

THE CAUSES AND CURES FOR UNEMPLOYMENT

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SECTION I

"AGGREGATE DEMAND" VS. "STRUCTURAL" UNEMPLOYMENT

Introduction

After World War II there was a great fear of large-scale unemployment, such as that prior to the war. It was for this reason that the Employment Act of 1946 was passed. The federal government promised monetary and fiscal policies which would encourage full employment. But after the war, pent-up demand in the form of consumer purchasing power and government spending for foreign aid and defense caused inflation and full employment up to the late 1940's. Before and after the Korean War, there were minor recessions, but they did not last long. Following the 1953-1954 recession, the economy had relative prosperity and price stability.

During the period 1946 to 1955 there were spells of unemployment, such as in 1949 and in 1954, but they were not severe and could not be taken seriously, considering the country's relative prosperity. The unemployment problem seemed to be severe only for those who were affected by it. In the first decade after World War II, the major problem for policy makers seemed to be "creeping inflation" and how to cope with it.

However, in 1957, conditions changed. Unemployment started up from the average of 4.2% for the 1947-1957 post-war

decade. The growth of the Gross National Product declined, and prices stabilized. In 1958 unemployment went up to 6.8%, and stayed above 5.5% until 1964.¹ Because of rising unemployment, two programs were instituted: the Temporary Unemployment Compensation Act of 1958; and the Temporary Extended Unemployment Compensation Act of 1961. These two acts were a start to help rectify the hardships of unemployment, but more basic measures were needed. This was the start of the concern over "creeping unemployment" rather than "creeping inflation."

Economists had two different explanations for the increasing rates of unemployment; one emphasized a lack of aggregate demand while the other emphasized increased structural unemployment. It should be stressed that these two forms of unemployment are not mutually exclusive. Probably, they are both responsible in varying degrees for the unemployment in the American economy during this period. In 1961, the Joint Economic Committee held hearings to determine what were the causes of the increased unemployment. These hearings stimulated debate among economists as to the cause of increased unemployment. As background information for the Joint Economic Committee hearings, James W. Knowles and Edward D. Kalacheck presented a committee staff paper arguing that a lack of aggregate demand was the

¹1969 Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1969), p. 255.

major cause for the increase in unemployment.² This paper is considered a definitive work on the topic of "aggregate demand" unemployment. It also served as the catalyst for economists to present their views before the Joint Economic Committee, and will be discussed here to show the position of the "inadequate demand" argument.

The points made in papers by Eleanor Gilpatrick, Harold Demsetz, and C. C. Killingsworth will be discussed here to show the position of the structuralist argument.^{3,4,5} Killingsworth is the most noted proponent of the "Structuralist" position.

According to the proponents of inadequate demand, a slow growth rate, relative to the average growth rate since 1920, has resulted in insufficient job creation for new workers entering the labor force. In any dynamic economy, all factors of production show increases; working population, the stock of capital, and the technical efficiency of production. However, if the aggregate demand for goods and services does not grow fast enough, then demand will be too small to provide employment for

²Subcommittee on Economic Statistics of the Joint Economic Committee, Higher Unemployment Rates, 1957-1960: Structural Transformation or Inadequate Demand (Washington, D.C.: U.S. Government Printing Office, 1961).

³Eleanor G. Gilpatrick, Structural Unemployment and Aggregate Demand (Baltimore: The Johns Hopkins Press, 1965).

⁴Harold Demsetz, "Structural Unemployment: A Reconsideration of the Evidence and the Theory," Journal of Law and Economics, 4 (October, 1961), 80-92.

⁵Arthur M. Ross, Employment Policy and the Labor Market (Berkeley: University of California Press, 1965), p. 241.

the incremental increases in the work force. Examples of this situation occur during recessions. Advocates of this cause of unemployment recommend that monetary and fiscal policies be used to stimulate aggregate demand.

The "structural transformation theory" discounts the lack of aggregate demand as a major cause of increased unemployment in the late 1950's and early 1960's. Instead the increased unemployment is attributed to the constant restructuring of the American economy. This "restructuring" may be due to technological innovation, large-scale shifts from manufacturing to service industries, or the regional effects of a change in demand. These factors result in a mismatch between workers and jobs. Special government programs will be necessary to combat structural unemployment.

The purpose of this paper is to review the literature concerning these two arguments, commenting on both of them, and recommending policies which can be used to combat "structural" and "inadequate demand" unemployment.

Types of Unemployment

Disagreement over the causes of unemployment existed for many years, partly because of the lack of proper definitions for the various types of unemployment. Eleanor Gilpatrick's article, "On the Classification of Unemployment: A View of the

Structural-Inadequate Demand Debate," helps clarify the definitions issue.⁶

Full employment, according to Gilpatrick, is reached when the total labor force is utilized at stable price levels. This concept is complicated when it is broadened to include; imperfect markets, specialized labor and capital, lack of information, and a time lag in any adjustment process that does occur. It is this lack of instantaneous adjustment which results in the different types of unemployment; frictional, cyclical, growth-gap, and structural.

Frictional unemployment involves voluntary unemployment, irregular unemployment, seasonal unemployment, and business turnover. It has been argued by some that the frictional level of unemployment is independent of the level of demand. Some research has indicated that at high levels of aggregate demand frictional unemployment does decline, but at the cost of price instability. Cyclical unemployment refers to the short run lack of aggregate demand in a given business cycle. Growth gap unemployment refers to the long run gap at cyclical peaks, which is a function of the spread between the rate of change of the labor force and the rate of change of output. It should be noted most economists feel that both cyclical and growth gap unemployment can be cured by an increasing level of aggregate demand.

⁶Eleanor Gilpatrick, "On the Classification of Unemployment: A View of the Structural-Inadequate Demand Debate," Industrial and Labor Relations Review, XIX (January, 1966), 201-222.

A comparison of "inadequate demand" to "structural" unemployment

Structural unemployment occurs due to such factors as the changes in location of industries, technological innovation, and the shift from manufacturing to service industries. For the discussion of "aggregate demand" versus "structure" unemployment it is important not to confuse the various compositions of frictional and structural unemployment, which we have outlined.

In 1961, the Joint Economic Committee held hearings to determine the cause of unemployment for the previous four years. The hearings concluded that the principal cause was a lack of aggregate demand for the economy. Previously in the 1961 Economic Report of the President, the Council of Economic Advisors came to the same conclusion.⁷ Various types of "full employment" gap analysis were presented to show each American family lost about \$500 in income due to the unemployment in 1960. Arthur Okun estimates that up to \$200 billion was lost, given an assumed "full employment" economy of 4% unemployment from 1958-1963.⁸

R. A. Gordon's study on structural unemployment was similar to the Council's in the method used.⁹ Gordon uses the

⁷1961 Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1961).

⁸Arthur M. Okun (ed.), The Battle Against Unemployment (New York: W. W. Norton & Co., Inc., 1965), p. 22.

⁹R. A. Gordon, "Has Structural Unemployment Worsened?" Industrial Relations, III (May, 1964), 53-77.

"common-sense" approach which states that increases in structural unemployment can be proved by determining a relative increase in the proportion of unemployment for a specific category of unemployed. Gordon concludes that there has been no increase in the rate of structural unemployment.

Gordon set up a formula $\frac{L_i}{L} = \frac{U_i}{U}$. Let U and L stand for unemployment and labor force, respectively, and let the subscript i represent a particular sector of the labor force when classified in a particular way. This formula says that the ratio of the unemployment rate in one sector to the over-all unemployment rate, weighted by that sector's fraction of the contribution to total labor force, is equal to that sector's total unemployment. Gordon then studies changes over time in the structure of unemployment for unweighted relative differential rates or the proportional contributions to total unemployment of the different sectors. Gordon divides the labor force into subgroups, which are then compared over periods of time. Categories for analysis include; youths, first job applicants, blue collar workers, long term unemployed, and those with varying degrees of education. Through these analysis, it is possible to seek out relative changes in unemployment rates for the various groups studied.

Gordon cites an example to show a possible increase in the relative importance of structural unemployment. In 1953 blue-collar workers accounted for about 56% of total unemployment, but for only 40% of the total work force. Thus; $\frac{U_i}{U} - \frac{L_i}{L} = .56 - .40 = .12$. With the definition given above, the relative

structural unemployment component of blue-collar unemployment declined rather than increased over the decade. Gordon used this method to determine relative changes in structural unemployment for the various categories previously mentioned.

Studies of the individual categories indicated that in the early 1960's youths began to incur an increased share of the unemployment rate.¹⁰ But prior to this time, there was no increase in the rate for all of the 1950's. One thesis of the structural unemployment argument states that blue-collar and semi-skilled workers have come to consist of a larger percentage of the total unemployed. This has not been the case.¹¹ Over a succession of business cycles since 1953, the national unemployment rate has shown a persistent rise, but the blue-collar percentage contribution to total unemployed has declined significantly. This trend continued through 1963. White-collar workers also had a relative decrease in the percentage contribution to total unemployment from 1948 to 1956. After that time white-collar workers in 1962 made up a significantly larger fraction of the total unemployment from 1948 to 1956, a year of approximately full employment.

One part of the structural unemployment thesis is upheld by Gordon's research. Unemployment rates for the poorly educated have risen relatively since 1950. However, if the undereducated group is divided in two classifications; 1-7 years of school

¹⁰Ibid., p. 59.

¹¹Ibid., p. 63.

and 8-12 years of school, it is found that unemployment rates for those with 8-12 years of schooling increased to a greater extent. However, since 1957, the relative importance of unemployment for these groups is not increasing to the degree that it was before. Any changes since 1957 have not really been too striking.

Gordon concludes from his study that there has not been a relative increase in the structural unemployment problem. However, in Richard G. Lipsey's analysis of Gordon's article the point is made that, while the figures are interesting, they do not conclusively establish Gordon's conclusion that structural unemployment has not risen, or that the major cause of increased unemployment is a lack of aggregate demand. "It would, indeed, be surprising if so involved a controversy as the one concerning 'structural' versus 'deficient-demand' theories could be settled by such a simple calculation without any theoretical work to derive predictions. Unfortunately this cannot be done."¹²

Another very important study, with conclusions similar to Gordon's, was carried out by two staff members for the Joint Economic Committee, James W. Knowles and Edward D. Kalacheck. Their study involved a rather comprehensive evaluation of structural unemployment, although there was very little comparison of "structural" unemployment to "aggregate-demand" unemployment. The study paper concludes;

¹²Ross, p. 241.

The evidence adverse to the structural transformation theory confirms the contentions of the aggregate demand theory. Indications of inadequate demand are present in a host of economic time series. Real gross national product increased at a considerably slower rate in 1957-1960 than in 1948-1957, though the growth of productive capacity did not slow, and in fact probably accelerated. The low level of nonfarm job openings and of the help-wanted index in 1959-1960 testify to the inadequate availability of jobs. Unemployment rose among workers attached to every occupational and industrial group. The rise in unemployment was particularly sharp among inexperienced workers, the group subject to the fewest wage and mobility constraints. The absence of any unusual concentration of unemployment in 1957-1960, studies of interindustry mobility, and the high level of geographic mobility shown by the Census survey--all of these factors indicate that if an adequate number of jobs had been available, workers would have sought them out, regardless of their geographic or industrial concentration.¹³

One of the major criticisms made of the Knowles and Kalacheck study is their method of trying to prove the causes for the large jump in unemployment in 1957-1958. This they did by evaluating the "structural transformation hypothesis," but not the "aggregate-demand hypothesis."

Comparisons were made for the 1920's and the 1950's. This was done since it was assumed these periods were similar periods of prosperity. During the 1930's and the 1940's a depression and a war made comparisons difficult. However, Lipsey feels that the "relevant comparison is between structural factors in the period 1958-1960 and the immediate preceding period. Unfortunately, at many critical points the report lapses into comparisons with the 1920's. Such comparisons are completely irrelevant and, should there have been considerable structural

¹³ Subcommittee on Economic Statistics, p. 79.

unemployment in the 1920's, the comparisons could be downright misleading."¹⁴

There are several other factors which have not been considered. Lowell E. Gallaway discusses the possibility that the labor market in the United States is failing to perform its role as an allocator of resources. This may come about in two different ways; (1) a failure of the labor market to adjust the general price of labor relative to other factor prices so as to clear the market of labor, or (2) an inability on the part of the labor market to shift workers from one sector of the labor market to another.¹⁵

While Gallaway concludes that the "structural" argument is not applicable to the unemployment problem of the late 1950's, he does feel that there has been a breakdown in the market's ability to allocate resources. This conclusion should be clarified. The labor market can be an efficient allocator of labor between regional sectors of the labor market. For any given geographic region with chronically depressed industries, there seems to be a reduction in the "in migration," while at the same time "out migration" continues on at the normal rate. The net effect is a labor "out-migration" from the areas of chronically depressed industries.

¹⁴Ross, p. 236.

¹⁵Lowell E. Gallaway, "Labor Mobility, Resource Allocation, and Structural Unemployment," American Economic Review, LIII (September, 1963), 694.

However, Gallaway is not as optimistic concerning the ability of workers to move between different labor markets. Educational barriers to jobs cause a great reduction in the mobility of workers into the growing segments of our economy. This may be due to the long lag time needed to educate people for highly technical or professional jobs. Another reason for hampered mobility is that unions cause a severe block. Due to their monopoly power over the labor source, it is possible to drive up wages at little cost to union employment.

. . . unions practice restriction in the labor market in order to protect their wage gains, and as a result the level of employment is reduced in the union sector. The impact of this is to shift workers from the union to the nonunion sector with a resultant depression of nonunion wage rates. Since the four sectors which have benefited most from the increasing dispersion of industrial wage rates over the period 1948-1960 represent the strongest centers of unionism in the United States, while the two sectors which have suffered such sizable relative losses are among the least unionized in the economy, the evidence developed by our testing procedure strongly supports this traditional theoretical argument.¹⁶

Most of the arguments for the "aggregate demand" thesis have not questioned the "aggregate demand" thesis. Instead, they have attacked the "structural" unemployment thesis. An example of this would be Knowles and Kalacheck's study for the Joint Economic Committee.

