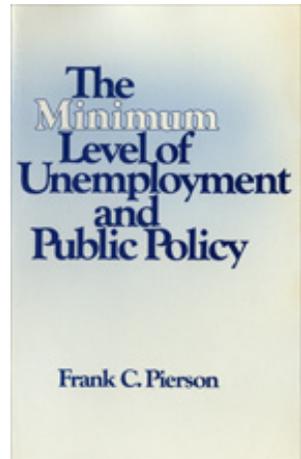


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## Dimensions of the Problem

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## **Chapter 1**

### **Dimensions of the Problem**

In the last decade, unemployment has again become one of the country's most serious unresolved problems. Mass unemployment as it was known in the 1930s can perhaps no longer be considered a serious threat, an outcome for which Keynes and his followers deserve primary credit. The full employment prospect implicit in their doctrines, however, has faded. The broad consensus among economists today is that if reliance is placed on Keynesian macro-expansion policies alone, the jobless rate cannot be pushed below 5 percent, perhaps not even below 6 percent, of the nation's labor force without unleashing severe inflationary pressures.

Compared to the Great Depression such projections hardly appear alarming, but the economic and social repercussions of even small changes in the jobless rate can be extremely serious. A rise in the jobless rate of one percentage point, say from 4 to 5 percent, would add about a million persons to the jobless rolls and, barring temporary offsets, would reduce real GNP by nearly 3 percent. More serious still, the kind of unemployment that persists into periods of general prosperity falls much more heavily on certain groups than on others: those with low incomes, few skills, and little education. In addition to the loss of their output, society must also bear the heavy direct and indirect costs of the added welfare expenditures, police protection, and

neighborhood deterioration associated with concentrated joblessness of this type. Most damaging of all, persons who cannot even find stable jobs in boom periods can hardly be blamed for becoming completely discouraged and defeatist about their personal worth as well as their role in the life of their communities.

This study is primarily addressed to the problem of prosperity, as opposed to recessionary, unemployment. The former is attributable to persistent structural imbalances within the economy, the latter to either cyclical or longer term shortfalls in aggregate demand relative to aggregate supply in the economy as a whole. The distinction between structural and aggregate demand joblessness has admittedly become quite blurred since failure on either front greatly complicates effective action on the other. To the degree aggregate imbalances prove intractable, structural imbalances will become more serious, and if the latter prove to be unyielding, the task of aggregate demand management becomes correspondingly more difficult. Parallel action on both fronts is, therefore, clearly required if success on either is to be achieved. Nevertheless, the corrective measures to be taken at the structural and aggregative level will differ radically.

### **Prosperity Unemployment**

Controversy soon emerges when discussion of these two aspects of unemployment goes beyond the level of generalization. The crux of the question is how can aggregative and structural policies be meshed so that unemployment can be brought down to the 4 - 5 percent range. The usual answer is that, on the aggregative level, the economy has become increasingly inflation prone and, on the structural level, larger sections of the nation's labor force have become increasingly cut off from stable job or career

opportunities. The main purpose of this study is to assess the merits of this pessimistic but widely accepted view and, more particularly, to examine its implications for public policy.

The pessimists' view has now become part of the conventional wisdom, so much so that only the briefest summary is needed here. If, as recent experience attests, prices begin to rise sharply even when the unemployment rate is as high as 6 percent or more, the scope left to fiscal and monetary policy as a means for reducing unemployment will be sharply reduced. Indeed, to the extent serious inflation has become permanent and essentially irreversible over a given two- or three-year period, any effort to lower unemployment by expansionary fiscal-monetary means will, in this view, tend in the longer run to raise rather than lower the jobless rate.

The alternative approach to the prosperity unemployment problem, directly attacking major structural barriers to jobs, has led to a hardly less pessimistic conclusion. While differing in emphasis and specific findings, the conclusion of most investigations is that the many public and private efforts since the early 1960s to remove such barriers have yielded but the barest results. The main differences among these investigations depend on the weight which is placed on improving existing job market conditions as opposed to more far-reaching reforms, the former relying chiefly on private market processes and the latter on various types of governmental intervention. Both seem generally agreed, however, that the problem itself lies beyond any quick or even distant solution.

