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Poverty and Unemployment

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MASTER

Divide problem ^{of poverty} into two parts:

- 1) The poverty that is due to the imperfect functioning of our economy, given our current social and political preferences inherited - capitalist structure
- 2) the poverty that would remain even if our economy functioned well, assuming the social + political preferences are static

Poverty & ideas about what to do about poverty

- of problem of poverty
- 1) Problem of allocating inputs + distributing income to maximize capacity
 - 2) Problem of social minimum
 - 3) Problem of vicious circles social barriers to growth
 - 4) Problem 1 - the idea

POVERTY AND UNEMPLOYMENT IN THE UNITED STATES: 1964

by

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Cannot define poverty without defining two items:

- 1) the social minimum
- 2) the maximum variation ^{ways} in income distribution that is needed to generate economic efficiency \rightarrow minimum social cost

The social minimum: ^{physical} the standard of life that is guaranteed for all & is independent of incentives to "minimize"

The minimum social cost is

the level of labor share, G.N.P. + with variation needed for efficiency

[wage] as embodiment part investment in human + human cost due to lack of or surplus

January 1964

POVERTY AND UNEMPLOYMENT IN THE UNITED STATES: 1964

The persistence of poverty in the midst of a truly overwhelming ability to produce is the fundamental economic problem in the United States. The crying need is to adopt economic policies that will end poverty in America. Our national problem is to develop a modern program that will achieve this goal. In many ways the abolition of poverty is a trivial problem in the 1960s, as we have the needed productive capacity and tools of economic policy. What is lacking is the political will. The purpose of our volunteer political activity should be to generate that will.

Poverty in America has two faces: low private incomes for one-fifth of the Nation and the low quality of our public environment which impoverishes all. These two faces of poverty should be attacked simultaneously: those measures taken to raise the private income of the one-fifth of the population living in poverty should improve the quality of life for all. Aside →

Unemployment is one source of poverty. Unemployment and poverty aggravate the cross we all bear, discrimination. In the absence of a strong attack on poverty and unemployment the drive for equal job opportunities will be a failure. Any integration achieved in the absence of full employment will only result in a sharing of poverty and unemployment. In addition, as a practical problem, we must recognize that the resistance to equal employment opportunities depends upon the extent of unemployment: in a fully employed economy the resistance will be smaller.

The most important requirement for progress in civil rights is a tight labor market. If there were unfilled job vacancies, rather than the

situation of workers with a wide variety of skills looking for jobs, there would be more rapid progress in eliminating job discrimination. The classic definition of full employment is "more job vacancies than unemployed workers". The present 5.5% of the labor force unemployed, the hoped for 5% unemployed as a result of the tax cut and the Administration's interim target of 4% unemployed are all far below true full employment. At a measured unemployment rate of around 2% we would achieve reasonably full employment in the sense that vacancies would approximate unemployment. The policy objective should be to achieve a 2% unemployment rate and to maintain unemployment at that level once it is achieved. Such tight labor markets will not only aid in achieving equal employment job opportunities, but they will go far toward eliminating poverty.

Much muddying of water has taken place in regard to economic problems and the economic objectives that ought to be pursued. Automation is not an insurmountable problem, and it is not the explanation for the unemployment we have. Economic growth is a false objective of economic policy. There is no need to take special actions to raise the rate of growth of the American economy once full employment has been achieved.

"Fiscal policy" of the Federal government is the most important tool in achieving our urgent policy objectives, the elimination of poverty and its corollary unemployment. Fiscal policy consists of two programs: a governmental spending program and a government tax program. Each has two dimensions: how much and of what kind. In order to use fiscal policy as part of a program to eliminate poverty and unemployment we cannot neglect either dimension. We must be concerned with what kind as well as how much.

Final demand can be divided into three major kinds: private consumption demand, private investment demand and government demand. Private

consumption demand depends upon the size and distribution of private disposable incomes; private investment demand depends upon total demand as well as business profits; and government demand depends on the size and type of programs adopted by the government. The number and kind of jobs available depends upon the distribution of final output demand among the different types of output as well as the production techniques that are used. If government final demand is weighted toward sophisticated defense and space goods and services a different type of labor requirement will be generated than if government final demand is heavily weighted toward housing, parks and hospital services. Also tax policy decides not only how much is collected but from whom. Tax laws that benefit recipients of large incomes will create different final consumption demand than tax policies that benefit low income recipients.

The fundamental step that has to be taken is to generate a large enough and appropriate kind of demand for labor. This can be done by generating the right kind of final demand by the government and the right distribution of the tax burden. Reform of the tax laws to eliminate almost all federal excise taxes and to raise the per person exemption on the personal income tax to \$1000 per person would be important steps in the right direction. I will discuss the right kind of final demand by government after examining growth and automation as economic policy issues.

