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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA

Special Session: 9:30 - 11:00 a.m.

Roosevelt Room

May 5, 1976

PRINCIPALS ONLY

- | | | |
|----|--|---------|
| 1. | Structural Unemployment: Nature and Policies | Malkiel |
| 2. | Proposals to Index the Minimum Wage and
Minimum Wage Youth Differential | Labor |



~~EYES ONLY~~

MINUTES OF THE
EPB/ERC EXECUTIVE COMMITTEE MEETING

May 4, 1976

Attendees: Messrs. Richardson, Lynn, Dent, Train, Seamans, Frizzel, Dixon, Cannon, Zausner, Hill, Mitchell, Darman, Porter, Perritt, Jellinek, Arena, Moffat, Coleman, Pasternak, Hardy, Dragoumis, McKelzain, Schleede, Butler, Duval.

1. Nuclear Waste Management

The Executive Committee reviewed a proposed Administration statement on radioactive nuclear waste management. The Administration will testify on this issue next week before the Joint Atomic Energy Committee. An interagency meeting on the statement will be held tomorrow to finalize the statement for release on Monday, May 10, 1976.

Decision

Executive Committee members were requested to provide Paul Dragoumis, Director of the ERC Nuclear Subcommittee, with their comments on the statement by c.o.b. Thursday, May 6, 1976.

2. Federal Energy Organization

The Executive Committee discussed the establishment of a Task Force to study ways to improve the management of energy and energy-related functions through reorganization as proposed in a letter from Secretary Richardson to Senator Ribicoff which is attached at Tab A.

Decisions

The Executive Committee approved establishment of an inter-agency Task Force on Federal Energy Organization co-chaired by Commerce and OMB.

The co-chairmen were requested to prepare a study outline and work plan for the Task Force and recommendations regarding members on the Task Force for Executive Committee consideration.



~~EYES ONLY~~

3. OCS Leasing

The Executive Committee discussed various interagency differences on H.R. 6218.

Decisions

The Executive Committee reached agreement on the following issues in H.R. 6218:

Lease termination with compensation: The Administration will urge revising H.R. 6218 to indicate that, if new information is found during exploration, the Secretary of the Interior will have discretionary authority for lease cancellation. Options on compensation will be developed by Interior, CEQ, and FEA.

Jurisdiction for conduct of environmental baseline and monitoring studies: The current Administration position supporting overall responsibility remaining with the Department of Interior with maximum use of NOAA's expertise will be maintained. The jurisdictional issue will be examined by the new Task Force on Federal Energy Organization.

Drainage of oil and gas from under State lands: The Administration will support bill language encouraging the Department of Interior to seek agreement with States on lease arrangements, but not requiring prior agreement before leasing takes place.

Best available technology: The Administration will support current bill requirements for "the best available technology, economically achievable" with explicit authority to weigh environmental and economic considerations given to the Secretary of Interior. The Administration will seek language to this effect in the final Committee report.

Regulatory authority: The Administration will support retaining current law and deleting the additional regulatory requirements in H.R. 6218.

The Department of the Interior will prepare a paper outlining these proposed Administration positions for review by Secretary Richardson and submission to the President prior to announcement of the Administration's position.

4. Presidential Speech for International Trade Week

The Executive Committee reviewed a draft speech on trade policy for possible Presidential use during International Trade Week.

THE WHITE HOUSE
WASHINGTON

May 5, 1976

MEMORANDUM FOR: BILL SEIDMAN
FROM: JIM CANNON
SUBJECT: Review of Employment and Unemployment
Statistics

Regarding your memorandum of May 1, we recommend
Option I.



THE WHITE HOUSE

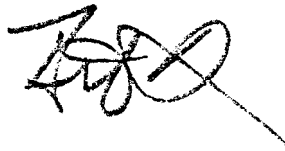
WASHINGTON

May 5, 1976

MEMORANDUM FOR: JIM CAVANAUGH
FROM: ART QUERN
SUBJECT: Study of Unemployment Statistics


Given the apparent amount of discussions which have taken place outside the administration I believe we must go with Option I.

To delay would simply feed the charge that "they know the statistics understate unemployment but don't want to do anything about it in an election year."



THE WHITE HOUSE
WASHINGTON

May 3, 1976

MEMORANDUM FOR: JIM CANNON
FROM: DAVID LISSY 
SUBJECT: Review of Employment and Unemployment Statistics

Per our conversation, I am hampered on this because I was unaware of previous EPB discussions of the subject.

Based on what I know, I would recommend Option 1. We already seem to be fairly public on the issue; since Humphrey has also recommended action we are not going to be directly attacked from that direction; and I don't see how an announcement will "call attention to the unsatisfactory level of unemployment" to any greater extent than now -- and the President's own remarks that we need to do better.

We should certainly not act until after this Friday when the April unemployment figures will be released. It would seem to me that particularly if the downward trend continues that is far bigger news than establishing a commission.

Our announcement of the commission should clearly put the entire issue into its proper historic perspective. It should be clear this is a matter we treat dispassionately and not for partisan purpose or because we doubt the veracity of the figures.

cc: Jim Cavanaugh
Art Quern



THE WHITE HOUSE

WASHINGTON

May 3, 1976

MEMORANDUM FOR PHILIP BUCHEN
JOHN O. MARSH
MAX FRIEDERSDORF
JAMES M. CANNON

FROM: L. WILLIAM SEIDMAN *LWS*
SUBJECT: Review of Employment and Unemployment
Statistics

A memorandum for the President on a review of employment and unemployment statistics is attached. It is currently being staffed to members of the EPB Executive Committee.

I would appreciate if you could provide your recommendations on this memorandum to my office no later than c.o.b. Tuesday, May 4, 1976.

Attachment



~~CONFIDENTIAL~~

THE WHITE HOUSE

Determined to be Administrative Marking

WASHINGTON

Date 8/18/80 By QF

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Review of Employment and Unemployment Statistics

On December 9, 1975 your advisers unanimously recommended and you approved the establishment of a Presidentially appointed commission to conduct a review of the Federal Government's employment and unemployment statistics.

Since your decision, Burt Malkiel has met with representatives of a number of labor unions and various business management organizations and with staff members of the Joint Economic Committee. He explained the need for such a study, reviewed the terms of reference for the commission, and sought advice and suggestions on particular people to be commission members.

A report on the progress toward establishing the Commission was presented to you at your meeting with the EPB Executive Committee on April 13, 1976. At that time some of your advisers questioned the desirability of establishing a Presidentially appointed commission on this issue so close to the election. This memorandum requests your guidance on the timing of implementing your decision to establish the Commission.

Options

Two basic options on the timing of establishing a commission are presented for your consideration.

Option 1: Establish this spring or early summer a Presidential commission to review the Federal Government's employment and unemployment statistics.

Advantages:

- o The establishment of such a commission is substantively desirable and long overdue. The last formal review of the Federal Government's employment and unemployment statistics program by nongovernmental experts was conducted by the President's Committee to Appraise Employment and Unemployment Statistics (The "Gordon Committee"),

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Determined to be Administrative Marking

Date 8/18/80 By 99

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appointed in 1961. The Gordon Committee recommended that a similar formal review of employment and unemployment statistics be conducted in approximately ten years.

- o The Administration is already consistently criticized by labor groups and congressional committees on our present employment statistics. Since your December approval of the establishment of a Commission, the proposal has been widely discussed among labor, business and congressional groups. Failure to establish the Commission soon might lead to political attacks.
- o There are currently two bills in the Congress proposing the formation of a commission to study employment and unemployment statistics. On November 19, 1975 Senator Humphrey wrote a letter to the Secretary of Labor urging him to establish such a commission.

Disadvantages:

- o The mere announcement of a commission might be interpreted by some as indicating that our present statistics are faulty and understate the employment problem. Forming such a commission now could serve as the basis for political attacks during the Presidential election campaign.
- o The announcement of a Presidential commission would call attention to the unsatisfactory level of unemployment.

Option 2: Delay the establishment of a Presidential commission on employment and unemployment statistics until 1977. Request Albert Rees, with the help of a research organization to prepare some study papers that could eventually be used when the commission is established.

Advantages:

- o This approach represents a good way to continue our effort toward improving our employment and unemployment data while keeping the study very low key and less subject to political attack.

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

Determined to be Administrative Marking

-3-

Date 8/18/80 By gj

Disadvantages:

- o It may be difficult to attract an individual of Albert Rees' stature to undertake such an interim assignment, especially since the final establishment of the commission would be in doubt.

Decision

Option 1 _____ Establish this spring or early summer a Presidential commission to review the Federal Government's employment and unemployment statistics.

Supported by:

Option 2 _____ Delay the establishment of a Presidential commission on employment and unemployment statistics until 1977. Request Albert Rees, with the help of a research organization to prepare some study papers that could eventually be used when the commission is established.

Supported by:



THE WHITE HOUSE

WASHINGTON

May 4, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: L. WILLIAM SEIDMAN *lws*
SUBJECT: Special Session on Unemployment

Two additional papers, CEA Comments on the Department of Labor paper on "Minimum Wage Youth Differential" and a paper on "Countercyclical Job Creation Experimentation," prepared by the Department of Labor, are attached for your information.

Attachments



THE WHITE HOUSE

WASHINGTON

May 4, 1976

MEMORANDUM FOR: JAMES CANNON

FROM: BILL DIEFENDERFER *WMD*

RE: Secretary Usery's Memorandum on
"Minimum Wage Youth Differential."

The Secretary believes proposing a youth differential would be "unwise." He does not elaborate on the negative aspects of proposing such action, but bases his position on the fact that research results are mixed and have not shown a definite correlation between minimum wage and youth unemployment. The Secretary also suggests that the needed flexibility exists in present law. He points to the availability of subminimum wage certificates as proof of this assertion. The memorandum from DOC draws conclusions at variance with Secretary Usery's.

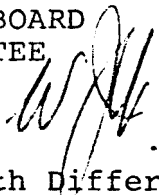
In 1975, student-learner certificates were used to employ only 17,000 students. In the largest category, full-time students certificates, 515,000 students were employed in 1975. However, over 300,000 of these were employed by institutions of higher education, which partly subsidized employment costs through another Federal program, College Work Study. The fact that well over half of the students in this category are in a college or university and that the average age of a student in college is now 27 must be carefully considered.

The use of full-time student certificates by retail and service establishments accounted for a little over 200,000 "youth" jobs. I emphasize "youth" because once again "youth" could mean a person 80 years old as long as they are full-time students. As I noted the average age of college students is now 27.

The Secretary should be questioned on what would be the "negative" results of proposing a youth wage differential. If the negative possibilities are minimal then I would suggest experimentation with a youth wage differential would be a very good gamble as about 50% of those who have an opinion of the subject feel it would have a very positive effect on youth unemployment, especially for 16-17 year olds.

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

MEMORANDUM FOR THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: W. J. USERY, JR. 
SUBJECT: Minimum Wage Youth Differential

The Executive Committee recently discussed proposals to deal with high teenage unemployment by providing a "youth differential" in the minimum wage. Such a differential would permit employees in certain age groups to be paid less than the minimum.

I believe that proposing such a youth differential would be most unwise. Theoretically, the notion may be attractive, but practical considerations suggest that its effects would be small and that other policies to deal with youth unemployment are preferable.

Empirical research results are mixed. While some simple studies show a statistically significant relationship between the minimum wage and youth unemployment, other, more comprehensive, studies yield mixed results, especially with respect to black teenagers (see Tab A).

Many factors other than the minimum wage tend to increase unemployment among teenagers. Supply and demand for jobs are not well balanced geographically, schedules can be a problem for students, child labor laws close off some jobs and teenagers do not like certain types of jobs (see Tab B).



