~~can be characterized as a move to~~ achieve fair shares of poverty for all. Tight full employment certainly is necessary, ~~and~~ it may also be sufficient, for the elimination of all except casebook poverty in the United States.

There are two kinds of poverty in the United States. One is due to unemployment and low incomes even though employed. The second, casebook poverty (which consists of those poor not now and not expected to be in the labor force), is due to the inadequacy of programs of transfer payments and income in kind. Indications are that unemployment and low incomes from jobs account for some 60 per cent of the families living in poverty. The unemployed and low income from employment poor will benefit directly from tight full employment. The elimination of casebook poverty requires a much more generous set of welfare laws than we now have. However, tight full employment will indirectly benefit these poor, for the employed and employable members of their family will be doing better, and the higher G.N.P. that will accompany tight full employment will make it easier for state and local governments to undertake adequate programs of transfer payment. Thus our primary concern here is with the largest part, but not all, of the poverty in the United States.

Tight full employment will not only eliminate that poverty which is solely due to unemployment, but, by setting off market processes which tend to raise low wages faster than high wages, it will, in time, greatly diminish the poverty due to low incomes from jobs. In addition, by drawing additional workers into the labor force, tight full employment will increase the number of families with more than one worker. As a result, families now in or close to a "poverty line" will move well away from it. There may be a "critical minimum effort" that is needed to move families from poverty and ~~depreestion~~ deprivation to a state in which income, opportunities and horizons are ever improving. This critical effort may require that income move well above the poverty border. Multiple earners in one family is the way of achieving family incomes well above the poverty line.

The unemployment rate during 1964, 5.2 per cent, was the lowest annual rate achieved in the United States since 1957. The liberal and expansionary Kennedy and Johnson administrations have set as their interim target a 4 per cent unemployment rate. This target rate is a "slack" definition of full employment, which reflects an excessive fear of inflation. On the basis of our wartime experience and the experience of Western European countries (Sweden and Germany are worth noting) a working definition of tight full employment, allowing for voluntary labor mobility, technical dynamism, and seasonal factors, might be set at 2.5 per cent measured unemployment.

Given wages and prices, the volume of employment, and thus the unemployment rate, reflects what the economists call aggregate demand. If the war against poverty is a serious effort rather than a quite cruel example of political sloganeering, monetary and fiscal measures to make aggregate demand large enough, to achieve a target 2.5 per cent unemployment rate should be undertaken immediately. Current monetary and fiscal policy, which is being framed in the light of the Administration's evident satisfaction with the performance of the economy in 1964, is programmed for a $660 billion G.N.P. At this G.N.P., because of expected productivity and labor force increases, the unemployment rate is expected to remain pretty much where it was in 1964 -- that is, in the neighborhood of 5.2 per cent.

What level of aggregate demand would be needed in 1965 in order to achieve tight full employment? A rule of thumb is that for every 1 percentage point decline in the measured unemployment rate, there is roughly a 3 per cent increase in measured G.N.P. If we apply this rule to the difference between the expected 5.2 per cent unemployment rate and the tight full employment target unemployment rate of 2.5 per cent, we get a $53 billion gap between forecast and tight full employment G.N.P.. Even if we modify this rule of thumb so that, when the unemployment rate gets below 4 per cent, the efficiency of a decline in employment decreases, the estimated tight full employment G.N.P. remains in the neighborhood of $700 billion.

It seems evident from the G.N.P. gap that expansionary monetary and fiscal steps should be taken to raise this year's aggregate demand to approximately $700 billions. This should lower unemployment toward the reasonable 2.5 per cent target as well as increase the well being of those already employed. Are there any barriers to such a use of monetary and fiscal policy, and if there are can we design a set of policy actions that will either get around or get over these barriers?

After the success that has been imputed to the 1964 tax cut, it can be assumed that the administration, if it were bold, could get another $15 billion tax cut in 1965--which should expand demand to close to $700 billion. It is not an ideological opposition to fiscally managing the economy that prevents this ~~[happily the slogan that "deficits are down payments on future surpluses" seems to have departed from the political scene]~~. Rather it is a view that expanding aggregate demand would have other, undesirable effects that lead to the programming of a $660 billion G.N.P.

We do not live in a Pollyanna world where all good and desirable ends are attainable at no cost. In the hard interdependent world of economics, more of one very desirable objective almost always means less of another, almost equally desirable, objective. The addition of the elimination of poverty to the set of policy goals means a redefinition and a reconsideration of the importance placed upon such older, more conventional goals as full employment, economic growth, price stability and the international stability of the dollar. ~~The elimination of poverty~~ is fully complementary with the goal of full employment. The war on poverty tends to downgrade the importance of economic growth as an objective of policy, although a successful war on poverty, by improving the quality of the labor force through work experience as much as through education, will rapidly increase productive capacity.