The upshot is that the trade-off between unemployment and price stability, the well-known Phillips Curve, is now seen to be much more adverse, not only in terms of its shape but in terms of its location as well, than when first developed in the mid-fifties—how adverse, however, remains an unsettled question, with most estimates of the minimum level to

which unemployment can be reduced by aggregative and structural policies without setting off a serious rise in the inflation rate ranging from 6 percent to as low as 4 percent. The choice of public policy measures for dealing with unemployment that persists into periods of general prosperity largely turns on where the effects of fiscal-monetary expansion are assumed to fall within this range of values. The general conclusion emerging from the discussion of this issue in the following chapter is that the inflationary impact of macroeconomic measures to achieve and maintain full employment, as the latter term is usually defined, has been exaggerated and that, quite aside from efforts to remove structural barriers to employment, there is good reason to believe that the jobless rate could be reduced by such measures to 5 percent or even less without affecting the rate of inflation in any significant way.

This finding, if valid, puts the question of the structural barriers to unemployment in a quite different light from the way it is usually viewed. Since the unemployment-prone groups, consisting of lesser skilled, lesser educated workers, are especially benefitted by any general lowering of the unemployment rate, structural unemployment could be expected to fall by well over one-half if it turned out that the national jobless rate could be reduced to 5 percent by macroeconomic demand policy without incurring serious inflationary consequences. This in turn would mean that efforts to bring the hard-to-employ into the mainstream of job opportunities could be concentrated much more intensively, and presumably more successfully, on the needs of the particular groups involved. An evaluation of these efforts, considered from this perspective, constitutes the chief subject of this inquiry.

## Dimensions of the Problem

The basis for the view that the unemployment problem has become largely intractable rests largely on the belief that various forms of governmental intervention, however well intentioned or even justified in any given instance, have been carried to the point where, in the aggregate, full utilization of the nation's labor force on a sustained basis has become impossible. In part, this view rests on the belief that the general role of government, particularly in its fiscal and monetary policies, has been highly unstabilizing, so much so that any short-run efforts to offset such unstabilizing effects have proved ineffective and actually exacerbating. More recently, criticism has centered on governmental interventions in individual markets or broader sectors of the economy whether aimed at protecting certain producer groups or the general public. Increasingly, investigators of both a conservative and liberal persuasion have come to question whether the net effects of governmental regulation in such fields as railroads and trucking, or its efforts to control environmental, health, and safety hazards in a variety of industries have not pushed up costs unduly, thereby serving to restrict output and employment and thus contributing to both more inflation and more unemployment.

A similar shift in sentiment has occurred among investigators of government efforts to improve the performance of particular labor markets and to protect certain vulnerable worker groups. Again, rather than stressing the beneficial aspects of such efforts, increasing emphasis has come to be placed on their deleterious effects. Some of the policies that have been most widely criticized on this score are federal laws stipulating minimum wages and maximum hours, protection of union organizing and strike actions, and provision of unemployment benefits and welfare benefits. The danger of these policies, while sometimes viewed in ex-

treme categorical terms, is more often seen as one of degree, with the argument often turning on how far is it possible for government to go in providing special safeguards of these sorts without adversely affecting the functioning of labor markets. A major purpose of this study is to review the available evidence concerning this important issue.

While the majority of professional investigators have become increasingly skeptical about governmental aggregate demand policies and individual market approaches to the problem of prosperity unemployment, an important minority hold to the view that the problem of persistent unemployment can be traced not to particular government policies but to various fundamental changes in the economy. At the aggregate level it is argued by members of this minority group that pressures arising from international economic imbalances, domestic interest group demands, changes in market trends and requirements, and shifts in factor supply conditions have made it more difficult to maintain non-inflationary expansions. At the individual market level it is argued further that certain employees, most notably teenage minority workers in inner cities and the least skilled, least educated workers in economically depressed industries and areas, have become effectively cut off from all worthwhile job opportunities. In part, these barriers are said to be the result of deliberate discriminatory practices but in greater part they are felt to be the product of general cultural influences and long-standing institutional relationships. Proponents of this position share much of the skepticism of the majority group regarding the effectiveness of government measures to deal with the problem of persistent unemployment but for diametrically opposite reasons. The majority view is that the economy is generally capable of providing adequate job opportunities if only the government would adopt less sweeping programs and give unregulated market processes freer rein, while the minority holds that the im-

balances and conflicts within the economy are so serious they will not be resolved unless there are far reaching changes in the economy.