When our economy functions well it grows, in the sense that output per man hour as well as total output increases. Economic growth is the result of two factors: the increase in the quantity of labor and capital used in production and an improvement in the quality of labor and capital used. Improvements in the quality of labor and capital are the result of technological prog-

ress and increased education. Technological dynamism and ever increasing educational attainments are facts of American life due mainly to our institutions and ideals. These qualitative changes have accounted for most of the economic growth that has taken place and we can expect them to generate most of the growth that will take place in the future.

On the basis of a false analogy between our rich economy and undeveloped economies, tax policies have been adopted which are designed to increase the rate of saving and investment. The avowed purpose of these changes is to increase the rate of growth. These tax changes not only are repressive, based as they are upon what Arthur Hoppe has called "a trickle down upon them" approach to poverty and unemployment, but by increasing saving at the expense of consumption they have decreased long run investment incentives. These tax changes have made the attainment and maintenance of full employment more difficult. These policies designed to stimulate growth in the longer run will actually retard growth.

Our concern should not be primarily with growth, even though it will occur if we maintain full employment. Growth is a fringe benefit from a full employment policy. Our economy now can produce all the commodities and services needed, not only to maintain current standards of consumption for the affluent but also to raise the present poor to affluence. There is no need to aid and abet the growth of ^{our capacity to produce} ~~output of~~ agricultural or manufactured products by tax stimuli; our problem is to produce as much as we now ^{are capable of producing} ~~can~~ and make sure that this output is used to eliminate poverty and enrich the environment for all. Our productive capacity -- or full employment income -- is at least \$50 billion greater than the estimated \$585 billion expected ^{in 1963.} ~~this year.~~ The production and use of this wasted income would go far toward removing poverty

in the United States. There is no need to wait for a golden age of disarmament; we can end poverty and maintain our present commitment to defense and space spending.

Automation or technological change is another false economic policy issue. Unemployment and poverty are not explained by automation. Technological change is nothing new. Automation is just a particular type of technological change and as such it is just another step, perhaps a larger one, in the process that has seen output per man hour rise ever since the industrial revolution began. Of course the Pollyanna view that automation creates jobs is wrong. Automation destroys jobs, that is its virtue. It is a virtue for, by eliminating jobs in the production of what we now use, it frees labor for those tasks we are now neglecting.

Automation does generate two problems. The displaced worker may not be suitable for any alternative available employment at wages equivalent to those he had been earning. The rise in potential output due to automation means that positive fiscal policy must be used continually to generate further increases in total demand: tax and spending programs for full employment must be revised as full employment output grows.

Technical progress or automation is a social process and is encouraged by the government. In a full employment world it is highly desirable, as it frees workers for new tasks and this can enrich all our lives. However in the past and even today, the displaced worker has paid the price of change. As his skill and job are made redundant by technological progress, the affected workers standard of life drops even as all other standards of life improve. There is no excuse in an affluent economy for the costs associated with technical progress to be borne by a few. A revision of our Social Security

and unemployment insurance concepts are needed which recognize the property rights of the worker in his job. In a full employment economy, the losses of a worker by automation consists of the sum of the present value of the difference between his expected income in the old job and in the new job as well as the transportation and retraining costs associated with shifting jobs. These costs now carried by individual workers are properly costs that society as a whole should carry. Technological change is equivalent to a lottery or a game of Russian Roulette in which there is a substantial net gain to most players but crippling losses to a relatively few. A great need is to provide effective insurance against losses due to technological change. This can be done by modernizing and revising unemployment insurance and the Social Security system to provide lump sum compensation for permanent income losses as well as retraining and moving expenses to unemployed workers.

The fact that technological change or automation increases productive capacity means that the full employment level of income is always rising. For full employment to be maintained, final demand must rise along with productive capacity. This means that over time government spending, as well as the ratio of disposable income of consumers to G. N. P. must be adjusted to the new productive capacity. In addition to the initial change in government spending and taxing schedules needed to achieve full employment, after we achieve full employment, if it is to be maintained, each year fiscal policies must be adjusted to meet final government and consumption demand are raised.

The "understandings" to limit spending imposed by Congress and accepted by the Administration in exchange for an utterly inadequate tax cut are based upon a total misunderstanding of the nature of a dynamic economy. The government program that is adequate for full employment today is inadequate

tomorrow. Every day technical dynamism makes larger government and private demand necessary if we are fully to use our ability to produce.