It is interesting to note that of the seventy pages devoted to the designing and carrying out of tests between structuralist and deficient demand theories, sixty nine and a half are devoted to the structural transformation hypothesis and only half of one page to the deficient-demand

¹⁶Ibid., p. 714.

hypothesis. The authors seem to reject the tenet that empirical observation should be used to compare two theories and tell which of the two comes closer to the observed facts.¹⁷

"Structural" unemployment

A major proponent of the structuralist argument is Dr. Charles C. Killingsworth.¹⁸ Over the three business cycles after World War II, the average rate of unemployment gradually crept up; in the 1948-1953 cycle the unemployment rate averaged 4.2%, during the 1953-1957 cycle unemployment averaged 4.4%, and for the 1957-1960 cycle unemployment increased dramatically to 5.9%. The Council of Economic Advisors stated that this was due to the lagging growth rate in the American economy. However, Killingsworth feels that this is only part of the reason. Automation causes the labor market to become unbalanced through "twists" in the patterns of demand. Skilled workers came into greater demand, even though the average unemployment rate for all groups increased. During the 1950's there was a rapid rise in employment for various industries, such as education and medical services. Generally this is referred to as a shift from the manufacturing to the service sector.

A comparison of workers' education indicates that greater emphasis is being put on education as a job requirement. This "education" could also be expanded to include the highly skilled journeymen positions requiring extensive training.

¹⁷Ross, p. 234.

¹⁸Ibid., p. 242.

Killingsworth presents figures for unemployment and education in April 1950 and March 1962. These figures are;¹⁹

<u>Total years of school completed</u>	<u>Unemployment Rates</u>		<u>Percentage Change</u>
	<u>1950</u>	<u>1962</u>	<u>1950 to 1962</u>
0 to 7	8.4	9.7	+ 9.5
8	6.6	7.5	+13.6
9 to 11	6.9	7.8	+13.8
12	4.6	4.8	+ 4.3
13 to 15	4.1	4.0	- 2.4
16 or more	2.2	1.4	-36.4

The most important figure to observe is the large decrease in unemployment for college graduates. This had resulted in a greater labor market "twist" in demand for labor than the change in supply. This argument is similar to the findings of Gallaway, previously discussed. Demand is pulling in people at the top, while squeezing the poorly educated workers out at the bottom.

The problem of the poorly educated workers may be even worse than these figures indicate. Due to the lack of jobs, many of the poorly educated are permanently leaving the work force since they have become frustrated. As for policy recommendations, Killingsworth agreed with the "aggregate-demand" theorists in the early 1960's that a tax cut could help to reduce unemployment, but not to the 4% level predicted by the Council of Economic Advisers.

¹⁹Hearings Before the Subcommittee on Employment and Manpower of the Committee on Labor and Public Welfare, U.S. Senate, 88th Congress, The Nation's Manpower Revolution (Washington: U.S. Government Printing Office, 1963), p. 1476.

Employment for the poorly educated is not as responsive to demand as that for the highly educated. The result will be a growing "reserve army" of unemployed among these poorly educated. Killingsworth concludes that bottlenecks will develop far above the 4% level predicted by the Council of Economic Advisers. The result will be unwanted inflation.

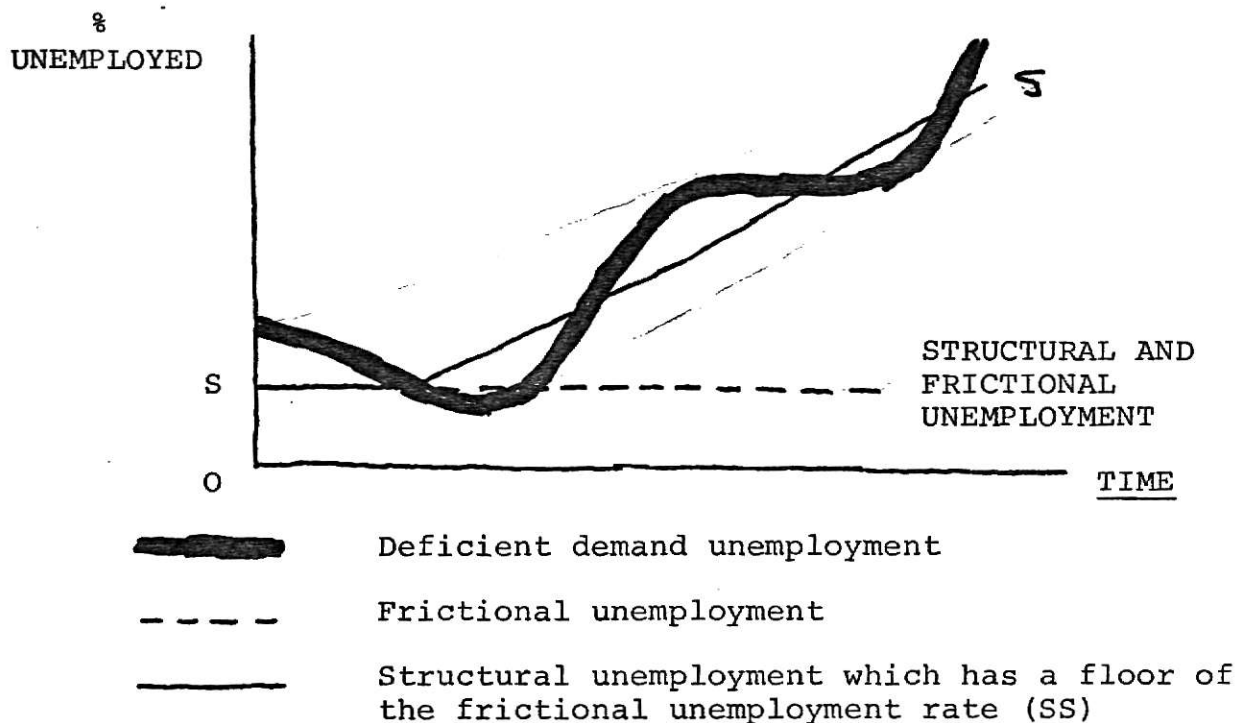
It is for these reasons that Killingsworth feels investment in plant and equipment, without a corresponding increase in the investment in people, will create a rising surplus of unemployed, poorly educated, workers. Some sort of training will be necessary to properly qualify the poorly educated for jobs. In 1962, the Manpower Development and Training Act, the first such training program, was passed to help reduce the problem of uneducated and untrained workers.

For a summary of Killingsworth's argument, the main point is that any increase in demand will come up against bottlenecks due to severe shortages of workers in key positions. Lack of enough educated workers may cause difficulty in bringing down high unemployment rates, without an unacceptable level of price instability. A study of previous unemployment rates, as compared to degrees of price inflation in this country, will indicate the problem.²⁰ This trade-off problem has been referred to as the "Phillips Curve."

Richard G. Lipsey presents an analysis of the structural

²⁰Please refer to the chart on page 90 indicating the wage-unemployment relationship in the United States, 1954-1968.

argument in graphical form.²¹ Lipsey assumes that there is a floor and a ceiling on growth in the business cycle. The level of unemployment is divided into two parts; structural and frictional. In a period of inflation and high levels of aggregate demand, need for skilled workers increases. However, there is a limited supply of such workers, and bottlenecks can be expected to occur. At high levels of aggregate demand, only a limited amount of unskilled workers will be hired since additional skilled workers are unavailable. It is the contention of Lipsey that this tendency towards structural unemployment is increasing. Even if the level of aggregate demand remains relatively constant, structural unemployment will increase. The relative degree of its increase over the short run depends on the level



²¹Ross, p. 245.

of aggregate demand. However, over the longer run, the trend of structural unemployment is up.

Killingsworth argues that structural maladjustments raise the floor for unemployment. This floor is not an absolute minimum, since during periods of heavy inflation, structural unemployment rises, and each successive boom encounters heavy inflationary pressures at higher overall levels of unemployment. Again unemployment will not fall as low as in previous booms, because increments in demand will dissipate themselves, mainly in price increases, sooner than in previous booms. This mechanism should be sufficient to ensure that the minimum level of unemployment will rise from boom to boom as SS rises.²²

Deficient demand unemployment can lie above, or below, the structural unemployment level, depending on the economic conditions at the time. However, it is difficult to differentiate between the two. Whenever aggregate demand falls, the same groups are unemployed as would be the case if they were subject to structural unemployment. There could be a combination of the two in any degree, depending on economic conditions. It is here that the tests proposed by various authors are used to try to differentiate causes of the increased unemployment.

Lipsey concludes that the theories which "predict that there is at present some higher level of structural unemployment plus some deficient-demand unemployment are the most serious

²²Ibid., pp. 245-246.

contenders theoretically and the most difficult to test empirically. . . . the problem of testing between two sets of theories seems to be more difficult than has sometimes been thought."²³

Although it is very difficult to prove that there has been an increase in the level of structural unemployment in the United States, there are different rates of unemployment among various groups in our society; such as the poor, the Blacks, and those with lower levels of education. This seems to indicate that there is at least some type of unemployment of a structural nature. A combination of structural and aggregate-demand unemployment in various degrees seems to be the cause of unemployment.

It is this last hypothesis that Eleanor G. Gilpatrick follows in her book, Structural Unemployment and Aggregate Demand.²⁴ The two kinds of unemployment causes can reinforce each other or offset each other, depending on the particular combinations of overall level of economic activity. In addition, the unemployment categories themselves are not rigidly separated. There is interaction among structural, frictional, and "demand" unemployment.²⁵ If there were a program to train workers, it would be of little consequence if there was not a high enough level of aggregate demand to employ the retrained workers.

²³Ibid., p. 255.

²⁴Gilpatrick, Structural Unemployment and Aggregate Demand.

²⁵Ibid., p. 14.

Gilpatrick's study uses statistics up to 1965, so it is possible to evaluate some of the effects of the tax cut which was instituted to bolster aggregate demand. She concludes that there was evidence beginning in 1957 of an overall inadequacy in demand relative to labor-force and productivity growth. Structural changes with respect to technology, composition of output, and the location of industry reinforce these demand inadequacies.²⁶

Structural unemployment comes about in the long run due to the labor market "twists" that were discussed earlier. At the same time, there are indications that the new technological innovations have been strongly capital-saving. A conclusion of Gilpatrick's study is that there is an intimate connection between structural change and demand unemployment.²⁷

According to the structural thesis, the gradually increasing levels of unemployment are caused by shifts in technology that result in poorly educated workers losing their jobs, shifts in the composition of final demand from manufacturing industries to the service sector, and the relocation of industries with the resultant loss of jobs for those workers left behind. Dr. Gilpatrick evaluates these three reasons to determine the degrees of "structural" and "aggregate-demand" unemployment that are actually involved in each case.

A major problem with technological change is that the

²⁶Ibid., p. 216.

²⁷Ibid., p. 216.

poorly educated workers are the first to become unemployed. The rising and changing skill requirements make it difficult for them to retrain to maintain their jobs. For the same reason, they are the last to be rehired once they are laid off. The changing occupational content of employment and the direction of technological change has shifted skill requirements from those that can be learned on-the-job to those which require intensive formal training.²⁸ This requires increased educational levels to qualify for employment. In some cases, comprehensive training may be given to undereducated workers, but it should be stressed that this upgrades the work force for the benefit of the individual worker, not the firm doing the hiring. High turnover rates among blue-collar workers makes widespread training, on the part of management, seem doubtful. Private firms will train the worker to the extent necessary to profitably employ the worker. But this may not be at the highest level the worker is capable of attaining with the proper education. The net result of the lack of training on the part of management has been to make changes in the educational requirements which result in forcing those without them to face "structural" unemployment or to leave the work force in despair.

It is possible that an increased level of demand would not solve the unemployment problems created by technological changes. "In those industries where productivity continues to

²⁸Ibid., p. 154.

outpace output, workers will have to find sufficient and suitable jobs in industries where output outpaces productivity. Only government seems to have performed strongly as a consistent source of new employment."^{29,30}

Technological change, in the form of automation, shows signs of having provided conditions for a rise in structural unemployment and seems to have affected the level of overall demand through a reduction in unit capital requirements.³¹ These structural bottlenecks have resulted in a drag on demand. Since there is also evidence that the new technology is strongly capital-saving, a major conclusion is that there is an intimate connection between structural change and "demand" unemployment.³²

The growth of the American industrial economy to a level with more concentration on the service sector has resulted in poorly educated workers losing their jobs. Automation has reduced the need for unskilled jobs in the industrial sector of the economy, while it has not been easy for the unemployed to quickly change into different occupations in the service sector, even though there may have been low skill entry requirements. This can be an example of the ever-changing character of the U.S.

²⁹Ibid., p. 55.

³⁰Section III of this paper recommends the possible expansion of the government sector as an "employer of last resort."

³¹Gilpatrick, Structural Unemployment and Aggregate Demand, p. 58.

³²Ibid., p. 216.

economy.

The shift to the service sector has the effect of holding back demand. A study done at Cornell University concludes that the goods-to-services shift in employment cost average employee compensation in 1960 about \$75 in real wages, for a total output loss of about \$4 billion.³³ The value added in the form of wage costs is less in the service sector than in the manufacturing sector, as indicated by the wage rates for the unskilled and semi-skilled who are the likely candidates for unemployment. The industries which had declining employment between 1953 and 1960 had average earnings above the aggregate average. Examples could be coal mining or the railroads.

A third major cause of structural unemployment is due to the migration of industries out of a distressed area, and the resultant lack of jobs for the remaining workers. In recent decades this migration trend has accelerated, with movements generally from the North to the South or West. An example could be the textile industry, which is moving from the northern states to the South. Automation brings with it the demand to build entire new modern plants which can be in any location. The general tendency has been for the plants to move to new locations.