Moreover, there is substantial flexibility in existing minimum wage laws which permit teenagers to be paid less than the minimum in many cases (see Tab C). This is especially true in sectors that employ large numbers of youth, such as recreation, retail trade, and service organizations. Greater advantage can be taken of these flexibilities with less controversy than would be engendered by proposing a youth differential.

Finally, the Federal Government is already engaged in a variety of programs which create more than one million teenage jobs directly (see Tab D).

TAB A



Impact of Minimum Wages on Teenage Employment Summary of Evidence

Introduction

We present here a brief summary of the results of 6 recent minimum wage studies (a list of these studies and a short technical summary of each is included in the Appendix). The studies all focus on the employment impact of minimum wages since economic theory is unambiguous on this point - an increase in the minimum wage and/or the coverage of the minimum wage should lead, other things equal, to reduced employment. The impact on unemployment is ambiguous; an increase in the minimum wage by reducing job opportunities may lead to exit from the labor force and actually lower unemployment.

Employment Impact of the Minimum Wage

An overall review of this literature reveals that to date there is no clearcut evidence on the effects of the minimum wage on teenage employment. Each of the studies contains evidence that the minimum wage has caused disemployment for some groups of teenagers, but the results are not consistent for all teenage groups. For example, contrary to expectations, evidence of disemployment is found more often for white teenagers than black teenagers and for males than females. While the studies tend to support the theoretical predictions of an adverse employment impact of minimum wages, a closer look at each study (see Appendix) reveals problems. In several studies changing the model or the particular teenage group analyzed eliminates the finding of significant disemployment effects. The variability in the estimated impact of minimum wages across the different studies makes it very difficult to assign a specific "consensus" percentage reduction in teenage employment resulting from increases in the minimum wage. For example, elasticities range from essentially zero (for the Welch time series study on 14-19 year olds) to .2 (for the Hashimoto Mincer study of white teenagers).



Employment Impact of Other Factors

Other factors which influence teenage employment and unemployment include the following:

- 1) school attendance,
- 2) relative size of the teenage population, *
- 3) level of economic activity - business cycle.


School attendance rates have increased during the past 20 years and according to the studies reviewed, this has led to reduced employment rates for most teenage groups. The teenage population aged 16-19 has rapidly increased since the 1950's, both in absolute numbers and as a percentage of the population 16 and over (see Table 1, Tab E). This has no doubt had some influence on the ability of teenagers to obtain jobs. The studies reviewed here provide some evidence to support the view that increased teenage/population ratios are associated with reduced teenage employment ratios - that is, teenage employment has risen in association with teenage population increases, but not on a one for one basis.

The strongest evidence emerging from the studies concerns the impact of the business cycle. Not surprisingly, teenage employment is found to vary directly with the state of the economy. In expansionary periods the teenage employment rate rises faster than the overall employment rate and it falls faster during contractions. Each study confirms the strong impact of the level of economic activity.

A Youth Differential

There is very little evidence on the employment effect of a youth differential. The only study which attempts to estimate the impact (Welch-Cunningham) concludes that a 20 percent differential for teenagers 14-17 would increase overall teenage employment by a minimum of 0 and a maximum of 10 percent. Its effect on the employment of 18-19 year olds is uncertain. The study does not attempt to measure the impact of a youth differential on adult employment.

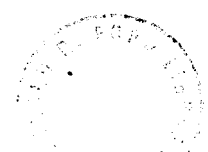
*Pertinent demographic data may be found at Tab E.



Conclusion

The teenage population is currently at a peak both in absolute terms and as a percentage of overall population. The pressure on teenage job prospects stemming from this factor should begin to abate in the next few years as the teenage population declines (see Table 1, Tab E). Contrary to its effect in the 1960's and early 1970's, the population effect is likely to help reduce teenage unemployment in the next 10-15 years (see Table 1, Tab E).

Empirical work to date is simply not conclusive regarding the impact of the minimum wage. While there would be some job expansion with a lower minimum or a youth differential, the magnitudes involved cannot be specified with any degree of accuracy.



Appendix

Review of Specific Studies

The following studies are reviewed:

- 1) Hyman Kaitz, "Experience of the Past: The National Minimum," in Youth Unemployment and the Minimum Wage, Bulletin 1657, U.S. Department of Labor, 1970.
- 2) Masanori Hashimoto and Jacob Mincer, "Employment and Unemployment Effects of Minimum Wages," Mimeo, 1971.
- 3) Terry Kelly, "Youth Employment Opportunities and the Minimum Wage: An Econometric Model of Occupational Choice," Working Paper 3608-01, Urban Institute, 1975.
- 4) Terry Kelly, "Two Policy Questions Regarding the Minimum Wage," Working Paper 3608-05, Urban Institute, 1976.
- 5) Finis Welch, "Minimum Wage Legislation in the United States," Economic Inquiry, September 1974, as amended in "Comment" by Fred Siskind and "Reply" by Finis Welch, Economic Inquiry, Forthcoming.
- 6) Finis Welch and James Cunningham, "Effects of Minimum Wages on the Age Composition of Youth Employment," Rand Paper P-5468, The Rand Corporation, 1975.



- 1) Hyman Kaitz, "Experience of the Past: The National Minimum," in Youth Unemployment and the Minimum Wage, Bulletin 1657, U.S. Department of Labor, 1970.

Period Covered: 1954-1968, quarterly data

Groups covered: Separate estimates for teenagers 16-19, white and nonwhite teenagers by sex and age brackets 16-17 and 18-19.

Dependent variable: Employment/population ratio for each group

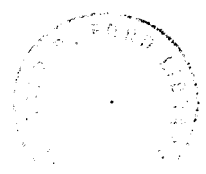
Independent variables: Proportion in armed forces

Adult male unemployment rate
Proportion in agriculture
Population share of each group

School enrollment ratio
Dummy variables for years 1965, 1966, 1967, 1968 to represent introduction of large scale manpower programs in those years.

Minimum wage variable

Major contribution: Generation of a minimum wage variable which relates the minimum wage to average hourly earnings in each industry and weights by teenage employment and percentage of employees covered in each industry. The variable also accounts for newly covered workers subject to lower minimum wage rates.



Results

Category	Age group	Coefficient
All	16-19	a) -1.654*
		b) 0.677
White males	16-17	-2.782*
	18-19	-2.012*
White females	16-17	-2.208*
	18-19	0.147
Nonwhite males	16-17	-.102
	18-19	4.515
Nonwhite females	16-17	.829
	18-19	.002

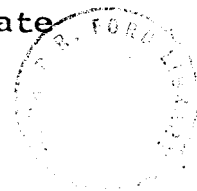
* - Statistically significant

a) - dummy variables for years 1965-1968 included to represent years of special manpower programs

b) - dummy variables excluded

Among the disaggregate demographic groups 3 of 8 coefficients have the expected negative (significant) sign indicating a disemployment impact from the minimum wage. The aggregate 16-19 group has a significant negative coefficient when the dummy variables are included in the regression (representing years of special manpower programs), but an insignificant positive coefficient when the dummy variables are excluded.

The coefficient on adult male unemployment was negative and significant in both aggregate regressions, it was negative in all 8 disaggregate regressions and statistically significant in 5 of these regressions. Kaitz notes that Durbin-Watson coefficients generally indicate



the presence of some positive serial correlation and the significance of the coefficients is probably overstated. He also discusses measurement problems of several variables, with particular emphasis on the labor force (employment and unemployment) data.

Kaitz does not consider the evidence strong enough to make any definite statement regarding the direction or size of the impact of the minimum wage, however, for illustrative purposes, he estimates (using the disaggregate results) that a 25 percent increase in the minimum wage in 1968 would have reduced teenage employment by about 182,000 (about 3.1 percent of total teenage employment of 5,800,000).



- 2) Masanori Hashimoto and Jacob Mincer, "Employment and Unemployment Effects of Minimum Wages," Mimio, 1971

Period covered: 1954-1969, quarterly data

Groups covered: White and nonwhite, 16-19

Dependent variable: Employment/population ratio for each group

Independent variables: Proportion in armed forces

White male, 35-44 unemployment rate

Trend

Minimum wage variable - same as Kaitz

Dummy for 1962 Census adjustment to employment data

Major contribution: Introduction of distributed lag for impact of minimum wage change. No explicit theory of the length of lags is provided. They tried 6 and 8 quarters lags. The 8 quarter lags gave better explanatory power.

Results

	Category	Age group	Coefficient	Elasticity
A)	White	16-19	-.336*	-.205*
	Nonwhite	16-19	-.594	-.465
B)	White	16-19	-.011	
	Nonwhite	16-19	-.338*	

* - Statistically significant

A) - Regressions included a quadratic time trend.

B) - Regressions included no time trend.

Hashimoto-Mincer obtain the expected negative coefficients using both models, but statistical significance is achieved for whites only with the quadratic time trend included in the regression and for nonwhites only with no time trend in the regression.

The adult male unemployment rate, representing the level of business activity, has the expected negative sign and is significant in all regressions.

Using the results in category A of the above table Siskind (Groups with Historically High Incidence of Unemployment, Employment Standards Administration, May 1975, p.49) estimates that a 25 percent increase in the minimum wage would have reduced teenage employment by approximately 336,000 in 1968 (about 5.8 percent of total teenage employment of 5,800,000). Use of category B results would have produced a far smaller estimate.



- 3) Terrence Kelly, "Youth Employment Opportunities and the Minimum Wage: An Econometric Model of Occupational Choice," Working Paper 3608-01, Urban Institute, 1975

Period covered: 1954-1968, quarterly data

Groups covered: White and nonwhite, by sex and age brackets 16-17 and 18-19

Dependent variable: Employment/population ratio for each group

Independent variables: Proportion in armed forces

Adult male unemployment

Population share of each group

Dummies variables for years 1965, 1966, 1967, 1968 to represent the introduction of large scale manpower programs in those years

School attendance

Percentage on welfare

Minimum wage variable - same as Kaitz, introduced as 3 quarter distributed lag.



Major contribution: Choice of school attendance or welfare participation treated as endogenous in the model. The impact of the minimum wage on these variables is removed prior to estimation of unemployment impact of the minimum wage ("residualization" technique).

Results:

Category	Age group	Coefficient
White males	16-17	-.00358*
	18-19	-.00288*
White females	16-17	-.00165*
	18-19	-.00033
Nonwhite males	16-17	-.00539*
	18-19	-.00074
Nonwhite females	16-17	-.00010
	18-19	.00009

* - Statistically significant

Kelly obtains negative significant coefficients for 4 of 8 groups, and negative signs on 7 of the 8 groups. A nonsignificant positive coefficient was obtained for nonwhite females 18-19.

Kelly's "residualization" technique makes a difference though its not always significant (e.g. the coefficient on nonwhite females 16-17 in the absence of "residualization" is +.00058 but is not significantly different from zero). The technique uses variables which are admittedly



- poorly specified:
- 1) October school attendance is used for the fourth quarter of the year and for the first three quarters of the following year;
 - 2) Welfare participation reflects total welfare participation, not group specific rates.

Durbin-Watson coefficients indicate the likely presence of serial correlation in some regressions.

The coefficient for the adult male unemployment variable is negative and significant for all 4 male groups but among the female groups is negative and significant only for white females 16-17.

Using the coefficients for the male groups, Kelly estimates that the increase in the minimum from \$1.25 in 1966 to \$1.60 in 1968 plus the increased coverage resulted in reduced employment opportunities of about 315,000 jobs.



- 4) Terry Kelly, "Two Policy Questions Regarding the Minimum Wage," Working paper 3608-05 Urban Institute, 1976.