Domestic price stability and the international stability of the dollar are two of the standard list of policy objectives which require modification, if not repudiation, in the light of the required higher priority for and tighter definition of full employment. However, these two barriers to tight full employment are quite different in nature. The domestic inflation barrier reflects a presumed structural relationship of the economy. The international monetary stability barrier reflects a policy commitment that can be abandoned whenever it is desired.

The half-hearted efforts toward achieving full employment under both Kennedy and Johnson (the 1964 tax cut really was more of a device to abort a feared recession) in part reflects a belief that there exists a stable inverse relationship between the unemployment rate and the rate of increase of wages and prices. The "interim" target unemployment rate of 4 per cent was set in the belief that at unemployment rates higher than 4 per cent there is no real tendency for wages to rise, and that at rates lower than

4 per cent any stimulus to the economy will largely be absorbed by increasing the wages and incomes of the already employed rather than by adding job opportunities for those who are then unemployed.

We are now in a "policy box" that has been created by the repeated emphasis upon the inflationary potential of unemployment rates below 4 per cent. If labor and business both believe that the threat of inflation increases when unemployment rates decline, and that the threat becomes acute when a 4 per cent rate is approached, then, in a competitive push to protect their own interests, each decision unit will press for higher wages or prices as the unemployment rate decreases. That is, the forecast that inflation will be an imminent threat when the unemployment rate decreases toward 4 per cent is in the nature of a self-fulfilling prophecy: it helps set the framework so that which is forecast does in fact occur.

The existence of a stable relationship between unemployment rates and wage and price changes, that underlies the fear of tight full employment, is not a certainty. For one thing, all that has ever been observed has been a movement from slack to tight labor markets, and back again to slack. A long period -- ten to fifteen years -- of sustained tight labor markets has never been observed. The institutional arrangements designed to protect workers against some of the effects of labor market slack ~~and to enable workers to "get while the getting is good" -- during the periods of transitory labor market tightness --~~ will no doubt ~~be modified~~ need modification or need to be modified once labor market tightness is accepted as the normal state. Similarly, pricing policies designed to protect business against the effects of recessions can also be expected to wither away as the belief in the continued existence of prosperity spreads.

The movement to a tight labor market entails some inflationary pressures which are, from the point of view of the war against poverty, highly desirable. The heads of some 30 per cent of the families living in poverty are employed full time. Obviously the main path by which they can move out of poverty is by increased income from their job -- which requires either changing jobs or higher wages. The evidence indicates that during periods of tight labor markets, low wages tend to rise more rapidly than high wages and that during periods of labor market slack high wages gain on low wages. Tight full employment will change relative wages in the right direction. However, given the existence of decentralized collective bargaining, the best we can expect is for wages to rise with productivity and prices to remain constant in the high wage industries. Therefore, in the low wage industries wages will rise more rapidly than productivity, and this will be accompanied by higher prices. A wage-price inflationary pressure which raises the relative wages of the present poor is hopefully inherent in our markets under tight full employment. Anyone committed to a successful war on poverty is also committed to the view that not all inflations are bad.

If labor market tightening does not change relative wages in favor of the low wage earners, then monetary and fiscal policy will have to be supplemented by an "incomes policy" designed to guide relative wages and prices in a direction consistent with policy objectives.

However, the fundamental truth behind the view that increases in demand may not absorb the unemployed, ~~is that~~ labor is not all alike -- the labor force is heterogeneous and viscose. If increases in aggregate demand result in increases in the demand for highly trained labor, ~~labor whose skills involve a long training period~~, then all that will happen, in the first instance, is a bidding up of the wages and salaries of these classes of workers. As production techniques do not allow for the substitution of a 20 year old high school dropout for an electrical engineer in a research and development ~~profit~~ project, changes in relative wages may not increase the demand for the present poor. Thus any effective program of increasing aggregate demand to eliminate poverty must be designed so that it has an immediate impact upon the ~~recent~~ poor. Potentially, the heterogeneity of the labor force is a real barrier to the generation of the right kind of tight labor markets.

The argument that a rise in aggregate demand will not increase employment, but that it will only increase wages and prices, is susceptible to experimental testing. All that is needed is to ease up on monetary conditions and cut taxes and see what happens. Although this is not the most efficient way to raise aggregate demand in order to eliminate poverty, appropriately designed spending programs are better, it is both quick and accepted. If too rapid an inflation results, the expansionary pressures can be eased. The only cost of such an experiment, if it fails, is a once and for all rise in the price level.