Plant migration is not the only reason for unemployment in a given geographical region. A decline in demand for a specific good can result in the loss of jobs. This can come about

³³Ibid., p. 62.

due to foreign competition, a change in consumer tastes, competitive market positions, or a reduction in raw materials for mining areas. The decline in employment in the Appalachian coal fields could be an example.

The net result of the three causes of structural unemployment has been to develop a "hard core" of unemployed, that no reasonable level of aggregate demand could employ. Methods to combat this problem involve increasing the basic education of the labor force, along with raising the standards of their usable work skills. Mobility programs may be necessary for workers to leave a region where there are no job opportunities for their skills.

Unemployment levels can be reduced without wages or prices being effected if the distribution and composition of the labor skills changes through increasing mobility or retraining. In other words, bottlenecks in labor skill supplies can create partial wage inflations; if these partial shortages are overcome, over-all wages need not rise and unemployment can be reduced. Wage and price changes need not always be related.³⁴

Conclusion

The various theoretical arguments for the "structuralists" and "aggregate-demand" hypothesis have been presented, along with conclusions as to the validity of each argument for given economic conditions. These two arguments have validity, but in varying degrees according to economic conditions. A high

³⁴Ibid., p. 209.

level of aggregate demand is needed, but structural problems become greater once unemployment rates fall close to 4%.

This information was put to good use when in 1964, with the Council of Economic Advisors' urging, a tax cut was passed which amounted to \$11 billion. There can be little doubt that the tax cut did have an impact on the unemployment rates. But even a year after the tax cut had been on the books, the unemployment rate had not reached the "interim rate" of 4%. "By the end of 1965, it should have been evident. . . . that the demand stimulus was not enough to reduce unemployment, without unacceptable inflationary consequences."³⁵

Further demand stimulus did occur when the escalation of the Vietnam War took place. Although this was not a conscious fiscal policy decision, it did lead to inevitable, though not planned, repercussions on the economy. Inflation rose to an unacceptable level. From 1965-1968 the consumer price index rose from 109.9 to 120.9, with a base of 100 in 1957-1959.³⁶

The failure of the unemployment rates to fall below 4% in 1965 did seem to substantiate the structuralists stand, at least in part. This means that the conclusion of more manpower training programs is perhaps the correct one, especially when there is a high level of aggregate demand. Programs to upgrade the education of the work force are needed to lower the levels of

³⁵Ibid., p. viii.

³⁶1969 Economic Report of the President, p. 280.

structural unemployment. Also mobility programs are necessary to eliminate high levels of unemployment in certain geographic regions. Government spending could be concentrated in a region of high unemployment to accomplish the same objective that mobility programs do. But retraining programs will be essential in the long run. The problem of discrimination is important also. The average income for a Negro with a high school education is less than that of a White dropout. Some form of anti-discrimination program will be necessary; involving both the government and private individuals and groups.

For a comprehensive manpower training program, Dr. Gilpatrick makes the rather standard recommendation that;

. . . a government supported training and retraining program large enough to accommodate 1% of the labor force annually be a permanent part of the federal manpower program. As long as the trend of automation continues, the composition of output goes on changing, and industry continues to relocate, the problem of labor displacement and skill blocks will continue.³⁷

The programs which can be used to decrease the level of unemployment will be discussed in the next section, with particular emphasis on an evaluation of their present effectiveness.

³⁷Gilpatrick, Structural Unemployment and Aggregate Demand, p. 221.

SECTION II

MANPOWER TRAINING PROGRAMS

The Philosophy of Government Training

Government manpower training programs have as one of their primary goals the improvement of the effectiveness with which the labor market performs its allocative function. This is a rather broad purpose for government training programs which can be divided into goals for the individual and goals for society.

For society these goals include;

1. The reduction of national unemployment rates and welfare payments.
2. The increase in skills and productivity to fill shortages, expand output, and combat inflationary pressures.
3. Reduce poverty and related social ills for the poor of this society. This is done by improving the job opportunities of disadvantaged groups.
4. Making it possible for each person to receive the optimal amount and kind of education, training, and health care.

For the individual this includes;

1. Reduction in the probability that he will be unemployed, and if he does become unemployed, that the period of unemployment will be of minimum duration.
2. Increase the individuals income by raising his skill level and productivity. This helps in making the distribution of income more equitable for the underprivileged.

For individuals to be trained, and the labor market's efficiency to be increased, it should be taken into consideration that at some stage in the business cycle enough jobs are created so that all who can handle them are employed. In 1969 the economy is in such a period, where in many parts of the country it is impossible to find people to fill jobs that are available. For the remaining people who can not obtain jobs, even though they are willing to work, there has to be some type of skill training. This may be no more than the simple preparation of an unskilled worker for a semi-skilled job through training under government or private auspices either on-the-job or in an institution.

In dealing with the "hard-core" unemployed, some type of literacy and motivational training also becomes necessary. This is especially important in the case of youths who have never held a job and who have grown up in disadvantaged areas. They need to learn the skills of reading, arithmetic, and even how to apply for a job.

General supportive services also may be needed for particular groups. Services that could be included in this category are not, and have not, been generally classified in the category of manpower training. As more programs deal with the "hard-core" unemployed, it has been noted that needs of this type should be included as part of the manpower programs. Examples could be cited such as day-care centers for children or medical manpower training programs for those with health problems. The

government manpower training programs have evolved into more than just providing training for a prospective member of the labor force.

All of the major government programs involving manpower training are listed below, but the major program has been the Manpower Development and Training Act. This program involves institutional training, on-the-job training, and experimental and demonstration projects. Although this Act is only one of several government programs to help in the retraining effort, it is one of the first established and the one with the best available data for the purposes of evaluation. Cost-benefit analysis has shown that the MDTA training programs have been profitable for society, even though some of the studies failed to take into consideration all the social benefits gained from the training programs.

The first MDTA training programs dealt mainly with reasonably well educated, but temporarily unemployed, workers who had a long history in the labor force. However, as employment levels rose, the quality of the trainees declined until now many of the manpower training programs can be classified as anti-poverty programs rather than solely retraining programs.

A distinction should be made between manpower training programs and anti-poverty programs. A manpower training program is designed for the upward mobility of all workers, regardless of their present employment status. This may include the "hard-core" unemployed, but is not exclusively for them. On the other hand, "anti-poverty" programs are solely for the "hard core"

unemployed, and generally involve more than just work-skills training such as in the manpower training programs.

The total manpower retraining effort by the federal government has been summarized on the following chart. Rather than discuss in detail all of the federally sponsored manpower programs, the chart below indicated a brief summary of the programs, the agency which runs them, the level of operation at the end of fiscal 1966, the 1967 appropriation, the services provided, the eligibility criteria, the state and local program administrators or contractors, and the various allowances provided, if any. Since the Manpower Development and Training Act is the oldest program, and has had the most written about it, this program will be reviewed in greater detail than the others in a later section. It should also be noted that the MDTA has been in existence long enough to show the evolution of federal manpower programs from the retraining of temporarily unemployed workers to the education and training of "hard-core" unemployables.

Below is the summary of federally supported manpower programs as they exist now.¹

¹Sar A. Levitan and Garth L. Mangum, Making Sense of Federal Manpower Policy (Detroit, Michigan: The Institute of Labor and Industrial Relations, 1967), pp. 10-11.

SUMMARY OF FEDERALLY-SUPPORTED MANPOWER PROGRAMS

Program	Agency	Level of Operation End of Fiscal 1966 (Thousands of people)	1967 Appropria- tions (Millions of \$)	Services Provided	Eligibility Criteria	Local and State Program Administrators or Contractors	Allowances
USES	USES Labor	439	306	Recruitment, counseling, testing, place- ment, employer services and limited labor market research	All workers, but the bulk are unemployed	State Employ- ment Security Agencies	None
Vocation- al Educa- tion (no home etc.)	OE, HEW	3,700	283	Vocational Ed.	State Determined	State Voca- tional Ed. Agencies	\$45 per month to needy youths 15-21
Vocation- al Reha- bilitation	VRA, HEW	296	313	Medical and psychiatric assistance, prosthetic devices, skill training, educa- tion and other services needed to enhance employability	Physically, mentally or socially handicapped	State Reha- bilitation Agencies	Allowances for train- ees in workshops are pro- vided by the Act

SUMMARY OF FEDERALLY-SUPPORTED MANPOWER PROGRAMS (Continued)

Program	Agency	Level of Operation End of Fiscal 1966 (Thousands of people)	1967 Appropria- tions (Millions of \$)	Services Provided	Eligibility Criteria	Local and State Program Administrators or Contractors	Allowances
MDTA Institu- tional training	USES, Labor, OE, HEW	77	421	Remedial and skill training; basic education	Mostly unem- ployed, but some upgrad- ing	Public Schools or skill cen- ters and private schools	Adult--\$10 ave. weekly unemployment benefits in state plus \$5 for each of 4 depen- dents youth--\$20 per week
OJT	Labor	27		Subsidies to employers to cover training costs	Same	Employers, state apprentice- ship, trade associations, unions, and nonprofit community agencies	None

SUMMARY OF FEDERALLY-SUPPORTED MANPOWER PROGRAMS (Continued)

Program	Agency	Level of Operation End of Fiscal 1966 (Thousands of people)	1967 Appropria- tions (Millions of \$)	Services Provided	Eligibility Criteria	Local and State Program Administrators or Contractors	Allowances
Experiment OMPER, and Labor Demonstra- tion	NA			Research and wide range of services	Same	Any public or nonprofit institution	Same as institu- tional
NYC In School Labor	NYC, Labor	82	325	Work experience	16-21 years of age and family income below poverty threshold	Same	\$1.25 per hour, Max. 15 hrs. per week
Out of School		46					Maximum 15 hrs. per week
Job Corps	Job Corps, OEO	28	211	Skill train- ing, con- servation work, and basic education	Same as NYC, but school dropout	Urban cen- ters-- private indus- try and education institutions Conservation centers--	\$30 per month plus indus-\$50 per month adjustment allowance, half of which can

SUMMARY OF FEDERALLY-SUPPORTED MANPOWER PROGRAMS (Continued)

Program	Agency	Level of Operation End of Fiscal 1966 (Thousands of people)	1967 Appropria- tions (Millions of \$)	Services Provided	Eligibility Criteria	Local and State Program Administrators or Contractors	Allowances
Job Corps (Continued)							
Work Experi- ence	Welfare Admin., HEW	58	100	Work experience, including limited sup- portive services and basic education	Public assistance recipients and other needy, in- cluding farm families with annual income of less than \$1200	Depts. of Interior and Ag. and state agencies	be allot- ted for family sup- port with matching by Job Corps
Other EOA Manpower	CAP-OEO	NA	143	Any service enhancing employability of the poor	Income below poverty threshold	Public, nonprofit or private organization	Basic needs as defined by state Determined by project

SUMMARY OF FEDERALLY-SUPPORTED MANPOWER PROGRAMS (Continued)

Program	Agency	Level of Operation End of Fiscal 1966 (Thousands of people)	1967 Appropria- tions (Millions of \$)	Services Provided	Eligibility Criteria	Local and State Program Administrators or Contractors	Allowances
Adult Basic Education	OE, HEW, CAP, OEO	202	30	Rudimentary education			None

The Manpower Development and Training Act

Early history of the Manpower Development and Training Act

In 1960 the United States was hit by the third post-Korean War recession. Combined with the increased unemployment rate of 6% was a slowdown in the growth rate. From 1947 to 1957 the growth rate was 3.8%, but it fell by a third to 2.9% for the next 8 years. Automation and technological change continued to cost many workers their jobs. The auto industry alone lost an estimated 130,000 jobs to automation from 1948-1958.² The economic recession, reduced growth rates, and automation caused concentrated unemployment not only in Appalachia, but in other areas of the country as well.

Proposals for government help to alleviate unemployment in specific areas were started in 1955 when Senator Douglas introduced the first area redevelopment bill. In 1961 the Area Redevelopment Act, now replaced by the Economic Redevelopment Act, was passed by a bipartisan majority. The publicity attending this act created a favorable climate for the passage of the Manpower Development and Training Act of 1962. Here again the legislation received bipartisan support. This political honeymoon continued until 1965, when at its peak the House voted 393 to 0 and the Senate 76 to 9 for renewal of the Act with

²Francis X. Gannon, "Men Out of Work," The Reference Shelf (April 28, 1961), pp. 121-124.

amendments.³

In 1961, 1962, or 1963 aggressive fiscal policies were not yet politically salable, but manpower programs were. Appeals that, for instance, manpower training would enable the unskilled to compete more effectively for the few existing jobs, or that it might be wise to tool up for possible future periods of labor shortage, would have attracted little support. Combining the carrot and the stick, the suggestion of an easy solution to unemployment through matching supposedly nearly equal numbers of unemployed and job vacancies, and the fears of automation gobbling up unskilled jobs and spawning only skilled ones, was highly effective. It was this approach that made the manpower programs politically possible.⁴

After 1965 the Act still had a great deal of support but not the great majorities of the past. On the other hand, there was no great commitment to the program on the part of Congress. Although each year the provisions were liberalized, there was not always more appropriations. This forced administrators to choose between increased quality of course content or allowing more people to be enrolled in them.

"Considering that the United States was the last developed

³Seymour L. Wolfbein, Education and Retraining for Full Employment (New York: Columbia University Press, 1967), p. 6.

⁴Garth L. Mangum, "The Emergence of a National Manpower Program," Toward A Manpower Policy, ed. Robert Aaron Gordon (New York: John Wiley & Sons, Inc., 1967), p. 19.

country in the Western world to adopt training and retraining as government policy, the distance we have come is remarkable indeed."⁵ As was mentioned, there are many government programs that provide manpower training. Each of these has had an impact on skill upgrading, but the most important one is the Manpower Development and Training Act, if for no other reason than that it is the largest and oldest training program.