Period covered: 1954-1974, quarterly data

Groups covered: Males and females by age brackets
16-17 and 18-19

Dependent variable: Employment/population ratio for each group

Independent variables: Proportion in armed forces

Adult male unemployment

School attendance

Percentage on welfare

Minimum wage variable - 1) same as Kaitz 2) same as Kaitz but with total employment weights rather than teenage employment weights

Major contribution: Addition of 6 years experience under the minimum wage; and experimentation with an alternate minimum wage variable.

Results:

Category	Age	Min. 1 Coefficient	Min. 2 Coefficient
Males	16-17	+.00001	-.00031*
	18-19	-.00017*	-.00040*
Females	16-17	-.00013*	-.00023*
	18-19	-.00010*	-.00021*

* - Statistically significant

Min. 1 - Kaitz minimum wage variable

Min. 2 - Kaitz minimum wage variable using total industry employment weights rather than teenage industry employment weights.



Using the minimum wage variable with teenage employment weights (Min. 1) 3 of 4 groups have significant negative coefficients; using the total employment weighted variable (Min.2) all 4 groups have significant negative coefficients.

As in his earlier study Kelly treats school attendance and welfare as endogenous. The technique significantly affects his final results. The Min. 1 results above would all be statistically insignificant (and both male coefficients would be positive) in the absence of Kelly's "residualization" technique (Kelly does not specify its effect on the Min. 2 results). The results must be viewed with caution since the "residualized" variables are admittedly poorly specified:

- 1) October school attendance is used for quarters 4, 1 and 2, and quarter 3 is set equal to zero (a change from his previous study);
- 2) welfare participation reflects total rates, not group specific rates.

The coefficient for adult male unemployment is negative and significant for all groups in both sets of regressions.

Kelly does not provide estimates of the actual employment impact of changes in the level of the minimum wage.



- 5) Finis Welch, "Minimum Wage Legislation in the United States," Economic Inquiry, September, 1974.
Fred Siskind, "Comment," Economic Inquiry, forthcoming.
Finis Welch, "Reply," Economic Inquiry, forthcoming.

Part I - Aggregate Regression Analysis

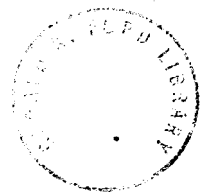
Period covered: 1954-1968, quarterly data

Groups covered: Teenagers 14-19
Teenagers 16-19

Dependent variable: Teenage/adult employment ratio

Independent variables: Proportion in armed forces
School enrollment
Adult unemployment rate
Trend
Minimum wage variable-two variants

Major contributions: A) Inclusion of 14-15 age group
B) Generation of new minimum wage variables relating minimum to estimate of teen-age wage in absence of minimum. The variable accounts for aggregate coverage changes, but not for newly covered workers subject to a lower minimum wage. One minimum wage variable assumes perfectly elastic labor supply; the second assumes unitary supply elasticity.



Results: (Elasticities)

Category	Minimum wage variable 1 coefficient		Minimum wage variable 2 coefficient	
	Model 1	Model 2	Model 1	Model 2
Teenagers 14-19 (industry data, results as corrected by Siskind)	-.061	-.047	-.033	-.079
Teenagers 14-19 (aggregate published data)	-.106	-.088	-.087	-.133
Teenagers 16-19	-.237*	-.169*	-.198	-.198*

*Statistically significant

Welch obtains the expected negative coefficients in each of his regressions for teenagers 14-19, but the coefficients are not statistically significant. Reworking his model for teenagers 16-19 he obtains significant negative coefficients in 3 of 4 regressions.

The coefficient for the adult unemployment variable is negative and significant in all regressions.

Welch does not provide estimates of the actual employment impact of changes in the level of the minimum wage.



Part 2 - Industry Employment Distribution

Period covered: 1954-1968

Group covered: Teenagers 14-19

Dependent variable: Ratio of percentage of all teenagers employed in the specific industry to the percentage of all adults in the industry.

Independent variables: Adult unemployment rate
Trend

Minimum wage variable

Contribution: First regression attempt to estimate the impact of the minimum wage on the industrial distribution of teenage employment.

Results: (elasticities)

	Industry			
Category	Manufacturing	Retail Trade	Services	Composite of Other industries ^{1/}
Teenagers 14-19	-.370*	-.078*	-.004	+.380*

*Statistically significant

A negative employment impact is found for manufacturing and retail trade, but essentially no impact is found for services and contrary to expectations a positive impact is found for the industry composite.

It should again be mentioned that the minimum wage variable Welch constructed does not account for the lower minimum applicable to newly covered workers. This would likely affect the retail trade and service sectors more than the others.

^{1/} Includes mining, construction, wholesale trade transportation and communication, and finance, insurance and real estate.



- 6) Finis Welch and James Cunningham, "Effects of Minimum Wages on the Age Composition of Youth Employment," Rand Paper P6458, Rand Corporation, 1975.

Period covered: 1970 Census, cross section study

Groups covered: Teenagers 14-15, 16-17, 18-19

Dependent variable: Teenage/adult male 25-44 employment ratio in each state.

Independent variables: Teenage/adult population in state
Fraction of states labor force
Unemployed fraction of states population residing in urban areas.
Minimum wage variable - fractional increase in cost of 18-19 year old workers caused by minimum wages.

Major contribution: Attempt to estimate using cross-section data the impact of Federal and state minimum wage laws on the aggregate and disaggregate levels of teenage employment. Adjustment of teenage employment levels to account for students working fewer hours than nonstudents. Attempt to estimate the impact of a youth differential for youth aged 14-15 and 14-17 on employment of these groups and the groups not subject to the differential.

Results: A 1 percent increase in the costs of 18-19 year old workers due to the minimum wage corresponds to an increase of 1.7 percent for 16-17 year old workers and 3.3 percent for 14-15 year old workers. The combined effect is to reduce employment of those 14-15 by 4.0 percent, those 16-17 by 2.4 percent and those 18-19 by 1.3 percent. Using these results Welch-Cunningham estimate that existing legislation in 1970 reduced teenage employment by approximately 46 percent for those 14-15, 27 percent for those 16-17, and 15 percent for those 18-19.

The Welch-Cunningham disemployment estimates are very high and they represent overestimates due to two factors:



- 1) The lower minimum wage applicable to newly covered workers is ignored in the calculations;
- 2) Teenage employment is disproportionately concentrated in the industries covered by the lower minimum.

Incorporating the lower minimum would lower the cost impact estimates of the minimum wage and thereby lower the resulting disemployment estimates.

Welch-Cunningham estimate that a youth differential for either 14-15 year olds or 14-17 year olds would increase total teenage employment. The amount of the increase is not certain, however, due to large error variances in the estimated parameters. Extending a 20 percent differential to 14-15 year olds would have virtually no impact on employment of 16-19 year olds. Similar calculations for a differential extended to 14-17 year olds leads to an uncertain impact on the employment of 18-19 year olds.



TAB B



Institutional Factors Affecting Youth Unemployment

Location of employment opportunities:

- The movement of farm population to urban areas has decreased the number of farm jobs, which traditionally employed a large number of youths, and has contributed to the glut of unskilled labor in urban areas.
- Movement to suburbs of many service and other low skill job opportunities has exacerbated inner city youth unemployment.

The Employers' Perspective:

- Statutory restrictions may constrain or discourage employers from hiring teenagers.
 - For example, persons under age 18 cannot work in various occupations defined as hazardous.
 - Most states have child labor and compulsory school attendance laws.
 - Frequently, there are requirements for work permits and other troublesome paperwork.
- In a 10 city survey of employers in 1969 the factors most frequently cited in affecting their decisions to hire teenagers were:
 - the restrictions on hazardous work,
 - the military draft,
 - undependability and lack of training of teenagers.
- Similarly, in a 1969 study of State Employment Service local offices, the most frequently cited reasons for difficulty in placing teenagers were:
 - legal restrictions,



- employer hiring specifications with respect to age,
- education or experience,
- the draft (affecting 18- and 19-year old males at that time),
- high labor turnover of teenagers,
- employer belief that teenagers are unreliable.

Youth Perspective:

- Desired hours and location of work of those attending school but seeking work are not always congruent with the needs and location of employers, increasing the difficulty of making an employment match.
- There was some evidence in the late 60's that unemployed male teenagers were disinclined to accept jobs paying less than the legal minimum.
- To the degree that young workers will not accept menial jobs (perhaps partially defined by the wage paid) unemployment would not be lowered by a lower wage offer.

Questions:

- It is difficult to predict how large a differential would be needed in order to offset added costs to the employer of hiring teenagers. It is similarly difficult to predict how a lower minimum level would affect teenage willingness to work.
- If the cost of perceived drawbacks in hiring teenagers were offset to some degree by a lower wage, it would take time for employers to recognize altered cost trade-offs and to amend hiring and other relevant business practices accordingly. Where this involves changes in production practices, changes in hiring practices would be more difficult and longer in coming.



TAB C

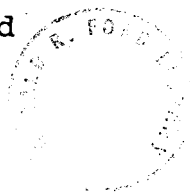


Minimum Wages and Youth

There is a common perception that the Fair Labor Standards Act (FLSA) establishes rigid, universal standards for minimum hourly wage rates. In fact, the Act provides considerable flexibility for the payment of hourly rates below the prescribed minimum to young people in the 16-19 age group. Moreover, FLSA does not apply to all industries and an appreciable number of jobs which traditionally have been attractive to young people can and have been established below the minimum wage. For the future if all eligible employers took advantage of the flexibilities provided by FLSA and growth trends in uncovered industries continue, job opportunities at subminimum wage rates should continue to increase.

1. Subminimum wage certificates - Two provisions of Section 14 of the FLSA, the student learner regulations and the full-time student regulations, allow for the employment of student workers at subminimum wage rates.

The student-learner regulations permit the employment under special subminimum certificate of students employed on a part-time basis, provided they are enrolled in a bona fide vocational training program. Certificates are issued at 75 percent of the minimum and are an incentive for employers to hire in-school teenagers who are not yet fully productive. Over 17,000 teenagers were employed under student-learner certificates in FY 1975.



The other major provision covering students under Section 14, the full-time student regulations, permits the employment of full-time students at subminimum wages in retail or service establishments, agriculture and in institutions of higher education employing their own full-time students. Subminimum wage certificates are issued at 85 percent of the minimum. The 1974 amendments permitted employers to obtain authority to employ up to four full-time students at subminimum wages on any workday without prior certification and extended the use of certificates to institutions of higher education. As a result of these broadened provisions and the 1974 increase in the minimum wage the number of full-time student workers authorized has increased to 515,000 in 1975.

To date, the full-time student exception to the minimum wage has been underutilized by those industries it was designed to benefit. In 1975, for example, 26,170 certificates were issued to retail and service establishments, agriculture and institutions of higher education authorizing subminimum wages to full-time students. This number of certificates is small when compared with the estimated 639,000 establishments which are eligible and could benefit from the subminimum wage certificates. In theory, all 11 million of the 16-19 year old age group who attend school, could be affected by this provision.

2. Tipped Allowance - The Fair Labor Standards Act has always permitted employers an allowance for board, lodging, or other facilities which may be applied toward minimum wage requirements when the board, lodging, or other facilities are customarily furnished by the employer to his employees. In extending minimum wage protection to large hotels, motels, and restaurants, the 1966 Amendments to the Act permitted an allowance toward the minimum wage requirement of tips actually received by tipped employees. The allowance for tips could not add up to more than 50 percent of the applicable minimum wage, however. In other words, employers must pay tipped employees at least half of the applicable minimum wage (from their own pockets) for each hour worked, and may take a tip credit of no more than 50 percent of the required minimum wage.

It is estimated that 720,000 hotel, motel, and restaurant workers receive tipped income and qualify under this exception to the minimum wage. The 16-19 year age group employed in "tipped" jobs as waiters, waitresses, etc., account for about 135,000 of this total. The tipped income for these employees could account for up to 50 percent of the applicable minimum wage. In addition, the tipped allowance can also be claimed by employers in the transportation industry for taxi cab drivers, porters at airline, bus, and railway terminals, etc.