It is not possible within the confines of this study to make an adequate appraisal of either of these polar positions since both are wide ranging in nature and pertinent data are not readily available. Rather, this investigation is limited to a review of the public policy implications of the findings of both groups of observers as judged by the record of prior efforts to deal with the problem of unemployment in periods of high employment or prosperity.<sup>1</sup> To this end attention first centers on identifying the more important characteristics of this type of unemployment and on setting forth the major questions that remain unanswered about it.

#### **Four Aspects of Prosperity Unemployment**

The first and probably the most important dimension of this kind of unemployment is that it is largely confined to certain groups and geographical areas. Viewed in demographic terms, joblessness in high employment periods is concentrated among youth, women, and older workers (54 years and over), particularly the nonwhite members of these groups. Viewed in locational terms, this type of unemployment is centered in certain long-depressed areas such as the Appalachian Region, and more massively in the inner areas of some of the country's larger cities. The same demographic groups are dominant in the geographical concentrations of joblessness, reflecting the more basic forces which lie behind persistent unemployment of this sort. It should be noted that adult white males can also find themselves without jobs in

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<sup>1</sup> In this study the terms *high employment* and *prosperity unemployment* are used interchangeably to denote the kind of persistent unemployment that continues at relatively high levels even in periods of sustained business expansions

boom times but only in unusual or temporary cases. Thus prosperity level joblessness can be viewed as largely an age-sex-race problem, and policy proposals should be formulated accordingly.

Related to this dimension of the problem is the fact that many of these workers face severe labor market initial-entry or re-entry difficulties in getting stable, career-related jobs. The key issue, particularly in generally prosperous environments, is not one of finding a job as such, but rather one of getting work with promise of some permanence and longer term career potential. Indeed, the salient characteristic of this type of unemployment is not so much long periods of joblessness as short periods occurring between relatively brief spells of employment. Whether such highly unstable patterns of work stem from low productivity because of poor work habits and inexperience, or from discriminatory practices and institutional arrangements, or even from personal life styles and preferences of the workers themselves, it is clear that the most critical difficulties in dealing with prosperity level unemployment occur when workers initially enter or re-enter the labor market. For many, indeed the great majority, steady work is eventually found, albeit with a trial and error period of "shopping around" often involved; but for a substantial minority, steady work in anything approaching a career framework is not attained. These are the workers in the dead-end jobs who constitute the bulk of the so-called permanently unemployed (or the "permanently-temporarily" unemployed) and pose the most intractable aspect of the problem for policymakers.

Unemployment among older workers follows a quite different pattern. Once having achieved relatively permanent job status, a person typically remains at work until age 65 unless he or she chooses earlier retirement, and recently enacted federal legislation extends protection from dismissal

for older workers until their seventieth year. Unemployment rates for such workers are comparatively low, generally running below 3 percent. If, however, they lose their jobs, the resulting unemployment is likely to prove of much longer duration than for younger persons.

A second dimension of the prosperity unemployment problem is that in the course of a broad business expansion an increasing percentage of the unemployed population is likely to consist of persons with loose or marginal labor force attachments. Teenagers, women, and workers with minimal skills or limited work experience tend to move in and out of the job market much more frequently than other worker groups, entering the labor market in relatively greater numbers in upswings and leaving in relatively greater numbers when job market conditions turn less favorable. To the extent this two-way movement occurs, it serves to hold up the overall unemployment rate in expansions and lower it in contractions. It also means that the unemployment that persists into expansion periods will increasingly consist of persons close to the margin between looking and not looking for work. While hard to quantify, it is obvious that this aspect of prosperity unemployment requires much more selective policy approaches than the type of unemployment that is predominant in periods of contraction.