Initially the MDTA was developed to apply to heads of households who were unemployed through no fault of their own. Only 5% of the training allowances were for those in the 19 to 21 age group.

If any one characteristic of the first years of MDTA could be made, it would be that of "creaming." The best people went into training programs and had excellent chances of job placement. In defense of this practice, it was natural to take the best trainees. There was also the requirement that there be a "reasonable probability of employment" upon graduation from the course. This caused state employment offices to refuse training for the most deprived workers and minority group members. In the first years only 10% of the trainees were over 45 years old; only 30% had less than a high school education; and 75% of all male trainees were heads of households vs. only 50% for the total unemployment rate.

Initially the Labor Department was the senior department

⁵Wolfbein, p. 6.

in the program due to its control over the budget and its greater interest in the bill. However, it by no means had sole say over the program.⁶ The Department of Housing, Education, and Welfare got the vocational education program and was not unknown to disagree with the Labor Department if some particularly important section of the program was up for review. The Bureau of Apprenticeship and Training, which was within the Department of Labor, had the on-the-job training segment of the bill, although it later lost it in 1967. The Bureau of Apprenticeship and Training and HEW would ally themselves against the Department of Labor, if need be.

Mangum made an analysis of the relationship of administrative control of the MDTA. He concluded that the structure of the program could lead to personal acrimony over the Labor Department's control over the Experiment and Demonstration funds and 50% of the total institutional and OJT training slots.

In 1963 Congress amended the MDTA to extend the scope of the program. Basic education was allowed for the first time with the authorization of 52 weeks of skill training. The maximum total training allowed was extended to 72 weeks. The youth portion of the Act was expanded to 25% and the 3 year's labor force experience requirement was reduced to 2 years and none for heads-of-families.⁷

⁶Garth L. Mangum, MDTA: Foundation of Federal Manpower Policy (Baltimore: Johns Hopkins Press, 1968), pp. 55-56.

⁷Ibid., pp. 21-22.

Early in the life of the program some states found conflicts between the unemployment compensation laws and training allowances. These states interpreted the laws to read that if training started the individual was unavailable for work and could not receive benefits. The training allowances were less than unemployment compensation so there was reluctance to enter training programs. In 1963 training allowances were raised to \$10 a week over unemployment compensation and institutional trainees were allowed to work 20 hours a week.

Another example of the lack of incentives for the training programs involved the pay received at the end of training. About 30% of the MDTA service trainees, in the August 1962-1965 period, earned less than \$1.25 an hour after completing their education.⁸ This hardly provided much of an incentive for the poor to take training programs. However, this type of problem is more of an economic one, and cannot be solved easily by legislative action. Service vs. industry employment was another problem which will be discussed later.

These amendments changed the law from a temporary recessionary measure to a more permanently developed program designed to eliminate serious inequities in competition for jobs. It also meant a great effort in anti-poverty work since there was a

⁸Nathaniel Goldfinger, "Discussion of 'The Role of Manpower Policy in Achieving Aggregate Goals,'" Toward A Manpower Policy, ed. R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 109.

drop in unemployment to 3.7% for heads-of-households by 1964.⁹

Transition of the Act

1964 and 1965 can be characterized as a transitional stage for the Manpower Development and Training Act. The economy was beginning to show signs of recovery due to the Vietnam escalation and the tax cut. Both of these occurrences were job-creating, through the generation of total demand, and had the possibilities of being inflationary. If job training could be used to speed the movement of workers to different jobs, this could help in cutting down inflation. The structuralist argument has a hypothesis that demand pulls workers into their various jobs by creating the openings for them. Job training could reduce the demand necessary to "pull" the unemployed into jobs.

In 1964, 2.4 million jobs were created in the economy. Of these, 800,000 were more than was needed for the natural increase in the work force. These jobs were made available for the then currently unemployed. Of these 100,000 were trained under MDTA provisions. Although the MDTA did not act as a major contributor to the increased employment of workers in the economy, it did have an important, and growing, position.

During 1964 the provisions of MDTA were liberalized again. Training time was raised to a maximum of 104 weeks, and the average training increased from the 1963 level of 35 weeks

⁹Mangum, pp. 21-22.

to 54 weeks in 1967. The states were required to pay some small percentage to the program but in 1964 this needed to be only 10%, of which only one-third had to be in cash, the rest being "in kind." The Experimental and Demonstration program got specific authorizations. Before it had to fight for funds with the other unfunded projects. Training for correctional institutional detainees, relocation programs, and bonding of undesirables became acceptable to Congress, but not as a specific appropriation.¹⁰

Institutional and on-the-job training

Two of the most important provisions of the MDTA program are the institutional training and OJT programs. As of June 1967 over 790,000 trainees were enrolled and 367,000 had completed MDTA training. Of these, 600,000 enrollees and 361,000 completers were in the institutional programs. These statistics show the overwhelming importance of institutional training in the total training picture. Initially this was probably due to the loose labor markets that existed at the time the act was passed. There were plenty of skilled people around who needed no, or very little, training. There was no incentive for employers to take on OJT people and the government subsidy was worth far less than the red tape and cost it entailed. On the other hand, institutional training could proceed even if there were no jobs to be had on the completion of the course. Facilities had already been

¹⁰Ibid., pp. 38-41.

set up and could be easily expanded.

Institutional training.--Institutional training can be divided up into several sectors. Although vocational education is not a part of MDTA, it is an important component in other aspects of the governmental training process. Historically it has been associated with high schools where 50% of all students received no vocational training as such. Even those who did get vocational training did not always use it. Up to 1963, 60% of the vocational education funds were devoted to home economics, but this percentage is now declining.¹¹

Historically vocational education has been a dumping ground for poor students, but it is now changing. In 1965 over 2000 new vocational education schools were built. With more local, state, and federal funds, the image of vocational education is improving.

Basic education is for youths and adults who do not want to go back to regular high school, but need more basic skills education. In 1964 this type of education amounted to only 5% of the total trainees, but was increased to 16% in 1965 and 26% in 1966. This was provided by the liberalized amendments to the law.¹² Basic education is increasingly stressed due to its being a requirement for a job, and because of the declining quality of MDTA trainees. It is easier to train people if they have more

¹¹Wolfbein, p. 71.

¹²Mangum, p. 89.

education. Early in the program only the basic education needed for a specific job was taught. Now all basic education and communication skills may be taught.

Originally the MDTA programs were scattered all over the cities they were set up in. This was due to a certain lack of planning and space. Later a central location with many different training choices were deemed more valuable to the coordination and advancement of the entire program. To meet this objective, skill centers were set up.¹³ All the trainees would receive their training in the same location and would benefit from better counseling, placement, and testing. By the end of 1967, 108 facilities had been put in use with a capacity for 67,000 trainees. One-third of all the institutional trainees were located in these skill centers. For the first time, the trainee would have a choice as to the course he would take. Perhaps just as important, he would have far better supportive facilities and services.

Skill centers were not only wanted for the improvement of the educational experience of the trainees, but also for financial reasons. The Budget Bureau, in the Executive Office of the President, wanted the concept of a one-stop service center for youth. With one central location, the outlying training and supportive centers could be closed down, with resulting

¹³Ibid., pp. 59-60.

savings.¹⁴

The purpose of institutional training is to provide people with skills needed to qualify for a better job, which is self-evident. But there are others, perhaps even more important, goals. Better work and personal habits are essential before any of the trainees can expect to advance.¹⁵ These considerations take on more importance after Main's study concluded that among those who held a full-time job after completing the training period, the MDTA training program had no demonstrable effect on income; completers and non-trainees reported about the same weekly wages on their most recent full-time jobs. But more completers than non-trainees were employed when interviewed, which was probably the main reason for an observed difference in family income. When numerous other variables were controlled in a multiple regression analysis, the net effect of completing MDTA training was estimated to be about \$10 a week in family income when the interviews took place. With improved motivation and experience trainees stood a much better chance for a job.¹⁶ From there on, it is more or less up to them.

Service employment is the fastest growing sector of the economy. The fields for which rapid growth is projected tend to

¹⁴Christopher Weeks, Job Corps: Dollars and Dropouts (Boston: Little, Brown and Company, 1967), p. 181.

¹⁵Gerald G. Somers, Retraining the Unemployed (Madison: University of Wisconsin Press, 1968), p. 262.

¹⁶Earl D. Main, "A Nationwide Evaluation of MDTA Institutional Job Training," The Journal of Human Resources, III (Spring, 1968), 159.

be associated with the pursuit of four goals; education, health, research and development, and transportation.¹⁷ The occupations in these classifications can include professional workers and technicians. Technicians can be trained in institutions and on-the-job. In many cases, basic education or experience is not as important as would be the case in a factory job.

Studies have shown that advancement and placement is more probable in service employment for those who are younger and less educated.¹⁸ This could be due to the minimum skill requirements for entry. Now the requirement of only an "enhanced employability" enables many unskilled trainees to enter this field. Emphasis should be placed on the fact that experience is of great importance in the service sector. An advantage of service training is that it consists of shorter and less expensive training periods. Placement rates are higher and there is greater potential for earnings improvement. Presently one-third of all trainees are in service oriented programs.

On-the-job training.--The arguments for MDTA-OJT are very convincing. Training costs are only about 50% of that for the institutional program and the training is more relevant to the type of work that the trainee will engage in upon completion

¹⁷Leonard A. Lecht, Manpower Needs for National Goals in the 1970's (New York: Frederick A. Praeger and Co., 1969), p. 34.

¹⁸Manpower Research Bulletins, "Training in Service Occupations," U.S. Department of Labor (Washington, D.C.: U.S. Government Printing Office, March, 1966), pp. 2-3.

of the course.¹⁹ These types of programs are more popular among the trainees. Placement rates are much higher than in the institutional program. Ninety percent of the MDTA-OJT completers received jobs and the dropout rate is only 20%. It is also possible to combine institutional training with OJT.^{20,21}

An example of the immediate advantage OJT offers would be the case of a Negro in 1966. According to statistics, Negroes had only a 50% chance of getting the same position a white man did, but if he did get it, he would have a 34% better chance of being hired once he completed the course than he would have if he completed an institutional program.²² The basic reasons for this are overt discrimination and the lack of an equal education. Killingsworth concludes that, although there is racial discrimination, an anti-discrimination campaign by itself, no matter how effective, is not likely to improve the Negro's economic status significantly, at least in the short run.²³

The problem with the OJT program is that in a loose labor market there is no incentive for the firm to train, since it can get all the workers it needs. The OJT program gives the trainee an immediate advantage, but the institutional program's broad skill orientation may bring in increased income over a longer

¹⁹Mangum, pp. 122-123.

²⁰Ibid., pp. 122-123.

²¹Wolfbein, pp. 160-172.

²²Somers, p. 223.

²³Charles C. Killingsworth, Jobs and Income for Negroes (Detroit: The Institute of Labor and Industrial Relations, 1968), p. 46.

period of time.

Aside from the general and administrative factors influencing the rate of introduction of OJT projects, the decisions of private employers must be accorded the central and most crucial role. To a much greater extent than in institutional training, the successful growth of MDTA's OJT projects will depend upon employers evaluations of the potential costs and benefits of such projects, hence profitability.²⁴

The proposal has been made that institutional training and MDTA-OJT be combined so that the best of both programs could be carried out. However, problems arise in the relationship of planning expansion of OJT to the other goal of expanding retraining for the disadvantaged. If MDTA selection has generally tended to favor the cream of the unemployed in the past, the OJT component has taken the cream of the cream. Because the employer plays a greater role in the selection process of OJT programs, relatively small proportions of disadvantaged workers, relative to MDTA institutional courses, have been included.²⁵ In addition to their reluctance to depart from their customary hiring standards, employers are especially loath to absorb workers in whom a very substantial training investment will be required. Given the mobility of American labor, a sizeable private investment in the retraining of disadvantaged workers may be lost through turnover.

²⁴Somers, p. 228.

²⁵Ibid., p. 230.

Since 1965 the labor markets have tightened and OJT has taken on more importance than it did before.²⁶ This is primarily due to economic factors such as high levels of aggregate demand and low unemployment rates. In 1963 only 4% of all the trainees were enrolled in MDTA-OJT programs. However, by 1966 the ratio had come up to one-third, and by 1967 one-half. The ratios should tend to improve as long as unemployment rates remain low.

Several cost-benefit ratios have been computed for these various programs. One such study found that the ratio of direct federal costs, the cost of appropriations for the programs, to direct and indirect benefits to society, benefits of reduced welfare and increased taxes, for only one year indicated ratios of 3.28:1 for OJT and 1.78:1 for institutional trainees. If a ratio of the incremental earnings to federal expenditures were taken, the ratio would be 1.98:1 for OJT and 1.68:1 for institutional programs.²⁷ Both sets of these figures are only for one year, or they would probably be higher.

Almost all of the cost-benefit ratios indicate the great worth of MDTA. However, they should not be the sole determinant of the success of a program. Difficulties faced in evaluating a program under conditions in which all of the variables cannot be controlled would be illustrated by one of the early cost-benefit studies. The dropouts did better than the trainees, which would not be expected. The answer to this puzzle became clear when it

²⁶Mangum, p. 66.