The need to protect the international stability of the dollar is the effective and operative barrier to monetary and fiscal expansion. First of all, the active use of monetary ease is ruled out by the need to keep both foreign and domestic "short term" balances in the New York money market. This banker role of the United States means that interest rates in New York must be high enough so that a "covered" move abroad of short term funds is not profitable. Therefore United States interest rates must be kept in contact with those in the more buoyant European economies. Secondly, the need to constrain the deficit in the balance of payments rules ~~set~~ out too rapid a rise in United States G.N.P. A $700 billion rather than a $660 billion G.N.P. would mean from $1.5 to $2.0 billion more in imports. In addition, the move from slack to tight labor markets should result in a rise in the price of products made with low wage labor. Such a price increase will tend to increase imports and decrease exports. That is, a move to tight labor markets will increase the balance of payments deficit. A large deficit in the current situation can trigger a flight from the dollar.

To a considerable extent, even since 1958, the needs of the dollar standard have acted as constraints upon expanding domestic income. Tight labor markets are not attainable because of the peculiar bind that the dollar is in internationally. It is apparently quite appropriate to allude to William Jennings Bryan and assert that, in part, the cross that the American poor bear is made of gold.

The elimination of the barrier to expanding aggregate demand, due to the international monetary system is simple: get rid of the gold standard. If for some subtle reasons, understood only to bankers, the State Department and the Treasury, we cannot do this, then we can buy economic breathing room by raising the price of gold. Of course raising the price of gold subsidizes two vicious regimes -- that of the Soviet Union and South Africa -- but at least it will enable us to get on with the task of achieving a tight full employment economy and ending poverty in America.

In our past -- the first New Deal -- we have the instruments to fight poverty. W.P.A. and its associated N.Y.A. and C.C.C. took workers as they were and generated jobs for them. The ressurection of W.P.A. and its allied projects should be a major weapon in the war on poverty.

W.P.A. was a labor intensive approach to unemployment and it tailor-made its projects to fit the capabilities of the available labor. W.P.A. must be contrasted with the standard public works programs, favored by Trade Unions and their allied contractors as a solution to unemployment problems. Programs of expanding standard public works are inefficient in the war against poverty, for it means providing jobs for already affluent workers.

Work should be made available for all able and willing to work at the national minimum wage. This is a wage support law, analogous to the price supports for agricultural products, and it replaces the minimum wage law. Once work is available to all at the minimum wage, the problems of "covered" and "uncovered" occupations are eliminated.

To qualify for employment at ~~their~~ these terms, all that would be required would be to register at the local U.S.E.S. Part time and seasonal work should be available at these terms: this will be a special boom to low income farmers and farm workers.

National government agencies, as well as local and state agencies would be eligible to obtain this labor. They would bid for labor by submitting their projects, and a local "evaluation" board would determine priorities among projects.

This scheme generates "artificially" tight labor markets. It should under present circumstances ~~out~~ cost some $10 to $12.5 billion -- and expand G.N.P. by some $20 to $35 billion above the $660 forecast.

Once the tight labor markets have been created by having labor demand accommodate to labor supply, standard monetary and fiscal expansionary measures will generate excess demand for some particular type of labor. This will signal where retraining and relocation efforts are needed.

Initially the wage support level should be fixed at the present minimum wage -- which yields an income below the poverty line as now defined. However, it is necessary to make the present minimum wage effective before we improve it. However tight labor markets imply that low wages rise relative to high wages, thus as time goes by the wage support law should be raised from its present approximately 40 per cent to approximately 60 per cent of the median wage.

Such a ~~raise~~ rise in low wages relative to high wages will tend to force up the prices of the products that the low wage workers produce. It becomes a matter of economic policy whether or not we want the price of these products increased. For example, hospital orderlies and attendants are low wage workers, it is desirable that their incomes should rise relative to those of high wage workers. But it does not follow that it is desirable that hospital prices be raised along with hospital costs.

Programs of wage supplement for particular classes of workers could be part of the arsenal of weapons in a campaign against poverty that uses tight labor markets as the principal weapon in the war.

To conclude, the way to end the biggest chunk of poverty is to generate jobs at adequate income for the people now living in poverty. Although improvements in welfare and educational programs would help, many of these programs bear their fruit only after a long delay, and the fundamental problem is how to end poverty for the present poor. The basic approach is straight forward -- accept the poor as they are and tailor make jobs to fit their capabilities. After this is done, programs to improve the capabilities of low income workers are in order.