Unemployment can be divided into the chronic and transitional. With programs of lump sum payments, training allowances and transportation allowances for those displaced by technological change, provision is made for socializing the cost of the transitional unemployment. Chronic unemployment is due to an insufficiency of total demand.

The elimination of chronic unemployment will do much to eliminate poverty, as in tight labor markets lower wages rise faster than higher wages. Hence the relative well being of the poor will be improved as full employment is achieved and maintained.

Chronic unemployment exists side by side with unmet public needs. The obvious approach to this problem is to finance programs that will meet these public needs and in meeting these needs put the unemployed to work. A very simple and obvious solution is to adapt what has been done in agricultural policy to our unemployment problem: that is transform the minimum wage law into a wage support law in which every worker willing and able to work is guaranteed a job on a useful project at least at the national minimum wage with some allowances for skill differentials. The useful projects are to be generated and managed by state and local governments although national agencies such as the National Park Service should also participate in creating programs. This, of course, is a permanent W. P. A., however, as it is not an emergency program, the projects undertaken can be more substantial than those undertaken in the 1930's. It is based upon the proposition that unemployed labor is not only a waste of vital resources but also is an affront to the dignity of the unemployed. It is up to state and local government to make sure that the

projects are useful and important. By freeing local jurisdictions of some of their budgetary constraints, work can be started on the vast inventory of programs that would enrich all our lives.

A wage support law will eliminate all the fuss about covered and uncovered unemployment which now plagues each attempt to improve wage standards. Obviously no labor would be available at less than the wage support level; at one stroke the service industries with substandard wages would be forced up to the minimum wage standard.

Such a program should be part of a national "incomes" policy. We have much too great a differential between our lowest paid and our highest paid workers. A full employment policy and a wage support program will tend to decrease this differential. At present the national minimum wage is less than half of the average hourly wage in manufacturing. The national wage support level should be tied to the average wage in manufacturing, and over time the wage support level should rise from 50 % to 75% of the average hourly wage in manufacturing.

For every billion dollars spent on such a wage support program, it is estimated that some 322,000 jobs will be created. In addition a rise of about \$2 billion in gross national product will take place, and a rise of 220 million in Federal tax resource will occur. Of the approximately 3.5 million unemployed some 1.5 million reflect transitional unemployment and 2 million represent a deficiency of demand for labor. A \$7 billion program, which would cost about \$5.5 billion net per year, would eliminate chronic unemployment. *

*These estimates are based upon the Michigan forecasting model which has been successful in forecasting United States Gross National Product. For an exposition of this model see D. B. Suits "Forecasting and Analysis with an Economic Model" American Economic Review March 1962 pp. 104-132.

Although a wage support law is both necessary and desirable almost any program by which the Federal Government supports state and local spending on labor intensive projects at the net rate of some \$5.5 to \$6.6 billion per year now would eliminate the chronic unemployment that now exists. And of course the useful projects undertaken would go far toward improving the public environment.

A fallacious proposition that is receiving widespread support is that in the future there will be demand only for highly trained and sophisticated labor. This is not true and is based upon an extrapolation of what has been taking place in the last decade. In this decade there has been a tight labor market for highly trained workers, technicians and professionals. In part this is due to changes in production techniques (even though automation generates more simple jobs than highly skilled jobs) but it is also due to the change in the composition of final demand, in particular the rapid rate of growth of Federal expenditures on research and development. Research and development expenditures or obligations by the Federal Government rose from \$2.7 billion in fiscal '54 to an estimated \$14.5 billion of obligations in 1963: Research and development spending has grown at a rate of more than 20% per year. (During the same nine year period total Federal expenditures grew at about 3.5% per year.)

This \$14.5 billion spent on research and development generates initial demand for highly sophisticated professional and technical labor, and even the secondary demand generated by these projects is for highly skilled professional and technical labor. The present shortage of skilled scientific, technical and professional workers is a result of these rapidly growing government programs.

More than sixty per cent of the government research and development expenditure is carried out by profit organizations: we have effectively created a socialized, welfare state for some very affluent organizations. We have to add to the present existing "welfare state for the affluent" some effective programs to end poverty.

A wage support law will generate demand for labor over a broad spectrum of jobs, with special emphasis upon the less well trained. As such it will complement the demand for labor being generated by this present emphasis upon research and development and the final demands for labor will be better fitted into the available supply of labor.

The United States persists in thinking poor. Ex-presidents and pundits persist in opposing spending; "the spenders" has become a political epithet. But the fact of American life is not too much spending, rather it is a fantastic waste of goods and services that we are not producing and labor resources we are not using. The persistence of poverty in the midst of potential plenty is reason enough for the adoption of a program of job guarantees for all; a program that will go far toward erasing both private and public poverty.