²⁷Ibid., p. 128.

was recognized that an expanding economy pulled the rejectees into sweeper positions in auto plants at about \$2.70 an hour while the trainees went into service jobs with a wage roughly half of this.²⁸

In summary, there are several reasons why the current MDTA-OJT program is being expanded;

1. The overall goals set for the training and retraining of unemployed and underemployed workers can be met much more readily if training on-the-job is widely used as a supplement to institutional training in the vocational schools.
2. Training on-the-job has been traditionally the most common means by which specific occupational skills have been acquired in United States industry. One would expect employers to welcome so familiar a procedure.
3. The government expenditures per trainee on OJT projects are substantially below costs in comparable MDTA institutional training programs.
4. The equipment used in OJT training is usually more expensive, more up-to-date, and better adapted to changing technology than the equipment found in most vocational education facilities.
5. The job placement ratio of OJT graduates is substantially higher than that of MDTA institutional trainees because most employers hire their own OJT trainees, before, or after their training.
6. These placement results enhance the motivation of workers in entering the training course and in completing their training, relative to institutional trainees.²⁹

²⁸Curtis Aller, "Discussion of 'Our Experience with Retraining and Relocation,'" Toward A Manpower Policy, ed. R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 247.

²⁹Mangum, p. 145.

Experiment and Demonstration

The Experiment and Demonstration program started out as an experimental agency having a source of funds separate from any specific appropriation. The procedure of offering money and assistance to public and private organizations willing to become involved in training problems was very useful. This program was also the MDTA's response to the criticism of "creaming" and in order to circumvent "establishment" institutions.³⁰ In some cases the existing bureaucracies did not seem as responsive to new ideas as was considered necessary to carry out new methods of training. In 1965 old workers were rejected from training since they had a very low probability of employment. E&D funds were used to help retrain these people. Initially the personnel in the E&D program were "anti-establishment" in orientation. The E&D programs helped to stimulate other agencies to try new methods of solving problems, since in many cases the new methods produced favorable results.³¹

Counseling and other supportive services were given to the trainees. In some cases, it was the E&D program which initiated the new program, which has since been adopted by other agencies. A program such as this will naturally come under pressure to devote its limited resources to selected politician's pet "programs." E&D was no exception. On numerous occasions it became embroiled in political controversy, which created for it

³⁰Ibid., p. 145.

³¹Ibid., pp. 151-152.

numerous enemies.

An evaluation of the E&D program is difficult since many of the programs it sponsored were destined to fail, and success was rarely clear-cut. In many cases value judgments were necessary on the part of the administrator.³²

The program has come under greater scrutiny and in 1967 funds were slashed. In 1968 no additional increase in funds were voted to it. The reason given was that experimentation is no longer necessary since the regular MDTA programs have become developed. Mangum feels that this is a mistake. The economy keeps changing, and with it the need for new programs and innovations.³³

Mobility programs have long held an interest in E&D and the Department of Labor. In 1965 1300 people were relocated at a cost of \$1,000,000. Of these 20% returned home and another 20% changed jobs, but 80% stayed at their new locations. However, the study covered a period of two months. Later the propensity to move back increases.³⁴ This is thought to be due to inability to adapt to new surroundings. Return to their original homes is especially prevalent if the move back was only a short distance, as was the case in most instances. It was found that money grants were necessary, including living expenses for the first month. Loans did not work since only about 50% of the

³²Ibid., p. 154.

³³Ibid., p. 153.

³⁴Ibid., p. 156.

money could be recollected.³⁵

The mobility programs got off to a bad start in 1963 when the first bill was defeated due to lobbying by merchants from depressed areas. Poor customers are better than no customers at all. In 1965 E&D took up the mobility program with the initial results already explained. A program, such as E&D, with its own unallocated funds can sometimes get around political bottlenecks. But that does not mean that doing so will make the administrators popular. Now the Labor Department has requested a \$15,000,000 appropriation for relocation of 20,000 workers annually.³⁶ The experience gained from these experimental programs should be helpful if society decides to mount a full-scale mobility program.

MDTA research

A very important characteristic of the MDTA is the provision for research. In 1962 the research provisions were set up as an original part of the act. The Manpower Report of the President was to be the corresponding book to the Economic Report of the President, but it did not gain the same reputation.³⁷

Another provision of the research provision allows for grants to universities, private institutions, and individuals for research on manpower problems. There is no doubt that these grants helped motivate many research people to go into this

³⁵Ibid., p. 163. ³⁶Ibid., p. 164.

³⁷Ibid., pp. 138-140.

field. For this reason, the MDTA has had a great deal more written about it than any of the other manpower programs. However, short term evaluations are risky and long term studies hard to make.³⁸ So far, the study by Earl D. Main is the only major national study.

Evaluations of the MDTA

Earl D. Main.--Earl D. Main, a systems analyst from the National Opinion Research Center at the University of Chicago, made the first national study of the Manpower Development and Training Act.³⁹ Interviews were conducted with trainees who had been out of training for at least a year to obtain information for the periods before, during, and after training. Instead of using a true control group, it was necessary to use a group that had only roughly matched characteristics of the trainees. This tended to allow for errors in the research, but time did not permit establishing a control group to follow the trainees through their training and the year after graduation. The trainees were interviewed later to determine their actions for the year. This presented problems since the trainees likely forgot important details.

Structured interviews were carried out to determine reasons for leaving the program and to obtain general opinions of the trainees of their training. The data was also used to

³⁸Long term studies may take up to several years. Only the MDTA is old and mature enough to be used.

³⁹Main, pp. 150-170.

compare the control group with the trainees. The opinions of the dropouts and the completers were generally favorable towards the program.⁴⁰ Only 6% of the dropouts left because they disliked the teachers and only 13% complained about something else in the MDTA program.⁴¹ The completers, as could be expected, liked the courses even more. "When they left training, 67% of the completers and 31% of the dropouts felt well qualified to begin work in the occupation that they had taken training."⁴²

Popularity for the MDTA training programs is important, but the improvement in wages for enrollees is the major criterion of its success. In this area, the MDTA was found lacking.

. . . completers and "controls" reported about the same weekly wages on their last full-time job since training, with six out of ten earning less than \$80 a week. Only among women is training associated with high wages: more women completers than "controls" earned at least \$60 a week (53% versus 34%). But this association could be the result of other factors.⁴³

Tests were made for such factors as motivation and attitude, but there was no appreciable change in the regression results. Even when considering completers and dropouts separately, MDTA training had no effect on weekly wages for those who found full-time employment after training.⁴⁴

The major difference seemed to be in the employment rates for the respective groups. Seventy-eight percent of the

⁴⁰Ibid., p. 163.

⁴¹Ibid., p. 164.

⁴²Ibid., p. 164.

⁴³Ibid., p. 164.

⁴⁴Ibid., p. 164.

completers were employed at the time of the interviews versus 55% for the "controls." The dropouts were in between with a 65% employment rate. "Because more trainees had jobs, trainees had a higher average family income than non-trainees. The logical conclusion is that MDTA training increased incomes by helping obtain steadier employment rather than higher wages."⁴⁵ The net effect of completing training was estimated at \$10.08 a week.⁴⁶

Ten background variables such as the intelligence, or motivation, of the "controls" versus the trainees was taken into consideration and the estimated net effect of training was to increase full time employment by 20% of the period between training and interview. This estimate was considered too high due to the immediate placement of trainees while the "controls" did not have a comparable "after training" period. When a control for first activity after training was added to the regression equation, the estimated net effect of MDTA training on full time employment was reduced to 9%. This figure was felt to be too low since the MDTA program attempted to place trainees in full time jobs just after training. Part of the effect of training was hidden by adding a control for first activity after training to the equation. It was for these reasons that Main concludes the net effect of MDTA training was some place between the two estimates.

⁴⁵Ibid., p. 166.

⁴⁶Ibid., p. 165.

The research covered a time when unemployment rates were rising. The extra months for the "controls" were months during which it was harder to find jobs than later in the period "after training." This tends to erroneously inflate the estimated net effect of MDTA training on employment.⁴⁷

It was probable that motivation, intelligence, or other factors had some contribution to make. Those who wanted jobs the most and who had the best minds might be most likely both to find employment and to use every available means to obtain employment, including MDTA job training courses. Therefore, the true effect of training on employment may well be smaller than the estimate given in this report. Until such factors are included in analysis of the effects of training, however, the present estimates are the best available. The net effect of MDTA training on full time employment was estimated to be between 13 and 23% of the period after training for completers and between 7 and 19% for dropouts. However, no statistically significant total income effect was observed for the dropouts. The effect of completing training was estimated to have a \$10 weekly increase in income through the increased probability of employment.⁴⁸

Other evaluations of the MDTA.--Main's study yields estimates of the general effectiveness of the institutional

⁴⁷Ibid., p. 168.

⁴⁸Ibid., p. 165.

training provisions of the Act. Now other evaluations of the Act will be reviewed.

Since the Manpower Development and Training Act was first initiated in 1962, there have been several revisions which have changed it from one dealing with easy-to-train workers with a work history to a program dealing with the poor and underprivileged of the American society. In 1966 the requirement of a "reasonable expectation of employment" was replaced by an "improved employability" requirement which shows the change to a poverty program. Another example could be the making of Neighborhood Youth Corps graduates eligible for the MDTA without having to wait. They received the same full training allowances of the other trainees. Generally all training allowances were liberalized and lengthened during this period.

Since the initiation of the MDTA, \$1.5 billion has been spent, \$1 billion of which went into institutional training. Training slots for 1,301,000 have been made and 826,000 people enrolled. Of those, 463,000 completed training and another 135,000 are still in training.⁴⁹ Projected federal expenditures for all job training are expected to increase from \$1 billion in 1965 to around \$5 billion in 1975. These tremendous amounts spent, and projected to be spent, indicate the great and increasing importance being put on training in the United States.

The MDTA has been portrayed as a promoter of economic

⁴⁹Wolfbein, pp. 104-105.

growth. Although it is not job creating in nature, the programs for retraining the unemployed constitute a significant advance in potential job creation by the provision of trained people.⁵⁰ There is some tendency for these programs to improve the working conditions and wages of individuals participating in them. Some of the unforeseen contributions have involved a reorientation of the labor market institutions, such as vocational education and the United States Employment Service, into more "people oriented" services capable of handling many more individuals. There has also been a significant modification of employer and union attitudes towards retraining and poverty groups.⁵¹ This can be shown by the increased interest, and controversy, in programs such as the Job Corps.

"With all their faults, if it is conceded that social and economic problems are solved in small increments, then programs for retraining the unemployed constitute a significant advance."⁵² In a country as large as the United States it is difficult to make revolutionary changes. The MDTA, and the other manpower programs, have shown us that changes, if they are to come, will come slowly.

But the main question to be asked of any program of the magnitude of MDTA is, "Is it worth it?" Originally, and through

⁵⁰Somers, pp. 292-293.

⁵¹Ibid., p. 291.

⁵²Wolfbein, p. 128.

much of the program, there has been widespread support for the MDTA. However, now that it has devoted some effort to the anti-poverty programs, its popularity has declined but not the extent of other poverty programs.

Some of the general reasons given for the failure of the MDTA to live up to all of its expectations are:

1. In a full-employment economy employers will be forced to train the people they want, if they had not been trained by the government. In a slack labor market the training would do no good because no additional workers should be needed.⁵³
2. Accelerated training courses, in some cases, are not long enough for the "hard core" unemployed to develop skills. There is no substitute for experience.
3. The only goals set up for the program were very broad, perhaps raising expectations too high. There have never been any specific goals for the program.⁵⁴
4. The people who are employed after they finish a training course might have been employed without it. This argument goes back to the original debate over "structural" vs. "aggregate demand" unemployment. The more training and education a worker has, the greater chance there is for him to keep his job or get a new one. Control groups have been used in evaluative studies to meet this argument to some extent, but this problem still remains.

These problems with the MDTA bring up the need for a long-term program since there are no overnight solutions. We will never know for sure if MDTA trainees have taken jobs which would have gone to other unemployed anyway. This would be

⁵³William F. Braxiel, A Study of Factors in Worker's Decisions to Forgo Retraining Under the Manpower Development and Training Act of 1962 (Virginia: University of Virginia Press, 1964), p. 1.

⁵⁴Somers, p. 96.

particularly true in 1964 with the slack labor markets but not so much now that skilled workers are harder to get. It is possible that the trade-off between inflation and unemployment can be reduced but nobody knows for sure. The absolute contribution of the MDTA has been great in the sense that up to 1967 over 500,000 people had been trained. However, with about 85 million workers in this country, the relative contribution of the MDTA program to the total employment or training activities of the economy is small.⁵⁵

Taking all of these things into consideration, even if in total the programs seem to be consistent with the goals originally set up for the program, that does not mean there is not a better way to achieve the same goal of full employment. There is no substitute for aggregate demand, which is a macro-economic problem and cannot be solved by any anti-poverty program.⁵⁶

Basic education could be combined with local organizations which already work with basic educational programs anyway. Today many of the skill centers are underutilized, and the same goes for the OJT program. With small amounts of extra money it is possible to get larger increases in trainees. But perhaps the most important factor of all is the need for dedicated people. No matter how well a project is planned, it will not

⁵⁵Wolfbein, pp. 190-191.

⁵⁶Mangum, pp. 84-85.

do any good unless there are good people to run and coordinate it.⁵⁷

It is the writer's opinion that manpower programs, such as the MDTA, should train only those for jobs who have a "reasonable expectation of employment and advancement." This would reinstitute the original MDTA training requirement and result in the charge of "creaming." A major problem in dealing with the "hard-core" unemployed is that they have problems with motivation and attitudes, along with lack of a proper education. People who are qualified, and motivated, to train the "hard-core" unemployed are very hard to find in the quantities needed. For this reason, those qualified and motivated teachers should concentrate on the major area of motivational training. When the trainee is brought up to the level of other MDTA trainees in education and motivation, then enroll him in the courses for manpower training.

In the long run expectations may turn out to be easier to handle if the approach outlined above is instituted. The trainee is given training in motivation and education before he attempts to attain a more skilled job through manpower training programs. The Watts Manufacturing Company is an example of using this approach.⁵⁸ Originally the workers selected were "hard-core"

⁵⁷Naomi Barko, "Dropouts to Nowhere," Reporter Magazine (March 29, 1967), p. 34.