3. Exemptions from the Federal Minimum Wage - Over

8 million nonsupervisory employees are exempt from the minimum wage provisions of the Fair Labor Standards Act. The private sector accounts for virtually all of these employees with more than 60 percent (4.9 million) of such workers employed in small retail trade or service establishments. It is estimated that young workers account for about 15-20 percent of all nonsupervisory employees in retail and service establishments with no wage protection under the Fair Labor Standards Act. Thus, about one million young workers would be included in this category alone. Since service can be classified as a growth industry, job opportunities for young workers in this sector should be expanding in the future.

Teenagers employed on an intermittent or casual basis in agriculture and as private household workers also have no Federal minimum wage guarantee. Approximately 310,000 in the 16-19 year old age group are employed in these areas. (See Tab E for more detailed information on relevant demographic characteristics.)

TAB D



Federal Manpower Services To Youth

The Federal Government provides an extensive variety of services to a large number of youths (here defined as persons less than 22 years old) every year. Some of the programs are targetted at youth, and hence are well known; others serve a large number of youths while being open to persons of all ages.

Department of Labor Programs

Perhaps the most widely recognized youth programs are those focused on summer needs. The 1976 Summer Program for Economically Disadvantaged Youths will distribute \$528 million to Comprehensive Employment and Training Act (CETA) prime sponsors, enough to provide 9-week, 26-hour per week jobs for 888,000 jobless youth aged 14-21, from disadvantaged families. The jobs will be at the current minimum wage (\$2.30 per hour). Also during the summer, a number of summer jobs will be funded by CETA prime sponsors using Title I money; last year, 143,000 such jobs were funded at a cost of \$60 million. The National Alliance of Businessmen (NAB) has set a goal of placing 200,000 youths (mostly disadvantaged youths still in school) in summer jobs of at least 120 hours' duration and at the minimum wage or more. (See below.) Finally, the public Employment Service anticipates placing some 335,000 youths during the summer as part



of the regular services it provides to youths. (See below.)

Less visible but equally important are the Labor Department's programs which serve youth all year around. Youths are important participants in all the titles of CETA. In Title I, for example, it is estimated through the Continuous Longitudinal Manpower Survey (CLMS) that about 30 percent of all participants in employability development (basically training) programs have been youths. Applying this to the \$674 million for classroom and OJT programs anticipated for FY 1976 and to the 375,000 enrollees, approximately 113,000 youths would receive training at a cost of about \$202 million. In addition, the CLMS indicates that about 79,000 youths per quarter are involved in non-summer work experience programs under Title I. Applying three-fourths of the estimated annual average work experience cost of \$2850 to this level, an additional \$169 million is implied. Another 10,000 will be placed in jobs by CETA prime sponsors without the need for further training or work experience assistance.

Youths are also served under the Public Service Employment (PSE) titles of CETA (Titles II and VI). About 23 percent of PSE jobholders are under age 22--a total of about 71,000 persons, at an annual cost for FY 1976 of \$462 million.

Title IV of CETA is a youth title, the Job Corps program. There are 60 Job Corps centers; 27 are Civilian Conservation Centers operated by the Department of Agriculture; the others are operated by contract with industrial, State, or educational organizations. They provide 20,500 man-years of training and basic instruction to some 49,000 disadvantaged youths each year at a cost of about \$175 million.

Although youth are served in small but unknown numbers by a variety of the CETA Title III national programs, three of these programs focus largely on youth and deserve specific mention. The Apprenticeship Outreach/Minority OJT program channels some 12,000 youths annually into the apprenticeable trades, at a cost of \$40 million. The NAB placement program mentioned above, funded at \$13 million for the entire year, has a target of placing 650,000 youths in jobs (200,000 of them during the summer). Finally, \$6 million is allocated to the Target Group Model Development program, one component of which is the sponsorship of 20 pilot Work-Education consortia whose goal is to improve the school-work transition of school-age youth.

The Department of Labor has a National Occupational Information Service which has made grants to 8 States to develop programs to help students learn about career



opportunities, help new entrants become aware of more promising occupations, increase the level of occupational awareness generally, and assist counselling and career education. The funding level for FY 1976 is about \$2.5 million.

Finally, the Labor Department contacts the greatest number of youths through the Employment Service (ES). Of the 15 million new applications and renewals during FY 1975, about 4.6 million were youths. About 1.2 million youths were placed in jobs through the ES; assuming the 1975 average cost per placement of \$87 for these, the implied service cost is about \$104 million. In addition, youths were provided with job search assistance, counselling, and testing services through the ES, and benefited from the Cooperative ES-School program designed to facilitate the school-work transition.

The Work Experience and Career Exploration Program (WECEP), administered by the Employment Standards Administration, is another effort addressing the youth unemployment problem. This program combines formal schooling and labor-force participation for 14-15 year-olds who are drop-out prone or who otherwise suffer educational disabilities.



WECEP enrollees are paid the minimum wage and a program may be conducted in any State upon approval by the Administrator of the Wage and Hour Division. At this time, 17 States with over 20,000 enrollees are participating in the program.

Programs of Other Agencies

The largest program conducted outside of the Labor Department is the vocational training and rehabilitation program of the Department of HEW. During 1976, this is estimated at about \$800 million in total, with nearly 600,000 persons participating. Since, in 1975, 27 percent of participants were under 22; this implies 162,000 enrollees at a cost of \$216 million.

During the summers, the Federal Government, through the Civil Service Commission, conducts the Federal Summer Employment Program for needy youths. This summer, about 63,000 youths are expected to be hired at Federal offices nationwide, at a cost of \$51.5 million. Another 13,000 jobs for poor and nonpoor youths will be created under the auspices of the Departments of Interior and Agriculture through the Youth Conservation Corps program, at a cost of \$16 million. The Appalachian Regional Commission makes small grants for vocational education purposes to the Appalachian region out of its own appropriation; an unknown



amount of these goes for youth. Finally, the Community Services Administration makes grants to community action agencies which can be used for manpower projects, many of which benefit youth. About \$29 million is expected to be used for these grants in 1976.

Interdepartmental Task Force (Labor, Commerce, HEW)
on the Transition From School to Work

Recognizing the importance of aiding the school-to-work transition, demonstration projects (about 12) are currently being designed in local communities to facilitate the move from a school environment to labor force participation. Interested local community groups including representatives from schools, local government, labor and industry will work to develop or improve labor market information on occupation and job opportunity; school curriculums and courses will be evaluated against the vocational training needs of local industry. Emphasis is currently being placed on the development of local education and work councils.

Further, the interdepartmental task force is investigating alleged barriers to the employment of youths (insurance provisions, lack of experience, etc.).

Demographic Characteristics, 16-19 Year Age Group

1. Population Trends - The growth in the teenage 16-19 population has been very rapid during the past 15 years (see Table 1). This group numbered 10.7 million in 1960 or about 8.8 percent of the population 16 and over. By 1975, however, it had grown to 16.6 million or about 10.8 percent of the population 16 and over. This trend will reverse itself during the next few years. By 1985 teenagers 16-19 will number 14.0 million and represent only 8 percent of the population 16 and over.
2. Labor Force Characteristics and School Attendance - The teenage population 16-19 grew from 14.4 million in March 1973 to 16.4 million in March 1976. During this period school attendance increased from 9.9 million to about 11 million, employment expanded from 5.9 million to 7.2 million and unemployment increased from 1 million to 1.7 million (see Tables 2 and 3). The data indicate that a larger proportion of teenagers are entering the labor force now than they were three years ago.

Attention continues to focus on teenagers and the persistently high unemployment rate for this age group. This high unemployment rate, about 19.1 percent in March 1976 (see attached Table 4), obscures the considerable increase in employment experienced by the 16-19 age group in recent years (over 1 million between 1973 and 1976).



Table 1

Population Characteristics

Total population, July 1
(millions)

Age Group	Actual			Projected	
	1960	1970	1975	1980	1985
16+	121.8	142.4	153.5	167.3	175.7
16-19	10.7	15.0	16.6	16.4	14.0



Table 2

Major Activity and Employment Status - Persons 16-19 Years Old,
March 1973

(Numbers in thousands)

<u>Major activity in survey week, employment status</u>	<u>All races</u>	<u>White</u>	<u>Negro</u>
Both sexes, 16-19 years	14,393	12,280	1,939
Going to school	9,863	8,355	1,375
Employed	2,614	2,423	161
Unemployed	595	501	84
Not in labor force	6,654	5,430	1,130
Other	4,525	3,919	564
Employed	3,323	3,001	300
Unemployed	427	594	167
Not in labor force	775	594	167

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 91.



Table 3

Employment Status of Persons 16-19 Years Old

March 1976 - Seasonally Adjusted
(Numbers in thousands)

Both sexes, 16-19 years

Civilian noninstitutional population	16,387
Civilian labor force	8,920
Participation rate	54.4
Employed	7,213
Agriculture	436
Nonagricultural industries	6,777
Unemployed	1,707
Unemployment rate	19.1
Not in labor force	7,467



Table 4

Unemployment Rates For the Civilian Labor Force and the
Teenage Civilian Labor Force 16-19 years, 1966-1976

<u>Date</u>	<u>Civilian labor force 16 years and over</u>	<u>Teenagers, 16-19 years</u>
1966	3.8	12.7
1967	3.8	12.9
1968	3.6	12.7
1969	3.5	12.2
1970	4.9	15.3
1971	5.9	16.9
1972	5.6	16.2
1973	4.9	14.5
1974	5.6	16.0
1975	8.5	19.9
March 1976 (seasonally adjusted)	7.5	19.1

Source: Bureau of Labor Statistics (Current Population Survey)
 1966-1974 - Manpower Report of the President 1975
 1975 - Employment and Earnings, January 1976
 1976 - BLS Press Report, April 2, 1976



REQUEST

THE WHITE HOUSE
WASHINGTON

May 4, 1976

MEMORANDUM FOR: JIM CANNON
FROM: BILL DIEFENDERFER *WMD*
SUBJECT: Administration Job Creation Initiatives

Of the four memoranda to be considered by the EPB, I feel this one is far and away of most value. Its value comes from the analysis of Congressman Kemp's job creation bill (H.R. 12802) and the present Republican Congressional situation, which is in need of strong Presidential initiative in key domestic areas. The narrative of the memorandum is short, three pages, and worth the reading time, if available. I will summarize below Kemp's proposal.

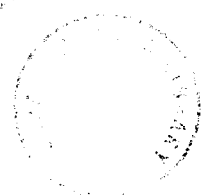
The key point is an emphasis on private spending rather than public spending. Several methods of encouraging private spending and savings are put forth.

- ... Tax credit for increases in qualified savings.
- ... Increase tax credits for individual retirement accounts.
- ... Exclude first \$1,000 of capital gains from taxation.
- ... Reduce corporation tax from 22% to 20%.
- ... Reduce corporation surtax from 26% to 22%.
- ... Increase corporation surtax exemption to \$100,000.

This is a capsulization of the major provisions of Kemp's bill. It should be noted that sections 7 and 8 of the bill help family farm owners preserve their operations in a method similar to the President's proposal for inheritance tax relief for farmers. The main thrust of the Kemp proposal is to stimulate the private sector and thus employment in that sector. This has been called the "trickle down" theory in the past, but should have gained some palatability by the current economic recovery, which is based primarily on the private sector. In several ways the Kemp bill resembles action suggested in Commerce's memorandum for the EPB.

The bill has 103 co-sponsors.