Among workers close to the working-nonworking margin, two general categories call for special attention by policymakers: those who can readily find stable jobs or can take the necessary steps to qualify for such jobs if they choose to do so, as opposed to those who for personal or other reasons beyond their control cannot. The well-educated, experienced job seeker who is the second breadwinner in a family clearly requires quite different assistance, if indeed any is required at all, from the poorly educated, inexperienced job seeker who is the sole breadwinner in a low

income, nonwhite family. Within each of these two categories, as discussed more fully later, other subgroupings need to be recognized. One of the important tasks of policymakers is to identify the various groups involved more carefully and fashion policy measures appropriate to each.

A third dimension of the prosperity unemployment problem, which bears directly on the one just noted, is the increased emphasis that needs to be placed in periods of broad expansion on job opportunities in the private as opposed to the public sector. It is in such periods that the private sector, which in any event normally provides about 80 percent of all jobs, is in the best position to train and take on hard-to-employ workers. It is in such periods that private employers will be most likely to have unfilled vacancies in the higher paying, more desirable lines of work. The public sector can be expected to continue its role of maintaining essential training of certain low skilled workers and of providing jobs on at least a temporary basis for such workers, but the principal aim of policy would need to shift to inducing private firms to take on workers from the hard-to-employ category. This is a critically important positive factor because it means that normal market processes can be relied on to achieve most of the tasks of bringing excluded, unemployment-prone workers into the mainstream of employment opportunities. The major difficulty besetting efforts in this direction in periods of business slack is that the job needs of employers are too limited to make effective action possible, with new placements to a considerable extent simply taking the place of other economically vulnerable groups of workers. As labor supply conditions tighten, however, the focus of policy can shift from the much more difficult objective of creating new job openings to facilitating the training-recruiting process of filling already existing openings. It would be naive to argue from this that the plight of the jobless can be largely forgotten in periods of general pro-

sperity, but it would be equally unrealistic to formulate a set of policies that does not take this as its central starting point.

Within the public sector itself an analogous shift in policy away from federal to state and local government employment would also be appropriate in periods of sustained expansion. Opportunities for stable work in such periods are more likely to be concentrated at the local rather than national government level. Federal direction and support would still be needed but implementation would be required at the individual community, or even individual neighborhood, level. This would in turn mean placing even more responsibility on local public sponsors and administrative units than is provided under present federal legislation, however difficult the meshing of centralized and decentralized requirements is likely to be.

A fourth dimension is that the job needs of workers remaining unemployed even in generally prosperous times will not be met unless both they and their potential employers are induced to participate in broadened hiring and training programs in response to specific incentives and penalties. The type of economic and social behavior sought cannot be achieved by invoking appeals to conscience or the mere likelihood of eventual success. The advantages and disadvantages of the proposed patterns of action must be seen to be reasonably immediate, clear, and assured to both the participating workers and the employers; otherwise, the kind of sustained response necessary for the success of the program cannot be expected. This requirement for effective action, however, conflicts with another equally important requirement: since the factors giving rise to the problem of prosperity unemployment are deeply imbedded in the society's economic and social institutions, the results of even the best conceived policies are apt to be quite long delayed. Perhaps the most important issue facing policymakers in this area is

how this conflict in requirements can be reconciled or at least substantially modified.

These four dimensions, along with the aggregate relationships adverted to earlier, constitute the principal considerations which need to be kept in focus in evaluating proposals for bringing down the basic or minimum unemployment rate in this country. Other considerations will be touched on at later points: the rapid increase during strong expansion periods in the labor force participation rates of certain groups in the population (including illegal aliens!); the lessons from English, Swedish and other European countries' experiences; and the importance of such "indirect" approaches as improved investment incentives, area development programs, and lowered barriers to product market competition. Main attention in this study, however, centers on the behavior of labor markets in periods of expanding business and on the various direct approaches which have been attempted or suggested for improving the performance of such markets. The evaluation of these approaches will turn on how effective they are in meeting the four dimensions of the problem outlined above.