⁵⁸Technology and Manpower in the Health Industry, Manpower Research Bulletin # 14 (U.S. Government Printing Office, May, 1967), pp. 25-26.

unemployed who had police records. Turnover in the new factory was high and on some Mondays the absentee rate was 35%. But most of the men kept at their jobs, increased their productivity and motivation, learned how to work, and went on the better jobs or more skill training. This is the essence of the approach recommended.

MDTA training programs should be used to train people for jobs they are capable of handling. Refresher courses could be given to nurses, as an example. With our great need for skilled medical personnel we have 300,000 registered nurses who only need short training courses to go back to work.⁵⁹ Here is a perfect example of easily obtaining a high benefit-to-cost ratio. High benefit-to-cost ratios are not the only criteria for public policy, but they are politically very valuable in obtaining Congressional support.

Other strictly poverty programs, such as the Job Corps, could concentrate on the "hard-core" unemployed who have social and educational problems. The technology needed for dealing with poverty makes it difficult for many MDTA administrators to train a worker and at the same time work to change his basic motivations and attitudes.

The Job Corps will be discussed in detail in the following section to explain the problems that exist in setting up a strictly poverty program and making it work.

⁵⁹Barko, p. 36.

The Job Corps

Initially the Job Corps was the result of a northern deal for the passage of the Act. Dr. Spencer Smith, spokesman for the Citizens Committee on Natural Resources and dean of the groups in Washington which work for greater federal support for conservation, agreed to give his support for the bill only if there was a guarantee in the law that a "substantial" number of trainees were assigned to the Youth Conservation Corps. Later this was to amount to 40% of the total enrollees. The old line bureaucrats were primarily interested in the amount of work that they could get out of the trainees, not their education.⁶⁰ This political maneuvering, which finally resulted in the passage of the Job Corps Act, is only one example of political activities that went on throughout the history of the Job Corps.

Political maneuvering went on at the local level too. It was necessary to gain the support of the local politicians if the Corps was to function effectively. This was not always the easiest objective to accomplish.

The success of the program was clearly dependent on working through local power structures and with the established local agencies. It was likely to get bogged down in many places in local rivalries, with the result that the program could not be counted on to produce early results, but it could be a key to its long-term success.⁶¹

The initial purpose of the Job Corps was to take problem youngsters from their urban surroundings and put them in a new

⁶⁰Weeks, pp. 16-17.

⁶¹Ibid., p. 21.

environment where they would be more receptive to learning the new skills necessary for a better life. Almost immediately the controversies which were to follow the Job Corps throughout its history started. Newsweek magazine reported that 17.5% of the recruits who had entered centers since January 1965 had already left the program by May. No matter how the statistics were manipulated, the fact was that neither rational men nor qualified experts could agree whether fairly large numbers of dropouts were to be expected, or whether the dropouts meant that the program suffered from some basic weakness. Of the original 2268 Job Corps recruits, 385 had already quit after only 5 months.⁶²

This bad public image of the Job Corps caused a low state of public and congressional esteem for the program, which in turn affected morale of the administrators. It was difficult to get and retain good staff members, it colored the attitudes of the Corpsmen towards the program, and affected the center's relations with the local towns.⁶³ Poor evaluations helped to keep the public in the dark as to the real effectiveness of the program. There was little doubt that some of the recruits were better off than they would have been without the Job Corps experience. Unfortunately, follow-up data on the Job Corps graduates was so sketchy that it was impossible to tell just how many graduates gained any lasting benefit from their education or the degree of benefit that they did receive.⁶⁴

⁶²Ibid., p. 206.

⁶³Ibid., p. 234.

⁶⁴Ibid., p. 238.

Because of these problems, possible reorientations of the Act have been proposed. The underlying assumption of the Job Corps is that a youth from an impoverished home must sometimes be removed from his environment to undergo an effective training program. But no evidence exists that youths selected for Job Corps training differed markedly from the Neighborhood Youth Corps trainees. Experience also raises doubts whether transplanting a disadvantaged youth, frequently from a city slum area, to an isolated Job Corps center is the best way to motivate acquisition of a basic education and a skill.⁶⁵ It is apparent that the present system, under which young men and women are assigned to these two systems almost by lottery, is unsatisfactory.⁶⁶

Basically there are three different reasons for the failure of the Act to meet up to its expectations of rehabilitating troubled youngsters into productive workers; (1) there was no success formula which could be ruled on to reach stated objectives, (2) there was an underestimation of the nature of poverty and the lack of reliable technology for combatting it, and (3) an overoptimism in expectations for the rehabilitation efforts.

This particular program has made a great many enemies,

⁶⁵Sar A. Levitan, "Discussion of 'Labor-Market Policy in Modern Society,'" Toward A Manpower Policy, ed., R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 276.

⁶⁶Ibid., p. 276.

even among its former backers. But from the reasons for its deficiencies given above, a lot has been learned. Perhaps that is its greatest accomplishment. The information learned from it should enable future programs to avoid some of the same mistakes. But the fact should be stressed that this program did not achieve its objectives and as such, should be changed.

For tens of thousands of trainees, the program which seemed to offer one last chance has turned out to mean only disillusionment, frustration, and finally defeat once again. No one knows what the social cost of a Job Corps dropout is--what price must eventually be paid to overcome the effects of reinforced failure on the teenagers who have found they couldn't make it even in the "last effort" salvage effort. But it is certain these social costs are sizable, a fact which was documented by a Job Corps financed poll of Job Corps dropouts carried out by the reputable and experienced survey firm of Louis Harris and Associates. The Job Corps attempted unsuccessfully to suppress the results of the survey, which showed among other findings that unemployment was higher among Job Corps dropouts than before they enrolled, and that more than half of the unemployed dropouts were either working or in school before they entered the Job Corps. After twenty months of operation, there were six dropouts or kickouts for every victory. As time passes, this ratio may improve. But until the Job Corps can demonstrate that its successes outnumber its failures, it cannot claim that it is making a positive contribution to the elimination of poverty.⁶⁷

This quote, by a former high Job Corps official, shows the problems involved in the program. But this program did serve a useful purpose in helping us to learn more about poverty and the technology of training underprivileged individuals. The Job Corps also gave us an insight into the workings of poverty, with all of its complications. It also gave us an insight into the real problems of administering a program that can reach the

⁶⁷Weeks, pp. 238-239.

"hard-core" unemployed and still maintain the needed political support necessary for its survival.⁶⁸

At the time of the writing of this paper the Job Corps was undergoing a severe attack in Congress. Not even the administrators of the poverty program could predict the final outcome. The Job Corps was moved from the Office of Economic Opportunity to the Department of Labor and plans have been made to close a number of the camps. There is currently a dispute over who should have veto power over various segments of the OEO poverty program.

⁶⁸Ibid., p. 241.

SECTION III

PROPOSALS FOR THE REDUCTION IN UNEMPLOYMENT RATES

The Need for Aggregate Demand

The primary need for a "full-employment" economy, which is defined as having a maximum of 4% of the total labor force unemployed, is enough aggregate demand and prosperity so that private industry can provide jobs for those who wish, and are able, to work. The desire of private companies to hire enough workers so that they can obtain maximum profits can create a condition of "full employment" in the United States as long as government spending creates the necessary level of aggregate demand. Once enough demand is created, ample employment opportunities will be available in the private and public sectors.

The problem of the goal of "full employment," concerns the 4% of the total work force which is still unemployed and those workers who have left the labor force in despair. This means that, at a minimum, approximately 4 to 5 million people who would like to work full-time are unable to find employment. In the full employment economy actually 5% of those who would like to work full time are unable to find employment. Approximately 3 million are those that have been counted as unemployed in the labor force. Another one million are disguised

unemployed,¹ and estimates on the number of involuntary part-time unemployed are estimated at up to one million.² Once the problem of lack of aggregate demand is solved, then what about these people?

Any concern with future manpower developments would do well to begin by recognizing that the level of economic activity is a basic determinant of manpower policies. It is difficult to perceive the institutional changes in the labor market and the economy that a decade of high employment would bring, but that the transformations would be extensive and fundamental can scarcely be denied. The evaluation of business policies toward training and manpower development would be extensive. The policies of union organization toward training, admissions, and technological changes should be expected to change in major respects.³

With a decade of full-employment there is the possibility that unions would reduce their "job consciousness," but this does not seem to be happening, probably due to many unions' ability to restrict entry and drive up wages, such as has occurred in the construction industry. The demand for skilled workers will encourage firms to keep more workers on the payroll during times of economic uncertainty since it is difficult to hire them back once the inevitable economic upturn comes.

Manpower Training and Anti-poverty Programs

One hypothesis of the "structural" unemployment thesis

¹R. A. Gordon, The Goal of Full Employment (New York: John Wiley & Sons, Inc., 1968), p. 60.

²Gordon, The Goal of Full Employment, p. 62.

³John T. Dunlop, "An Overall Evaluation and Suggestions for the Future," Toward A Manpower Policy, ed. R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 369.

states that the lack of highly educated workers is causing the long-term unemployment rates to go up. To counter this trend towards higher unemployment, a massive worker training program may have to be instituted which would cost approximately 1% of the Gross National Product.

This type of program has been followed in some European countries, with considerable success. The Scandinavian countries, especially Sweden, have had particularly good programs. Many critics have used these programs as examples for the United States to follow. However, there has been very little effort to appraise the effectiveness of manpower policies in these foreign countries. Indeed, even though Federal legislative policies in the manpower field have come late in the United States, the effectiveness and the thoroughness of our research evaluation appears to far outstrip that of European scholars.⁴

In Sweden vocational orientation is an integral part of the curriculum during the last three years of the basic school. In each of these three years, weekly periods are reserved for teaching about occupations, the world of work, and the necessary preparation for various careers.⁵ Nils Kellgren, a Swedish labor market authority who served as a consultant on manpower policy to the U.S. Secretary of Labor in the early 1960's, has suggested

⁴Gerald G. Somers, "Evaluation of Manpower Policies: Methodology and Unanswered Questions," Manpower Problems and Policies: Full Employment and Opportunity for All, ed. John A. Delehanty (Scranton, Penn.: International Text Book Company, 1969), p. 342.

⁵Lester, p. 58.

that "the Swedish experience shows . . . there is an annual total training need of 1% of the labor force."⁶ On the basis of his survey of American labor-market practices, Kellgren has concluded that the 1% target used in Sweden is also a feasible objective for the United States.

A manpower program is not solely to educate and employ those with poor skills. It can also serve as an inflation hedge as well. If firms do not have to spend large amounts in the training of workers, then not as much aggregate demand will be necessary to employ a given worker. The constant restructuring of the American economy can occur, and inflationary levels of aggregate demand will not be necessary to maintain high levels of employment.

Problems facing the "hard-core" unemployed involve the rising educational levels in this country, racial discrimination, and age. These factors combine to make a greater difference between those workers at the front of the employment line and those at the rear of the line than in any other country. High educational attainment puts the school dropout further behind. Race, and its accompanying prejudice, adds an additional competitive burden. There is the general philosophy that older workers are incapable of performing work at the same rate as younger workers. And even if they could, there still would be

⁶Leonard A. Lecht, Manpower Needs for National Goals in the 1970's (New York: Frederick A. Praeger, 1968), pp. 115-116.

the problem of retraining older workers who have lost their jobs for one reason or another. High mobility rates among these workers, and high training costs make it harder for the employer to regain the money it takes to retrain a worker.

In addition to the problems facing the underprivileged it should be noted that employers do have alternatives to hiring the "hard-core" unemployed. Even in a "full-employment" economy, to a limited extent, it is possible for employers to bid with their fellow employers for the most attractive workers. Or they can increase their substitution of machines for labor, thus raising even higher the aggregate demand required for full employment.⁷

Government Anti-poverty Programs

Currently the MDTA has become an anti-poverty program due to our "full-employment" economy with the resultant reduction in trainee qualifications. With the decrease in overall unemployment rates, MDTA programs had had to deal increasingly with prospective trainees who have serious employment handicaps. The problems of the "hard-core" unemployed and the need for special programs to help these people brought new challenges to the MDTA. It was for this reason that new programs, separate from the MDTA, were set up by Congress. The Job Corps is only

⁷Garth L. Mangum, "The Emergence of a National Manpower Program," Toward A Manpower Policy, ed. R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 22.

one of several new programs instituted since 1964. With these new programs, come the normal problems in dealing in any new area. A whole new technology must be learned to deal with the poor. This takes time, and results in problems and controversies arising due to failures and corruption in the program which can seriously threaten the existence of poverty programs.

It is the writer's opinion that the anti-poverty programs would be more effective if they oriented themselves towards self-help programs, improvement in the motivation to work, and actually to carry out a given task. If the current poverty programs can achieve these goals, the MDTA can be used for training, in which it has developed a great deal of expertise. MDTA programs should enroll only those who can profitably use the training.

Manpower development and training efforts should stress enrollment of the disadvantaged and yet be satisfied to serve those who can reasonably expect to achieve employability, so that the expenditure per trainee will not soar so high that the number who can be served will be unduely limited.⁸

Currently the cost-benefit ratios, as indicated in the previous section, have been very favorable, and give every indication that they will continue to remain favorable when training involves motivated trainees with some work experience. However, poverty programs deal with social benefits and costs which are very difficult to compute, thereby making it harder to

⁸ Mangum, MDTA: Foundation of Federal Manpower Policy, p. 170.

quantitatively justify the funds spent. This is true since;

In using cost-benefit ratios one must guard against depreciation or neglect of benefits that may be difficult to prove or to express in estimates. That is likely to happen where the benefits contain a large element of social value. In the end, government decisions are based on social and political as well as economic criteria. Training and other manpower programs may be justified on political and social grounds even when they may actually serve only to redistribute a given volume of unemployment and do not reduce total joblessness at all.⁹

These problems inherent in anti-poverty training programs should be recognized by Congress as such.