Attachment



THE WHITE HOUSE

WASHINGTON

April 30, 1976

MEMORANDUM FOR: THE ECONOMIC POLICY BOARD

FROM: WILLIAM F. GOROG *WFG*

SUBJECT: Administration Job Creation Initiatives

This memorandum discusses the possibility of a new legislative initiative to focus public attention on the President's proposals for job creation and economic growth. Consideration at this time was stimulated by a plea from Congressman Jack Kemp and other Republican House members who feel that we do not have a recognizable program to combat measures such as the Humphrey/Hawkins bill. It should be mentioned at the outset that since the President has already voiced strong opposition to Humphrey/Hawkins, the next logical step is to confront the situation squarely by putting forth our own position.

In three meetings that I have attended with these House Republicans they have forcefully stated the following case: (1) that a shift toward fiscal restraint and a balanced budget is the most important requirement for reduced inflation and a sustainable recovery; (2) that the President's emphasis on restraining government spending has resulted in a Congressional shift toward moderation; and, (3) that we do not have a publicly visible program that emphasizes job creation in the private sector. Our approach is viewed as passive and negative. Humphrey/Hawkins can be denounced as being unworkable and inflationary, but the public doesn't fully understand that we propose anything other than letting the economy heal itself. In response to the third item, one hundred and three House members have joined Kemp in sponsoring an identifiable, comprehensive and positive program, the Jobs Creation Act of 1976. Kemp and his colleagues are not asking for total endorsement of their bill, but they do want one bill to serve as a common platform. This could take the form of the Administration's proposals, plus additional capital formation measures aimed specifically at encouraging investment and providing additional relief for small business.



To move sharply in a new direction on economic policy would be ill-advised; however, we have much to gain by taking a stronger position on job creation in areas that are well within the philosophical territory we have already carved out. Most of the President's victories over Congress have been on Federal spending issues. The Congress is reluctant to override the President's position on these issues because it perceives, better in fact than we do, the actual mood of the Nation concerning government spending. A recent Harris Survey brought out for the first time a definitive analysis of the electorate's feeling on this issue. Sixty-two percent of the respondents agreed that "the trouble with most liberal Democrats is that they think problems can be solved by throwing money at them, and that is wrong." Furthermore, eighty-one percent agreed that "the trouble with your getting special benefits and handouts from the government these days is that you will have to pay for them four or five times over in higher taxes." Given this mood, our course should be to attack vigorously in favor of tax incentives along the lines we have proposed, and even broadened to include the sounder features of the Kemp bill. The key point here is an emphasis on private spending as a preferred substitute for public spending.

I believe that the acceptance of our domestic economic policy will depend on whether we can demonstrate the will and determination to carry this message to the public. At the moment, they are telling us what they want, and we are being outflanked by all but the most liberal Democrats in responding to their needs. I would agree strongly with Kemp and his colleagues that our best comparative advantages can be gained only if we work diligently to demonstrate to the electorate that the Republican Party, and specifically the President, stand for things that are radically different from what our Democratic counterparts have to offer.

On numerous issues, as Kemp suggests, we are often in the position of opposing Democratic initiatives -- not because we have a better idea -- but because we often find such initiatives too wild-eyed, expensive, or unrealistic. Our positions on matters of job creation are very different from those of the Democratic leadership, yet we default in conveying this difference, and the reasons for such, to the electorate.

Presently there is little coordination on this issue between the Republican Executive and the Republican Congress. While this probably works more to the immediate detriment of the Republican members of Congress than to the President, it will ultimately weaken the President through a



debilitated and ineffectual Party. As Kemp accurately points out, the Republican Party is in disarray and often lacks candidates because of this confusion on the Party's position, not vice versa. If the President shows more responsiveness to such concerns, and to the strategy proposed by a large majority of Republicans in the House, he will find a natural constituency coalescing around him in Congress.

To the extent that we find common ground with the interests of Kemp and the 103 co-sponsors of his bill, we will succeed in giving a unified thread of definition to the Republican Party. In so doing, we will increase its effectiveness in the Congress and its ability to communicate its position on economic (and later social) issues to the electorate. Effecting this strategy properly will take much more than occasional sentences in some of the President's on-the-road speeches. We have relied on this medium too much, often without result. Rather we should develop a unified strategy with the Kemp constituency in the Congress, and then have the President take his message directly to the people by way of a nationally televised address and follow up by techniques such as full page newspaper advertisements in the major population centers.

Rarely have the Democrats given us a better opportunity to clearly differentiate our position in the minds of the electorate. If we fail to act quickly and forcefully to take advantage of this opportunity, we may well forfeit the a significant chance to revitalize the Republican Party and ensure the election of the President.

I have attached a skeleton outline of a proposed new bill which combines the elements of the President's proposals that have already been suggested and are included in our 1977 budget projections (Tab A). In addition, there are optional items which would enhance our goal of increasing capital investment with specific attention paid to the small business community (Tab B). These options have been selected to minimize impact on the 1977 budget. I feel that it would be a great mistake to suddenly suggest either spending programs or revenue losses which would disturb the prime foundation of our program to reduce the Federal deficit.

A comparison of Kemp's Job Creation bill with the various Administration alternatives is contained in Tab C.



Job Creation and Economic Growth Act of 1976 (PROPOSED)

Table of Contents

Sec. 1	Title
Sec. 2	General Findings -- stressing key elements of Administration's economic philosophy.
Title I --	INDIVIDUAL TAX RELIEF
	o Administration's program for further individual income tax reductions linked to equivalent Federal spending reductions.
Title II --	TAX INCENTIVES FOR SAVINGS AND JOB-CREATING INVESTMENT
	A. Administration's proposal for corporate tax rate reduction, and making \$50,000 surtax exemption permanent.
	B. Administration's proposal for permanent ITC at 10%.
	C. Administration's proposal for accelerated depreciation of investment in new non-residential plant and equipment in areas of high unemployment.
	D. Administration's proposal for phased integration of corporate and individual taxes on corporate dividends.
	E. Administration's proposal for broadened stock ownership modified to include ESOPs.
	F. Administration's proposal to stimulate construction of non-oil and gas fired electric facilities.
Title III --	SMALL BUSINESS AND FARM ESTATE TAX RELIEF
	o Administration's proposals to increase estate tax exemptions and to liberalize installment payment terms.
Title IV --	COUNTER CYCLICAL PUBLIC WORKS
	o Administration's counter proposal to vetoed public works and public service employment bill.



Tab B

Additional Options for Inclusion in Administration-Sponsored Jobs
Creation Bill

(1) Capital Recovery

- A. Updating and liberalization of table of useful lives for depreciating plant and equipment.
- B. Simplification and liberalization of write-off for mandated pollution control facilities.
- C. Authorizing use of replacement cost for asset valuation.

(2) Corporate Tax Rate Adjustments to Benefit Small Business

- A. Phased increase of surtax exemption from \$50,000 in 1978 and to \$100,000 in 1979.
- B. Minor modification of securities regulations and tax laws to encourage venture capital for small, high technology enterprises.



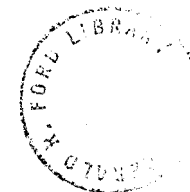
PRESIDENT'S EXISTING PROPOSALS	KEMP'S JOBS CREATION ACT	COMMENTS
1. Increase in the personal exemption from \$750 to \$1000.	1. No provision.	
2. Substitute of a single deduction for the existing low income allowance and percentage standard deduction.	2. No provision.	
3. A reduction in individual income tax rates.	3. No provision.	
4. A per capita exemption credit of \$17.50 with alternate taxable income credit equal to 1 percent of the first \$1,000 of taxable income.	4. No provision.	
5. An earned income credit equal to 5 percent of earned income with a maximum of \$200, phasing out at \$8,000 of earned income or adjusted gross income whichever is greater.	5. No provision.	
6. A reduction in corporate rates: 20 percent for first \$25,000 of taxable income, 22 percent for the second \$25,000 of taxable income, and 47 percent for taxable income above \$50,000.	6. SS 9, 10, and 11: A reduction in the corporate normal tax rate from 22 to 20 percent; a reduction in the corporate surtax rate from 26 to 22 percent; and permanent increase in corporate surtax exemption from \$50,000 to \$100,000	Until Tax Reduction Act of 1975, there was no concept of progressivity in corporate taxes; the President's proposals seem to encourage development of that concept in corporate taxes.
7. A program to stimulate construction of electric facilities.	7. No provision.	
8. Accelerated depreciation for construction of plants and equipment in high unemployment areas.	8. SS 13 & 14: Deal with area of accelerated depreciation thru increase in ADR range from 20 to	



PRESIDENT'S EXISTING PROPOSALS

KEMP'S JOBS CREATION ACT

COMMENTS



	8. (cont.) 40 and by offering a new, alternative means of capital recovery, patterned from the Capital Recovery Allowance Act proposal.	
9. Make the investment tax credit permanent at 10 percent rate.	9. S 12, in part: would make the investment credit permanent but at rate of 15 percent.	
10. Phased integration of the corporate and individual income taxes now imposed on corporate dividends.	10. S 5, exclusion from gross income of individuals of amounts received by an individual as dividends from domestic corporations.	
11. Broadened Stock Ownership Plan, limited to common stock in corporations, but allowing both individual and employer plans.	11. S 3, tax credits for qualified savings and investments; title III of the initial version of Jobs Creation Act, H.R. 4906, Employee Stock Ownership Plan Financing -- ESOP.	S 3 of Jobs Creation Act allow tax credit for investment by individual over a broader range of investment opportunities, including bonds, savings, insurance surrender values, common stock, mutuals: title III of H.R. 4906 was deleted from subsequent versions to conform with "phase I" format in House deliberations
12. Estate tax proposals for family farms and businesses	12. SS 7 & 8.	SS 7 & 8 are closely similar to President's proposals.
13. No provision.	13. S 4, increases in ceiling levels for individual retirement accounts, savings, and bonds.	S 4 is important to continue lessening dependency on government trust funds for same purposes.

<u>PRESIDENT'S EXISTING PROPOSALS</u>	<u>KEMP'S JOBS CREATION ACT</u>	<u>COMMENTS</u>
14. No provisions.	14. S 6, exclusion of first \$1,000 of capital gains.	
15. No provisions.	15. Alternative amortization, 1-yr write-off, for pollution control facilities.	



THE WHITE HOUSE

WASHINGTON

May 4, 1976

MEMORANDUM FOR: JIM CANNON

FROM: BILL DIEFENDERFER *WJD*

SUBJECT: Malkiel's Memorandum on "Structural Unemployment: Nature and Policies"

Part I of this paper reinforces the use of the private sector to stimulate and sustain the economy. The private sector pricing mechanism is identified as the most efficient user of resources.

Part II examines the characteristics of unemployed presently and outlines possible changes as the employment situation alters. The paper points out:

- ... There is a rapid turn over of unemployed (i.e. Average monthly unemployment was 8 million in 1975: however, during the course of the year 25 million people experienced unemployment.
- ... 1/3 of 1975 unemployed experienced two spells of unemployment during the year.
- ... 1/4 of all unemployed are on temporary layoff.
- ... Most jobs losers do not search for employment as they expect to return to previous employer.
- ... Average unemployment duration was 2 months.

Unemployment insurance and temporary layoffs were studied:

- ... 25% of unemployed are on temporary layoffs.
- ... Most do not search for new jobs.
- ... U. I. may actually serve to lengthen the duration of unemployment for some because of the disincentives it creates for getting a new job.

Another section of the paper, a demographic study, reports the following:

- ... Durable goods industries -- hard hit and they employ disproportionate (+) number of ^{MEV} ~~women and youth~~.
- ... Service Industry -- Less swing in demand and inventory problems and they employ disproportionate (+) number of women and youth.

During normal economic situations 45% of the unemployed are just entering or reentering the work force and higher unemployment figures for women are partially due to a higher turnover experience.