During times of prosperity and low unemployment rates, industry will initiate attempts to hire and train "hard-core" employees since these will be the only people available to them. Chase Manhattan Bank is a leader in this effort in New York City. Chase Manhattan recruited blacks and Puerto Ricans from low-income neighborhoods in Harlem, as well as the Bronx and Brooklyn. These groups now comprise about 30% of the bank's 18,000 employees in this country, compared with about 23% two years ago and about 8% in 1963.¹⁰

However, the trend to hire "unemployables," when and if it does come about, is basically profit-oriented and concentrated in the wealthier corporations who can pay the added expense of training these people. And even when massive training efforts on the part of private industry takes place, there is no

⁹Lester, p. 189.

¹⁰Fredrick Andrews, "Chase Manhattan Bank Recruits in the Ghetto, and Results are Mixed," The Wall Street Journal, December 23, 1969, p. 1.

guarantee that the program will be a success. On the contrary, the Job Opportunities in the Business Sector, JOBS, has not lived up to expectations as far as hiring the number of "hard-core" unemployed that was initially expected of them. The Labor Department's Concentrated Employment Program was initially expected to place 100,000 "hard-core" unemployed by the end of 1969. However, only 6,000 had been placed in the 19 target cities where the program took place.¹¹ From these examples of the failures of some poverty programs we can conclude;

The lesson is really simple--don't ask the employer to turn his plant or office into a social service agency or an educational institution. He is paying taxes to the government and is contributing huge sums to educational and charitable institutions to provide the supportive and remedial services necessary for training and/or hiring the disadvantaged. If he can be persuaded that any particular new program or programs will do the job more effectively, he will support them either by paying the additional taxes or by increasing his contributions.¹²

Employment in the Public Sector

For the reasons previously discussed, private industry cannot employ all of the "hard-core" unemployed. Government will have to offer alternative sources of employment for many of these people. A program to achieve this objective can be carried out in two different ways. The federal, state, and local

¹¹Joe Lastelic, "Assail Nixon Welfare Plan," The Kansas City Star, Vol. 90, 116, 7-B.

¹²Samuel M. Burt and Herbert E. Striner, Toward a Greater Industry and Government Involvement in Manpower Development (Kalamazoo: The Institute for Employment Research, 1968), p. 11.

governments can directly hire additional workers for such meaningful, but controversial, projects as expanding the Post Office Department, or they can make direct subsidies to industry to hire additional workers. The Post Office Department may be a good example since wages are in excess of the minimum wage requirements. It is for this reason there is a good incentive for the unemployed to take the jobs. The problem of motivation will be discussed later.

State and local governments have many employment opportunities open to the disadvantaged at this time. One estimate places the number of jobs currently available in state and local governments at 1 million. Of these approximately 75% are unskilled or semi-skilled jobs.¹³ Government subsidies to private industry could be made in the housing industry to increase the number of low income housing units available to the poor. This could be carried out through the use of "turnkey" projects.

In Leonard Lecht's Manpower Needs for National Goals in the 1970's, the author concludes that the full achievement of the 16 goals desired by the mid-1970's would require an employed civilian labor force of more than 100 million, some 10 million more than can be expected in the civilian labor force in 1975.¹⁴ This will result in an overall insufficiency in manpower, with

¹³Norman Skarewitz, "State and Local Posts Go Unfilled as Business Lures Many Prospects," The Wall Street Journal, December 26, 1969, p. 1.

¹⁴Lecht, pp. 10-11.

the resulting increases in employment for the poor and uneducated, if they can be trained to take the jobs offered.

One of the major goals for the next decade is to increase the amount of housing available to our lower income citizens. Lecht predicts that training and employing the manpower required for urban development, in turn, could itself be a major factor in reducing the unemployment and poverty among nonwhites that has contributed substantially to the decay of the inner city. "Rebuilding the nation's cities, as indicated in the projects for the urban development goal, could create an estimated 1 million jobs for nonwhites in the coming decade."¹⁵

Estimates for the number of new jobs that can be created by the government run from the 5.3 million estimated by the Commission on Technology, Automation, and Economic Progress to a 4.3 million estimate by the Greenleigh Associates study. The estimates of the numbers of jobs that could be created if the federal government decided to make the funds available are;¹⁶

<u>Public Service Group</u>	<u>Number of Jobs that Could be Made Avail- able (in millions)</u>
Health, including hospitals and mental health -----	1.355
Education -----	2.017
Day care -----	0.014
Recreation and beautification -----	0.136

¹⁵Ibid., p. 8.

¹⁶Harold L. Sheppard, The Nature of the Job Problem and the Role of New Public Service Employment (Michigan: Staff Paper of the Upjohn Institute for Employment Research, 1969), p. 22.

Public Service Group	Number of Jobs that Could be Made Avail- able (in millions)
Libraries -----	0.063
Public Welfare -----	0.065
Probation and parole -----	0.016
Institutions for dependent and delinquent children -	0.039
Public works -----	0.150
Police and fire -----	0.050
Prisons -----	0.024
Defense -----	0.350
	<u>4.279</u> ¹⁷

These 4.3 million jobs would be mainly through state and local employment, or private contracts, but the funds would be supplied mainly by the federal government. The jobs could not be supplied all at once. In the first year, the Greenleigh study states about 470,000 jobs might possibly be opened under a comprehensive government program, more than 70% of them in the fields of health and education alone. The critical features about the first year estimates are: first, such jobs would be socially useful with a "legitimate place in the economy"; second, they could be filled by persons with low entry skills and training; third, the employing organizations would provide the necessary training and supervisions on the job without any costly capital expenditures.¹⁸

One substantial problem concerning guaranteeing employment to individuals is the pay level that would be required to fill the jobs. If there are hundreds of thousands of jobs going

¹⁷The additional employment in the defense industry is due to substitution of civilian for military personnel.

¹⁸Sheppard, p. 23.

unfilled now in the public sector, there is little chance that there will be changes in the near future to encourage people into the public sector by any other factor than substantially raising wages.

Perhaps the most efficient way to provide employment for all those chronically unemployed, as was recently suggested by the President's Commission on Technology, Automation, and Economic Progress, is for the federal government to assume the responsibility as "an employer of last resort" providing work for the "hard core" unemployed in useful community enterprises. The underwriting of such a responsibility would be costly indeed. The annual cost of filling a job would be about \$4500 assuming the workers were paid only statutory minimum-wage rates, but also are provided basic education and adequate work supervision. The total cost of employing all employable but chronically idle disadvantaged workers would, therefore, run initially into several billion dollars annually. . . . a start in this direction can be made for the expansion of a public-employment program even under present conditions.¹⁹

For the aged workers, a program involving "sheltered workshops" may be appropriate. In this case the workers' productivity would not be a factor in his employment. Such productivity generally is very low. Although their productivity would be low, the work they would turn out would enable them to maintain their self respect.

For unemployed mothers who have responsibility for a family, there is the possibility of day care centers for their children and regular training under some MDTA or poverty training program. The Administration has proposed spending \$600 million

¹⁹Sar A. Levitan, "Discussion on Labor Market Policy in Modern Society: With Particular Reference to Marginal Manpower Groups," Toward A Manpower Policy, ed. R. A. Gordon (New York: John Wiley & Sons, Inc., 1967), p. 278.

for training and day care facilities to provide additional work opportunities for cash assistance recipients under the new programs. This will pay for training opportunities for an additional 450,000 children in families headed by welfare mothers.²⁰

Income Maintenance Programs

If the programs that have been outlined are carried out, there should be no poor, "hard-core" unemployed left who are able to work. But for those who are unable to work some sort of income maintenance will be necessary. This can come in the form of a guaranteed annual income, through a negative income tax, a children's allowance, or "welfare reform."

It is the writer's opinion that the "guaranteed annual income" as such is politically dead in this country. There are very few people who approve of the concept of a guaranteed income without having to work for it. Present income maintenance programs are generally considered for those who have no ability to work for themselves. Basically the concept of a guaranteed income involves subsidizing all of those whose incomes are below a given level so that everyone below a given income level will be brought up to that level.

The children's allowance has been advocated by Daniel Moynihan, who proposed that the federal government pay families

²⁰U.S. President, "Proposals for Welfare Reform," Message from the President of the U.S. (Washington, D.C.: House of Representatives, August 11, 1969), pp. 6-7.

eight dollars a month for each child under six years of age, and \$12 for all children from six to seventeen. Moynihan estimates the total cost of such a program at about \$9 billion a year.²¹ Another plan by Alvid L. Shorr, of the Department of Health, Education, and Welfare advocates having the treasury pay \$10 a month for each child over six, and \$25 per month for children of preschool age. While all families would receive the payments, the prime beneficiaries would be struggling families in their early years of marriage.²²

Today all major industrial countries now pay children's allowances. But there are shortcomings to such an idea. The payments would be too small for the very poor and many categories of poor persons, especially childless couples and old folks, would get nothing. Some other type of program would have to be devised to help these people.

The negative income tax would eliminate all the restrictive categories in the present welfare system and pay money to everyone in need. There would be no "means" test or a rule concerning the "man in the household." The credit for the negative income tax idea goes to Milton Friedman, who in 1962 suggested the idea in his book, Capitalism and Freedom. Sargent Shriver, former head of the Office of Economic Opportunity has also endorsed it.

²¹Eamund K. Faltermayer, "A Way Out of the Welfare Mess," Fortune, LXXVIII, 1 (July, 1968), 66.

²²Ibid., p. 66.

The program would work as follows;

A family of four with no outside income whatever would receive a negative tax of \$2,600 a year. But if a member of the family found a job, say paying \$3000 a year, 50% of these earnings would be disregarded in figuring out the negative tax. Thus the family would receive a payment of \$1,100 a year (\$2,600 a year minus 50% of \$3,000), and, counting in the \$3000 earned on the job, its total income would be \$4,100.²³

This plan would cost about \$20 billion per year more than is now being paid out in welfare payments, but it would have the effect of guaranteeing a basic income floor of \$2,600.

On the other hand, Wilbur Cohen, former Secretary of HEW, has stated that a workable system will be a lot more complex than most of its proponents think it would.²⁴ The payments would have to be made every month or the incentive effect would be lost. Any changes in the status of the family would have to be promptly reported and programmed into the computer installation. This would take a great deal of administrative effort. Also, the forms to be filled out would have to be very complicated.

George H. Hildebrand, in his "Second Thoughts on the Negative Income Tax," concludes that there will be several practical limitations on the effectiveness of the program. Even the highest per capita expenditure on various fractional guaranteed income plans are less than the present payments for the various poor groups. Large amounts would have to be paid so that all of the poor would receive the same level of benefits

²³Ibid., p. 66.

²⁴Ibid., p. 67.

that they do now. But even if the reforms suggested above were proposed, there is doubt that the reforms could be made since;

. . . they require the consent of the middle and upper income groups. The plea that the proceeds (from tax reform) could be used to finance massive transfers to all of the poor, including the able-bodied, is likely to fall on deaf ears. . . . If the above assessment stands up, then those of us who want to raise low incomes will have to settle for more modest immediate gains, deferring larger schemes for later and more appropriate times.²⁵

After reviewing all of the alternative welfare systems, Fortune concludes that a reform of the present welfare system will be the best alternative for now--at least until some more comprehensive research has been carried out on the negative income tax. Experiments are now going on in New Jersey and other areas to determine the effectiveness of a negative income tax, but it will be a few years yet before the final results of the practicability of such programs are known.

The more "non-controversial" sections of the welfare program could be turned over to the social security system. Aid to the blind, the aged, and the permanently and totally disabled are considered the most "non-controversial" of all the welfare programs. The social security trust fund could be supplemented by direct contributions from the federal government.

With these various groups gone, the welfare system could concentrate on families with able-bodied parents in their prime

²⁵George H. Hildebrand, "Second Thoughts on the Negative Income Tax," Manpower Problems and Policies: Full Employment and Opportunity for All, ed. John A. Delehanty (Scranton, Penn.: International Text Book Co., 1969), p. 324.

work years. Money should be paid to all of the "working poor" in the form of subsidies which would create a strong incentive to work. This could also create an incentive for the husband to stay with his family. Such revisions in the welfare system have been proposed by the Nixon Administration. The system proposed by the Administration would cover both "dependent families," defined as those headed by a female or an unemployed male, and "working poor" families, defined as families headed by a full-time employed male.

The basic Federal benefit for a family of four would be \$1600 per year, \$500 per person for the first two family members and \$300 for each family member thereafter. A 7 person family with no earnings would receive \$2500 per year. Families of four with earnings up to \$3920 would be eligible for benefits. All families would be allowed to disregard \$60 per month as work related expenses. Benefits would be reduced by 50% as earnings increased above \$720 a year. If this program is passed by Congress, the estimated cost is \$4.1 billion in fiscal year 1970.²⁶

The program suggested by the Nixon Administration would take the place of the present Aid-To-Dependent-Children program that is currently on the books. Another program could be instituted for the aged poor of this country. Social security payments could be increased and expanded for the elderly poor who have no other source of income. If this was carried out, to

²⁶U.S. President, pp. 3-4.

insure that the aged of society would have enough income to live on, the stigma of welfare payments to this large segment of our poor would be removed.

It appears that we could afford the payments needed for improvements in our welfare system, if we really wanted to afford them.