High teenage unemployment is analyzed with several interesting conclusions:

- ... It represents a life cycle.
- ... Largely due to labor force entry or reentry.
- ... Duration of unemployment is short, but incidence is high.
- ... Transition from education no more less efficient :
now than in the past.
- ... Mixing school, leisure, and work increases unemployment statistics.
- ... Job experimentation ups youth unemployment.
- ... Minimum wage plus mandatory payroll taxes often make youth unattractive to employers.

An examination of the long term unemployed showed:

- ... In 1975 .7% reported unemployment longer than 39 weeks.
- ... In 1975 .2% reported unemployment longer than 65 weeks.

Difficulty for older workers who are laid off and have a high degree of specificity in skill or region of residence may cause them to experience long duration of unemployment.

It was noted that no reliable data has been assembled to allow us to judge the value of our present manpower programs.

Several policy possibilities were suggested to deal with problems identified:

I. U. I. System

- ... Change rating system for individual employers so it more accurately measures and taxes their unemployment experience thus discouraging temporary lay offs.
- ... Tax U. I. benefits to individuals to discourage longer durations of unemployment.

II. Youth Unemployment

- ... Present response is manpower programs and summer youth employment programs.
- ... Merit in short term summer employment for youth who can't find private sector jobs.
- ... Youth differential in minimum wage might well create many "new" jobs.



III. Long Duration Individual Unemployment

- ... Current PSE jobs are held generally by people who would not have difficulty finding employment in the private sector.
- ... Limit PSE jobs to unemployed who have had work experience, but have exhausted entitlement under U. I.

Attachment



ENTIRE

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

May 1, 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE OF THE
ECONOMIC POLICY BOARD

Subject: Structural Unemployment: Nature and Policies

As requested, the attached paper follows up our earlier study on the nature of unemployment with further analysis of the problem and some suggested directions for policy.

Burt
Burton G. Malkiel

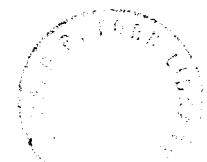


Structural Unemployment: Nature and Policies

I. Introduction

The Administration has¹⁰² relied on broad fiscal measures such as income tax reductions and the expansion of income support programs (mainly unemployment compensation) to stimulate economic recovery and to ease the burden of the recession for those who incur unemployment. The Administration has favored this neutral policy over alternative "selective" policy instruments (e.g., public works and public service employment) as it is more likely to stimulate a noninflationary economic recovery based on productive private sector employment and output. Although public works projects and public service employment give the appearance of active concern, they divert investment and employment from the private sector. Yet, it is in the private sector that the pricing mechanism directs resources to their most efficient use. As a consequence, the selective policies retard the adjustments that are essential for long-term growth in real economic well-being.

The tax cuts and expenditure increases have stimulated the natural forces in the economy, and the economy now appears on its way to a steady and sustainable period of expansion. From October 1975 to March 1976, the unemployment rate fell by 1.1 percentage point and employment increased by 1.5 million. As the unemployment rate continues to decline, the nature of unemployment will change and so will the characteristics of the unemployed. Any policies directed at unemployment problems must take these changes into account.




II. The Nature of Unemployment

All too often an unemployment rate of say, 8.5 percent as in 1975, is viewed as meaning that the same 8.5 percent of the labor force is unemployed all year long. This is not, however, the actual picture of unemployment in the United States as there is a very rapid turnover of those who comprise the unemployed. There is also substantial movement in and out of the labor force.

(a) High Turnover Among the Unemployed

The basic character of American unemployment is that of a substantial number of persons experiencing some unemployment in a year, but in spells of fairly short duration. Based on past experience, it is likely that close to 70 percent of the population aged 16 years or over were in the civilian labor force at some time during 1975, although the labor force averaged only 60 percent of the population on a monthly basis in 1975. Similarly, there were likely to have been close to 25 million different persons who experienced unemployment at some time during 1975, although the average number in a month was closer to 8 million. Of those who experienced some unemployment, perhaps one-third or more experienced at least two separate spells of unemployment. The average completed spell of unemployment was about two months in duration, although a substantial proportion of all spells was of less than five weeks duration. And, although 55 percent of the unemployed in 1975 were unemployed because they lost their job, primarily because of a layoff, most job losers returned to their former job with their previous employer when their unemployment ended.



If 1975 had been a year of lower unemployment -- say, 4.9 percent as in 1973 -- the situation would have differed. Instead of 25 million persons experiencing unemployment during the year, perhaps there would have been about 16-17 million. The duration of an average spell is likely to have been shorter -- perhaps about six weeks instead of two months. A smaller proportion of unemployment (39 percent) would have been due to a job loss. Yet the basic feature of U.S. unemployment -- a large proportion of very short spells -- would have been maintained.

It is important that policies to provide income support for the unemployed be based on a recognition of the basic feature of the U.S. labor markets that even in years of high unemployment most unemployment is for a relatively short duration. It is, in part, for this reason that unemployment compensation is, in general, preferable to public works projects or public service employment which might make some sense if the nature of the problem was one where the majority of the unemployed underwent very long spells of unemployment.

(b) The Unemployment Insurance System and Temporary Layoffs

One source of high turnover among the unemployed is the temporary layoff. About one-half of unemployed job losers (or about one-quarter of all of the unemployed) are on a temporary layoff. Persons on a temporary layoff are automatically counted as unemployed in the CPS regardless of whether they search for work. Most do not search for other employment because they expect to return to their previous job, and they receive unemployment compensation in the interim. To some extent the incidence of temporary layoffs may be greater, and the duration of the layoff when it occurs may be longer, because of the incentives built into the unemployment compensation system.



The benefits under the regular state program are financed by taxes on the wage bill of the employer but the system has very weak experience rating and in some instances, no experience rating at all. That is, for most firms an increase in layoffs (and hence unemployment insurance benefits for its workers) ^{for} will have no effect or a very small effect on the firm's unemployment insurance taxes, largely because tax rates are set within very narrow bands. In addition, unemployment benefits are exempt from both Federal income and payroll taxes. Both factors provide an incentive for firms to have more frequent layoffs, each of a longer duration, rather than keeping workers on the firm's payroll during slack periods. This also benefits the firm's workers as they can receive higher wages when they are employed and tax-free unemployment benefits when they are on a layoff.

If firms were taxed more highly if they used temporary layoffs more frequently, there would be a greater incentive to retain workers on the payroll during periods of slack work for seasonal, cyclical or other reasons. If workers had to pay taxes on their unemployment compensation benefits, the net monetary gain from being unemployed compared to working would be reduced, and workers would have an incentive to discourage the use of temporary layoffs. This would also reduce the current inequity in unemployment compensation benefits. The value of unemployment compensation relative to after-tax wages for two workers with the same earnings and employment history is greater for the worker from the wealthier (higher marginal tax bracket) family.

A growing body of economic research indicates that the effect of the unemployment insurance system just outlined is not solely a theoretical



point but is a relevant and important influence on the unemployment rate. It tends to increase the magnitude of measured unemployment consistent with noninflationary full employment.

(c) Unemployment Among Demographic Groups

The nature of unemployment can also be viewed in terms of the demographic and industrial composition of the persons unemployed. During a recession (and this one has been classical in this respect), as aggregate demand falls, layoffs increase and once unemployed, the number of weeks unemployed increases. Because durable goods industries are usually the hardest hit, the increase in unemployment disproportionately falls on adult males who disproportionately work in these industries. Women and young people tend to be less affected by the recession because their employment is more heavily concentrated in the service industries which do not experience the swings in demand and the inventory correction process of durable goods. In sum, the composition of unemployment in a recession month (such as October 1975) compared to a year of relatively low unemployment (1973) is more heavily weighted with adult males (46 percent compared to about 37 percent); persons who had lost a job (56 percent compared to 39 percent); and persons in manufacturing and construction industries (38 percent compared to 31 percent).

As economic activity increases the composition of unemployment is likely to approach the broad outlines of 1973. Administration policies must therefore be sensitive to the long-run causes and nature of unemployment. In normal times, about 45 percent or more of the unemployed have become unemployed because they are either entering or reentering the labor force, some for



a permanent period and others for a temporary job. In this case a spell of unemployment while searching for a job is fairly automatic unless an individual happens to be technically unavailable for work while searching or is successful on his first day out.

The relatively high unemployment of adult women compared to adult men seems to be entirely due to their relatively high labor force turnover. Most, but not all of the high unemployment rate for teenagers can also be attributed to this factor.

Unemployment arising from labor force entry is not a problem unless it is associated with a prolonged period of active search or if inter-labor force mobility is involuntary in that it is stimulated by an imperfection in the labor market. However, most unemployment arising from labor force entry lasts for less than five weeks. In general, an increase in labor force entry and the unemployment that ensues, can be considered a sign that labor market opportunities are attractive, rather than that there is a problem.

(d) Teenage Unemployment and the Transition
from School to Work

The high teenage unemployment rate has justifiably received much public attention. There are, however, three basic features of the high rate that helps put it into perspective.

1. It represents a stage in the life cycle. In 1973, the unemployment rate was 14.5 percent for 16-19 year olds, 7.8 percent for 20-24 year olds, and 4.2 percent for persons 25 to 34. This pattern of a sharp decline in

unemployment as one ages a few years appears in all years since the data were collected. There has, however, been an increase over time in the ratio of teenage to adult male unemployment rates.

2. It is largely due to labor force entry (first entry or reentry).

The teenage unemployment rate of 14.5 percent in 1973 is reduced to 4.7 percent if new entrants and reentrants are deleted from the data. A comparable adjustment for men age 20 and over lowers the rate from 3.2 percent to 2.4 percent. Even in a year of very high overall unemployment such as 1975, the teenage unemployment rate of nearly 20 percent is reduced to less than 7 percent when labor force entrants are deleted from the data.

3. The duration of unemployment is short but the incidence is high.

Because they are generally not specialized to a particular occupation or industry and do not have the prospect of being recalled from a job layoff, youths who are entering the labor force tend to find employment fairly quickly. For similar reasons, and because their lower wages and shorter employment history generally result in a shorter maximum duration of unemployment compensation benefits, youths on a job layoff have a greater incentive to accept alternative employment rather than waiting. As a consequence, both black and white teenagers have a shorter mean duration of unemployment than adult men.^{1/} However, the probability of being unemployed at some time during the year is much higher for teenagers.

^{1/} Average duration of unemployment (weeks) as reported in the CPS:

	Teenagers (16-19 years)				Adult Males (age 20+)
	Male		Female		
	<u>White</u>	<u>Black</u>	<u>White</u>	<u>Black</u>	
1973	6.9	8.2	6.5	8.2	12.8
1975	9.5	11.1	8.3	9.9	16.8



The high incidence of youth unemployment, particularly that arising from inter-labor force mobility, is often discussed as the result of a transition from school to work with the suggestion that this transition is done inefficiently. This is not, however, a new phenomenon, nor is it a sudden process for youths. With the increase in the number of years of schooling received, the age at which this transitional period starts and ends has increased, and it may well be that the duration of the transition period has also increased.

The proportion of youths who are students has increased over time. Although students are less likely to work than those not in school, the proportion of students who do work has increased steadily. Among persons 16 to 21 years enrolled in school in March 1975, 62 percent worked at some time in 1974. About one-fifth had worked full-time (at least 35 hours per week) but for less than 14 weeks -- probably summer employment. One-third worked part-time for 27 weeks or more. Schooling itself may be increasingly a part-time or part-year activity, especially since many youths drop out of school for a while and then return.

Much unemployment is generated by these patterns of mixing school, work and leisure. Some of it is undoubtedly related to the increasing level of real family income which permits experimentation with school and different kinds of jobs and also finances leisure at a time in life before there is pressure for more constant labor force attachment from family responsibilities or inducement from higher wages. To the extent that the unemployment arising from this mobility in and out of the labor force reflects preferences it is not inefficient or wasteful of resources.