All of the country's income transfer programs, including social security, veterans pensions, public-housing outlays, medical aid, and welfare have been around 8% of the GNP. This puts the U.S. well below such countries as Sweden and West Germany, which respectively devote 14% and 18% of the GNP to such programs, apparently without in any way stunting human initiative or slowing economic growth.²⁷

If the above conclusion is correct, and we do decide to increase the total realm of social insurance payments to reduce the problem of inadequate income among those who cannot work, then

. . . ideally, public assistance should be replaced by a system of federal income maintenance payments. Pending the full development of such a program, adequate federal standards and financial grants-in-aid should be estimated for all welfare payments to which the federal government contributes, and a national general assistance program should be set up for those who do not fit into categories for federally aided welfare programs. Such measures within the next several years can bring a further significant narrowing in the gap between Negro and white family incomes.²⁸

The programs recommended here provide for gainful employment for those who are willing, and able or can be made able, to work. In some cases, programs of this nature cost more than would be the case had money been transferred to eliminate the

²⁷Faltermayer, p. 137.

²⁸Lecht, p. 23.

symptoms of poverty, or at least in the short run it would be cheaper. The President's new welfare reform measure is a case in point. The working poor, along with the current welfare recipients, are given aid. The major reason for this is the strong "work ethic" that we have in this country. If an individual is not self-reliant, he is not considered a real "man." Men are expected to work to support themselves and their families. There is also the political problem concerning the great unpopularity of many forms of income maintenance. However, there does not seem to be the same resistance to guaranteeing jobs for the unemployed, or supplementing the incomes of the "working poor." Another important point is the long run hope of reducing all welfare payments by encouraging people to work.

It is the hope of the Nixon Administration that the new welfare reforms will bring about an incentive to work for those who had no such incentive before. But it should be stressed that no one program will be effective in curbing the total unemployment or poverty problem. It will take many different programs, all oriented towards their own clientele, to solve the poverty problem in the United States.

SECTION IV

CHARTS AND STATISTICAL INFORMATION

Selected Unemployment Rates, 1948-1968

<u>Year</u>	<u>All Workers</u>	<u>White</u>	<u>Nonwhite</u>	<u>Professional- Technical</u>	<u>Laborers</u>
1948	3.8	3.5	5.9		
1949	5.9	5.6	8.9		
1950	5.3	4.9	9.0	2.2	11.7
1951	3.3	3.1	5.3	1.5	5.6
1952	3.0	2.8	5.4	1.0	5.7
1953	2.9	2.7	4.5	.9	6.1
1954	5.5	5.0	9.9	1.6	10.7
1955	4.4	3.9	8.7	1.0	10.2
1956	4.1	3.6	8.3	1.0	8.2
1957	4.3	3.8	7.9	1.2	9.4
1958	6.9	6.1	12.6	2.0	14.9
1959	5.5	4.8	10.7	1.7	12.4
1960	5.5	4.9	10.2	1.7	12.5
1961	6.7	6.0	12.4	2.0	14.5
1962	5.5	4.9	10.9	1.7	12.4
1963	5.7	5.0	10.8	1.8	12.1
1964	5.2	4.6	9.6	1.7	10.6
1965	4.5	4.1	8.1	1.5	8.4

Selected Unemployment Rates, 1948-1968 (Continued)

<u>Year</u>	<u>All Workers</u>	<u>White</u>	<u>Nonwhite</u>	<u>Professional- Technical</u>	<u>Laborers</u>
1966	3.8	3.3	7.3		
1967	3.8	3.4	7.4		
1968	3.6	3.2	6.7		

Source: Department of Labor, Bureau of Labor Statistics, Economic Report of the President, January, 1969 for the first three columns concerning unemployment rates for all workers, White, and Nonwhite.

Manpower Report of the President, March, 1966 for Professional-Technical Workers and Laborers, the last two columns.

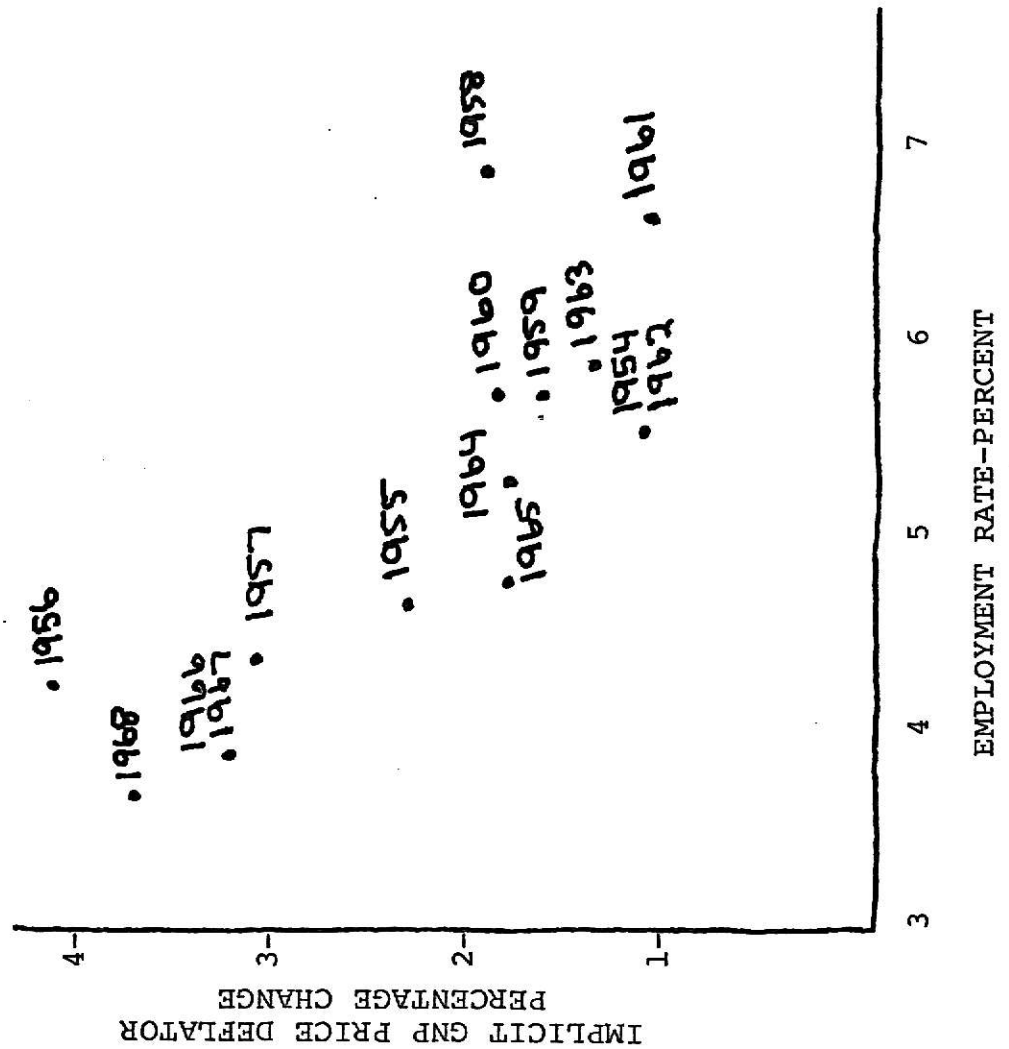
Unemployment Rates and Prices, 1948-1968

<u>Year</u>	<u>% Price Change</u>	<u>Unemployment Rate</u>
1948	1.4	3.8
1949	-1.0	5.9
1950	1.0	5.3
1951	8.0	3.3
1952	2.2	3.0
1953	0.8	2.9
1954	0.4	5.5
1955	-0.3	4.4
1956	1.5	4.1
1957	3.5	4.3
1958	2.8	6.8
1959	0.8	5.5
1960	1.5	5.5
1961	1.1	6.7
1962	1.2	5.5
1963	1.2	5.7
1964	1.3	5.2
1965	1.7	4.5
1966	2.9	3.8
1967	2.8	3.8
1968	3.9	3.6

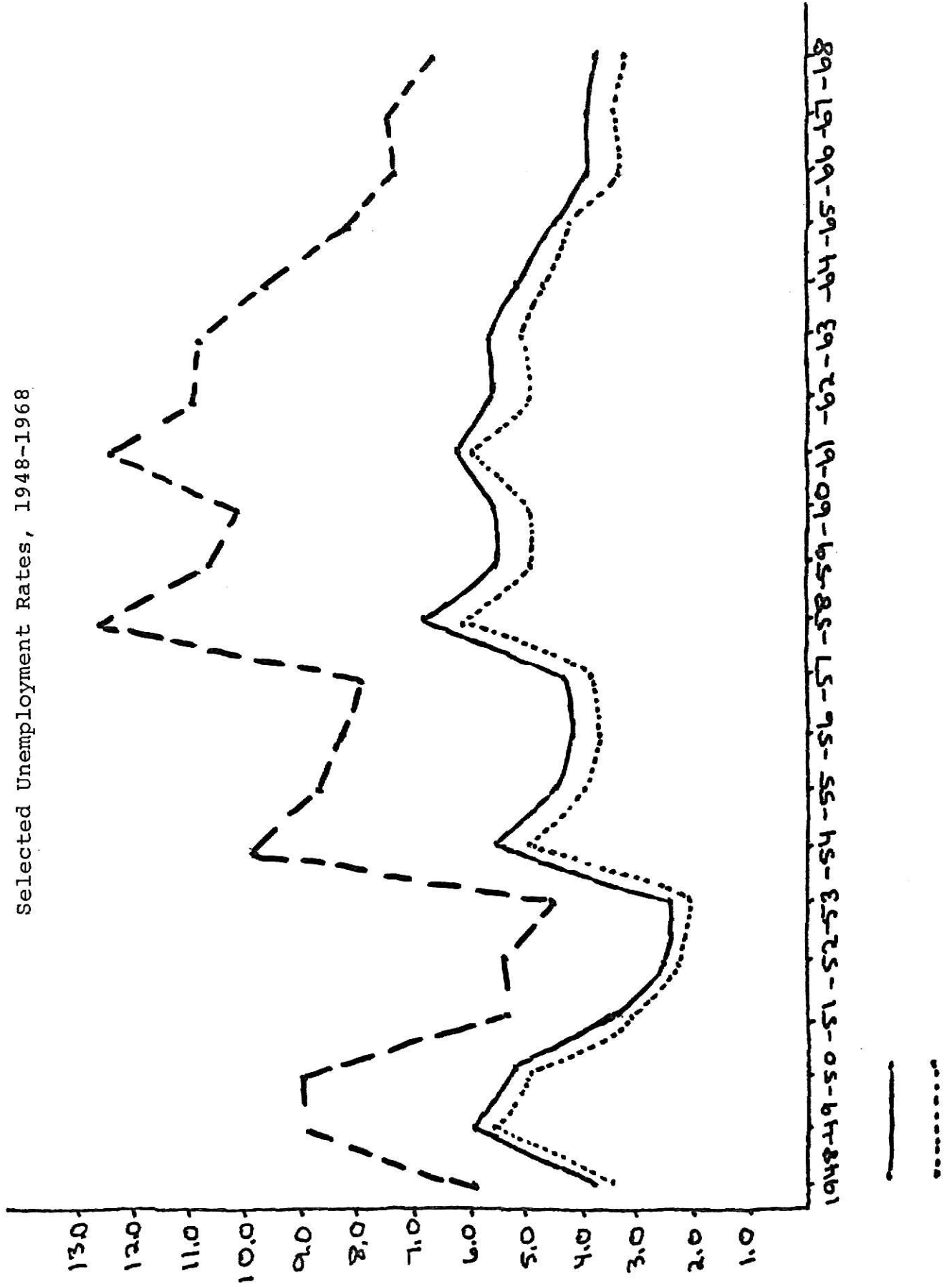
Source: Department of Labor, Bureau of Labor Statistics, 1969 Economic Report of the President, data computed from consumer price index, p. 65.

Price Performance and Unemployment

Source: Economic Report of the President: 1969
 (Washington, D.C.: U.S. Government Printing Office), p. 95.



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THE CAUSES AND CURES FOR UNEMPLOYMENT

by

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AN ABSTRACT OF A MASTER'S REPORT

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The main causes of unemployment in the United States are a lack of sufficient aggregate demand and "structural" factors. In the late 1950's and early 1960's high unemployment levels led to a debate as to the relative importance of these two causes of unemployment.

According to the proponents of inadequate demand, a slow growth rate resulted in insufficient job creation for new workers entering the labor force. Advocates of this cause of unemployment recommend that monetary and fiscal policies be used to stimulate aggregate demand and growth.

The "structural" unemployment theory discounts the lack of aggregate demand as a major cause of increased unemployment in the late 1950's and early 1960's. Instead, the high unemployment was attributed to a constant restructuring of the American economy, which results in a mismatching of workers and jobs. Special government training programs have been proposed as one method of combatting this "structural" unemployment.

Articles and books representing both positions are reviewed. The general conclusion is that high levels of aggregate demand are needed to keep unemployment rates down to 4 or 5%. This may require massive government spending. Once this level is reached, an emphasis on special training programs will be necessary to improve skills to the levels necessary for the jobs available.

The major government training program which was set up to combat structural unemployment was the Manpower Development

and Training Act passed in 1962. It is one of the first and most extensively evaluated of the manpower programs. Towards the middle of the 1960's unemployment rates fell and most workers with work experience were employed. The people still unemployed generally had poor qualifications for employment. Due to this, from 1964 and on, special programs were designed to deal with the "hard-core" unemployed. The MDTA came to deal more with the "hard-core" unemployed, which gave it the appearance of an anti-poverty agency.

The anti-poverty programs became controversial because of their failure to live up to unreasonable expectations. Although some projects were cut back, a great deal was learned about the technology of anti-poverty programs.

Recommendations are made concerning the elimination of unemployment in America. But before any government program can be effective, a high level of aggregate demand is essential. Training programs costing approximately 1% of the GNP may be necessary, but this will not provide employment for everyone. Therefore, the government sector may have to be expanded; either by increasing public employment or providing subsidies to private industries.

Even if the "hard-core" unemployed are given jobs, some form of income maintenance will be necessary for those who are unable to work. Various proposals have been made; including a children's allowance, a guaranteed income, a negative income tax, and "welfare reform." In the present political environment, "welfare reform" seems to be the most practical.