Teenagers also tend to have higher unemployment arising from voluntary job leaving than adult males. Much of this difference is due to teenagers experimenting with jobs to learn about alternative employment and training opportunities and how they react to them. There are few good substitutes for actually being on a job to learn its characteristics. Among

youths, this turnover is less likely to be discouraged by investments that more experienced workers have made that are specific to the job, including pension and seniority benefits and job specific training.

There is also reason to believe, however, that job instability (including induced inter-labor force mobility) among young people is partly related to institutional barriers.

The minimum wage combined with mandatory payroll taxes sets a floor on wages which often exceeds the value of the work of many teenagers.

Employers may hire teenagers during a peak load period, but will not retain them during a period of slack because their productivity on average is not equal to the legal costs of hire. Wage rigidities may also have a negative effect on the future income of some youths who would otherwise receive on-the-job training (in either an apprenticeship program or more informal training) financed partly by a reduced wage during the training period. Legal minimums make this training impossible for some with otherwise lower productivity because of low ability, insufficient schooling, trying to dovetail work and schooling, physical disabilities, etc.

Among teenagers, blacks have a longer duration of unemployment than whites. The apparently greater difficulty black youths have in finding employment may be a consequence of a combination of factors. These include their lower level of training (poorer quality of acquired skills) and hence a lower potential wage, the higher costs of operating service industries in the high crime, low-income areas in which urban blacks live, and the uniform minimum wage rate. There may also be some lingering discrimination in employment against black youths. A study of the effects of state anti-discrimination legislation suggests the legislation does narrow the



black-white difference in wage rates for those who are employed.^{1/}

More vigorous enforcement of equal employment legislation might narrow this difference further, but there is no evidence that it would reduce differential unemployment rates.

(e) Long-Term Unemployment


Although most unemployment in this country is characterized by high turnover and short spells of unemployment, some individuals are unemployed for a long period of time. During the very high level of unemployment of 1975 about 1.2 million persons (1.3 percent of the labor force) were unemployed 26 weeks or longer, 687,000 persons (0.7 percent) reported unemployment lasting at least 39 weeks, 157,000 (0.2 percent) reported 65 weeks or more and 79,000 (0.1 percent of the labor force) reported 99 weeks or more. Some of the reported long duration unemployment may simply reflect the effect of the extension of benefit duration under unemployment compensation to 65 weeks, which induced some persons who would have retired or otherwise planned to leave the labor force to remain "unemployed" until their compensation expired.

With the economic recovery in recent quarters there has been a sharp decline in long duration unemployment. After reaching a peak of 3.3 percent in December 1975, the long duration unemployment rate (those unemployed 15 weeks or longer as a percent of the labor force) has declined monthly to 2.4 percent in March. In the coming months there will be a continued economic recovery and a gradual termination of very long duration unemployment benefits under the Federal Supplemental Benefits program as state insured unemployment rates decline. Both factors can be expected to lower the extent of long duration unemployment as reported in the Current Population Survey.

^{1/} W. Landes, "The Economics of Fair Employment Laws," Journal of Political Economy, July 1968.

In spite of the economic recovery, some workers will have a problem of long duration unemployment. This will most likely occur among older workers on a job layoff and with a high degree of specificity in either their skills or their region of residence if there has been a structural shift in the economy. The long duration unemployment is most likely to occur if job alternatives are at a considerably lower wage than in the previous employment. Such structural unemployment appeared in Appalachia after the decline in the demand for coal and the increase in union wages in the 1950s, and among engineers and other aircraft industry workers during the 1971 recession. In both cases economic recovery eventually took place largely as a consequence of market forces. In Appalachia, for example, out-migration of the young, retirement of older workers and the inflow of some new industry led to a decline in the unemployment rate from more than 50 percent greater than the national average in 1962 to the national average in 1971. Since then the increased demand for coal in response to the 1973 increase in oil prices has further reduced the relative unemployment in Appalachia.

The nature and magnitude of any persisting long duration unemployment problem as the economy continues to recover from the recent recession is unclear. It is not likely to be skill specific, but it may be somewhat regional if the automobile industry lags behind the rest of the economy. Far more likely, however, it will not be concentrated on the basis of occupation, industry or region, but may be experienced throughout the country by individual older workers with few skills or obsolete skills, and little incentive for retraining. In addition, there may be a



problem of inadequate legal job opportunities for some black teenagers residing in low-income neighborhoods in the larger cities.

III. Training Programs for the Unemployed

Prior to the Comprehensive Employment and Training Act of 1973 the Federal Government controlled the allocation of funds among the various manpower training programs. Under CETA, which is a form of manpower revenue sharing, the state and local government prime sponsors decide the allocation of funds among programs.^{1/} In fiscal year 1975, the first full year of the CETA program, over 1 million persons received training under Title I at a cost of \$1.6 billion. There are, however, other Federal training programs. The military directly and through the voucher approach in the GI Bill provides vocational (technical) and college training, primarily for young men. The Basic Opportunity Grants program provides financial assistance to high school graduates from low-income families for vocational training and college schooling. The AFDC Work Incentive Program (WIN) provides training, job placement services and employment subsidies for mothers in the AFDC program.

Although numerous "evaluations" have been made of the different programs, they have generally not been sufficiently refined to produce useful results. Typically the evaluations have compared earnings "before" and "after" for program participants. Since programs often last six months or more, and since earnings typically rise with inflation and for the young with age, earnings "after" would tend to be above earnings "before" even

^{1/} Some programs are still under Federal control, for example, Job Corps (Title IV) and the special programs for Indians, migrant and seasonal farm workers, and youths (Title III).

if the program had no effect. In addition, there is a tendency for those who are unemployed or otherwise have temporarily low earnings to join these training programs. Then, their earnings would tend to be higher "after" than "before" if only because their before training earnings were temporarily low. When the groups receiving the training are compared with those with similar characteristics who did not receive training the effects of the programs are ambiguous.

Far more careful research is needed before we can identify the kinds of training programs and the types of candidates for whom these programs are most effective in increasing earnings and the stability of employment. In addition, at this time it is not known to what extent Federal manpower training programs simply provide Federal subsidies to persons for training that they would undertake in any case. For these reasons, we do not know whether the current Federal programs are the most effective use of the available funds.

IV. Problem Areas and Public Policy

The discussion in Section II focused attention on three problems of structural unemployment that possibly can be alleviated through public policy. These are:


- (a) A higher than efficient level of unemployment encouraged by the unemployment compensation system.
- (b) A higher youth unemployment rate due in part to wage rate rigidities.
- (c) The persistence of some long duration unemployment even as the economy experiences a strong economic expansion.

(a) The Unemployment Insurance System

As indicated above, the lack of full experience rating in the unemployment insurance system is an important deficiency that encourages a higher rate and duration of layoffs, and hence of unemployment. Full experience rating would not mean an increase in taxes on average. It would, however, mean an increase in taxes for firms whose workers are subject to relatively much more unemployment, and lower taxes for firms with better unemployment records.

The unemployment insurance system was developed during the Great Depression when payroll taxes were small, and the income of nearly all payroll workers was below the exemption level of the Federal income tax. In that environment the Treasury Department regulation (1938) exempting unemployment compensation benefits from taxation was a reasonable administrative convenience. Currently, however, this exemption creates inefficiencies in the incentive for greater unemployment. It also creates inequities since for two persons with the same weekly wage the benefits replace a greater proportion of lost wages for the person from the higher income (higher marginal tax bracket) family.

This inefficiency and inequity could be remedied by the simultaneous increase in benefit levels and the taxation of benefits as income. On average, after-tax weekly benefits need not be lowered by this approach. Unemployed persons from low-income families would gain as their benefits would be subject to lower or zero income taxation. Society would gain from the reduced incentive for employers and employees to use temporary layoffs during seasonal or cyclical slack periods.



(b) Youth Unemployment

Thus far, the policy response to the high youth unemployment rate has been manpower training programs (including the Job Corps) and summer employment programs.

Our manpower training programs have typically addressed the problem of poor training either on the job or in school that may ultimately lead to low earnings. Such programs, however, are not necessarily designed to reduce unemployment. They may increase unemployment if the training is for a high unemployment occupation (e.g., construction) or if it encourages a new round of job exploration after the training is completed.

The group of youths who appear to have the most severe learning disabilities or problems of adaptation to the school or work environment tend to have a more severe unemployment problem. The very characteristics that result in failure in school and in the labor market are likely to result in failure in specific government training programs. For some of these youths, however, maturation per se may generate increased employment stability and receptivity to training programs. The group with severe problems may not be large, and Federal programs such as the Job Corps (CETA Title IV), an intensive and expensive youth rehabilitation program, may be helpful. Thus far, however, we lack adequate evaluations of the Job Corps programs.

* There is merit in the public provision of short-term employment in the summer for youths who cannot find private sector employment. Funds have been authorized for a \$0.5 billion program for the summer of 1976 for almost 900,000 job slots at the minimum wage for disadvantaged youths age

14 to 21. Although the summer youth programs are well liked by local governments, their effect on teenage employment is not known, largely because an unknown proportion of the youths in the program would have found a private sector job^{1/} if the summer youth program did not exist. To the extent that workers are not perfect substitutes for each other, jobs are not perfect substitutes for each other, and wage rates can respond to relative labor supplies, teenage employment in the private sector during the summer does not necessarily significantly reduce adult employment. Labor markets are fluid and there is no fixed number of job slots in the economy.

Some have suggested that there would be less need for Federal training and summer employment programs for teenagers if it were not for the job limiting impact of the Federal minimum wage. In the last decade, the Federal minimum wage for jobs covered prior to 1966 has increased at about the same rate as the adjusted average hourly earnings index. By itself, however, this would tend to contract relative job opportunities for youths since with a growing relative youth labor force one would expect a slower rise in youth wages relative to average wages. More important perhaps, has been the dramatic expansion of coverage of the Federal minimum wage from 62 percent of private nonsupervisory workers in 1961 to about 85 percent in 1976, with the expansion primarily concentrated in the youth-intensive service and farm worker sectors.^{1/} For these reasons, a lowered minimum wage for teenagers has received some support as a mechanism for increasing youth employment opportunities.

^{1/} In recent years there has been an increase in job specific minimum wage exemptions authorized by the Department of Labor. These exemptions are few in number, particularly when compared to the expansion in legislated coverage.

It has been estimated, for example, that a youth differential in the minimum wage of 10 percent (currently 23 cents) would increase teenage employment by about 2 percent, or by about 150,000 jobs. For the reasons indicated above, employment is not a zero sum game. The increase in teenage employment would not be at the expense of adult workers, but would be largely newly created jobs.^{1/} This expansion in teenage employment is not likely to have any significant net effect on the size of the poverty population since few teenagers head households, most employed teenagers are in families whose income net of that of the teenager exceeds the poverty level, and although the annual income of some teenagers would decrease, for others it would increase because of more employment during the year. With the youth differential it would be easier for teenagers to find jobs offering on-the-job training that would increase future earnings.

Although black teenagers have a higher incidence and a longer duration of unemployment than white teenagers, the racial difference narrows dramatically as the youths age a few years. Policies to aid youths in general may be particularly helpful for black youths, especially those in low-income neighborhoods of central cities. Thus, Job Corps-type training programs, summer youth employment programs and a youth differential in the minimum wage may be particularly important instruments in providing black teenagers with legal job and training opportunities currently, and

^{1/} Although studies have found a significant adverse effect of the minimum wage on teenage employment, no net effects have been found for adults.

in providing the foundation for greater wages and employment stability in the future.

(c) Long Duration Unemployment

As indicated above, there may be a lingering long duration unemployment problem largely concentrated among a relatively small number of older workers, but not necessarily regional or occupation specific.

It is sometimes believed that public service employment is a useful remedy for this long duration unemployment. However, based on the characteristics of persons placed in CETA funded PSE job slots, it would appear that the current program is not addressing the problem of the long-term or hard core unemployed (Table 1). Rather, it appears that state and local governments tend to select persons with favorable employment characteristics -- they tend to be prime age, male, at least high school graduates, and are not handicapped in finding employment because of a physical disability, criminal record or limited knowledge of English. Only 13 percent were receiving unemployment insurance benefits prior to starting PSE employment. This suggests that if they had in fact been unemployed it was either voluntary or of a very short duration. Thus, it appears that most of the persons currently in CETA PSE job slots would not have substantial difficulty finding private sector employment during the current economic expansion.

Moreover, if a long-term readjustment is to be made, retraining rather than a public job may be more appropriate. If the suggestion is to maintain the displaced worker at his former wage, regardless of his productivity in the public job, issues arise as to the equity for both taxpayers and other government workers and work incentives for others.

Table 1

Characteristics of New Participants
in CETA Titles II and VI and the
U.S. Unemployed
(percent)

	<u>CETA</u> 7/75 to 12/75	<u>U.S. Unemployed</u> 7/74 to 6/75
a. Male	65	55
b. Age:		
Under 22	22	35
22-44	65	46
45 and over	14	19
c. Education:		
0-11 years	25	44
12 or more years	75	56
d. Receiving public assistance	14	N.A.
e. Handicapped	3	N.A.
f. Offender	3	N.A.
g. Limited English-speaking ability	4	N.A.
h. Receiving unemployment insurance	13	N.A.

N.A. -- Not available.

Source: ETA, Department of Labor.

The Federal Government currently funds approximately 310,000 PSE job slots under the CETA program (Titles II and VI) which the Administration has proposed to reduce to ¹²about 50,000 job slots by 1977IV. It is not likely that the number of long duration unemployed persons who have exhausted their unemployment compensation benefits and who would accept a PSE job would exceed the size of the planned PSE program. Thus, one policy would be to limit PSE job slots to unemployed persons who have had work experience but who have exhausted their entitlement under the unemployment compensation system.

Another policy would be to try to target more of the CETA training funds, including those used for the work experience programs, to the exhaustees of the unemployment compensation system. However, the greater the number of constraints placed by the Federal Government on state and local government prime sponsors, the further we have moved away from the original intent of the CETA program to allow prime sponsors to administer the program so as to satisfy what they perceive to be local requirements.

THE WHITE HOUSE

WASHINGTON

May 4, 1976

MEMORANDUM FOR: JAMES CANNON
FROM: BILL DIEFENDERFER *WMD*
RE: DOC Memorandum on Unemployment

At Tab A (1.5 pages) Secretary Richardson outlines the President's Economic policies in a positive manner. Emphasis is placed on the unproductive nature of Public Works and Public Service employment in stimulating and sustaining a healthy economy.

Tab C outlines possible initiatives to help youth and other unskilled workers:

- step up summertime youth employment
- graduated tax credits for firms providing on-the-job training
- wage supplements to firms for hiring unemployed youth and for those over 25 years old. *
- graduated tax credits for OJT equipment

Tab D addresses possible initiatives to alleviate high employment in geographic areas.

- reduce or waive EDA matching requirements
- expand EDA business loan authority
- raise investment tax credit for businesses in high unemployment areas

* Monitoring this proposal so employers do not hire the unemployed and lay them off when the wage supplement terminates would represent a problem.

Interestingly, Commerce suggests methods similar to the Kemp proposal outlined in the Gorog memorandum. However, Kemp allows many tax breaks to accrue to individuals on the theory it will also increase capital formaction. Politically speaking capital formaction tax breaks to people are bound to be more popular than, although perhaps less efficient, than those to corporations.

Tab C is interesting in that Commerce draws conclusions concerning minimum wage and youth unemployment contrary to Labor's conclusions.

- ". . . the weight of the evidence, as well as economic theory, suggests that minimum wages are a factor of significance in teenage unemployment. "
- ". . . black teenagers are among the major victims of the minimum wage legislation. "

BLS studies on the sub-minimum wage provisions in present law are quoted, "apparently for some employers at least a 15% 'discount' was not enough to offset the poorer quality of student help. "



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Policy
Washington, D.C. 20230

April 28, 1976

MEMORANDUM FOR EPB EXECUTIVE COMMITTEE

SUBJECT: BACKGROUND MATERIALS FOR SPECIAL EPB MEETING
RE UNEMPLOYMENT

The attached Commerce staff analyses are provided, at Secretary Richardson's suggestion, for such use as they may be with regard to the special EPB meeting on unemployment. In addition, I've included at Tab A, Secretary Richardson's attempt to put the best gloss on the President's current unemployment strategy. The remaining Tabs are as follows:


Tab B: A more programmatic summary of the Administration's current unemployment policy.

Tab C: A schematic description of a range of selected possible new initiatives--focussing on youth and other unskilled or inappropriately skilled workers.

Tab D: A schematic description of a range of selected possible new initiatives--focussing on geographic areas with high rates of unemployment.

Tab E: A set of tables (with comments) on the character of the unemployment problem. (Note summary at page 2)

Tab F: A staff discussion paper re minimum wages, indexing and teenage unemployment.


Richard G. Darman
Assistant Secretary for Policy

Attachments

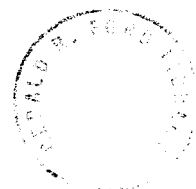
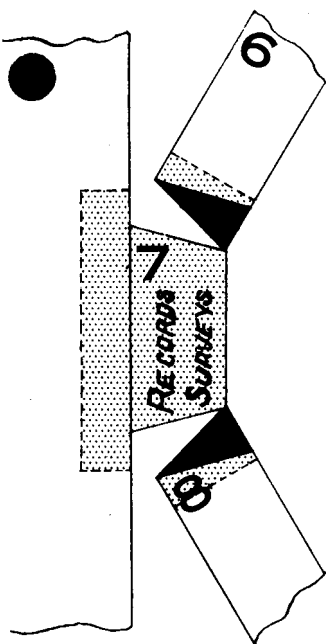


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THE FORD ECONOMIC POLICIES--
A COMPASSIONATE STRATEGY FOR JOB CREATION

1. The recession recently experienced by all industrial countries demonstrated that inflation, by undermining confidence, destroys jobs. This happens because consumers hold back on purchases, inventories accumulate, production is slowed, and managers defer investment in plant and equipment.
2. The President's strategy for reducing unemployment and creating new jobs has been to rebuild confidence by showing that inflation can be curbed through reducing the rate of increase in government spending and demonstrating, by the courageous exercise of the veto power, that government has the will to resist politically appealing but non-essential claims on national resources.
3. Government spending for public service jobs not only reaches the wrong people but can never be more than a stop-gap at best because a job that would not exist but for public subsidy is by definition a "non-productive job" that will last only as long as the subsidy is available. The use of public money to provide non-productive jobs is bound over the long run to be inflationary--thus risking job destruction rather than contributing to job creation. To the extent that federal funds are used to create productive jobs, those funds supplant expenditures that would otherwise be made by other levels of government or by the private sector.
4. The only effective means, therefore, of achieving full employment is to set the economy on a course of sustainable growth that will generate enough new jobs every year to employ the people newly entering the job market. The only adequate job creation policy is thus a comprehensive capital formation policy. Nor can the failure of private investment to create new jobs be compensated for by government programs. The direct subsidy of jobs will not work for the reasons set forth above.
5. The higher the chronic level of unemployment and underemployment, the more impossible becomes the task of coping with such social problems as welfare dependency, drug abuse, and crime. Unless the economy is able to provide an adequate number of decent jobs, the able-bodied welfare



recipient, the rehabilitated addict, and the discharged offender have nowhere to go. Welfare costs mount, crime increases, and public spending soars. Inflationary pressures are renewed, confidence again deteriorates, and unemployment grows even worse. Expectations toward government are disappointed and alienation is reinforced.

6. Sound economic policies and compassionate social policies are thus inseparably linked.

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ELR

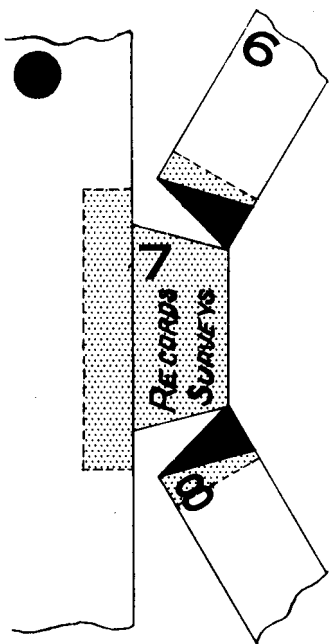
April 16, 1976

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ADMINISTRATION'S JOB CREATION AND UNEMPLOYMENT POLICY

The economic policy of this Administration is aimed at the fundamental and interdependent goals of sustained economic growth without increased inflation and the creation of jobs for all who want to work. Growth of the private enterprise system and permanent new jobs are so clearly interrelated that they are practically synonymous.

The Administration has proposed a combination of programs and tax policies which are designed to meet the following specific objectives:

1. Stimulating economic activity in the private sector through reduction in personal and corporate income taxes.
2. Assisting state and local governments through flexible grants which will enable them to maintain useful services and programs and to strengthen their economic bases in the face of revenue losses and cost increases.
3. Targeting federal assistance on economically depressed areas through federal government expenditures and tax policies aimed at facilitating the development and expansion of job producing private enterprise.
4. Targeting federal assistance on specific subsets of the unemployed among whom the rate of unemployment has been disproportionately high, including low-skilled workers, youth and minorities.
5. Alleviating the economic hardship for the unemployed by temporarily extending unemployment insurance coverage.



SPECIFIC PROGRAMS AND PROPOSALS

1. TO STIMULATE ECONOMIC ACTIVITY AND JOB CREATION IN THE PRIVATE SECTOR, THE PRESIDENT HAS PROPOSED PERMANENT ADDITIONAL INDIVIDUAL AND CORPORATE INCOME TAX REDUCTIONS AIMED AT IMMEDIATELY INCREASING CONSUMER DEMAND AND PRIVATE INVESTMENT, INCLUDING:

- An increase in the personal exemption from \$750 to \$1,000.
- A substitution of a single standard deduction -- \$2,500 for married couples filing jointly and \$1,800 for single taxpayers -- for the existing low income allowance and percentage standard deduction.
- A reduction in individual income tax rates.
- A permanent 10 percent investment tax credit.
- A reduction in maximum corporate income tax rate from 48 to 46 percent and making permanent the current temporary tax cuts on the first \$50,000 of corporate income.
- Tax incentives for electric utility construction which will increase the investment tax credit permanently to 12 percent and permit immediate investment tax credits on progress payments for construction; extend the 5-year amortization provision for pollution control facilities; permit a utility to elect to begin depreciation of accumulated construction progress expenditures during the construction period; and permit shareholders to postpone tax on dividends paid by the utility by electing to take additional common stock in lieu of cash dividends.

2. TO ASSIST STATE AND LOCAL GOVERNMENTS IN MAINTAINING SERVICES AND STRENGTHENING THEIR ECONOMIC BASES, PROGRAMS AND PROPOSALS INCLUDE:

- Continuation of the Community Development block grant program which distributes funds to communities for local planning and development activities, including the acquisition of real property, construction of public facilities, rehabilitation of structures, provision of social services, planning and payment of the non-federal share required by other programs. Funds are distributed on the basis of population, poverty and housing overcrowding. The FY 1977 budget proposes to increase Community Development block grants by \$446 million to \$3.2 billion.
- Continuation of General Revenue Sharing. Proposed legislation would extend the program until September 1982 and return \$39.85 billion to state and local governments. The budget request for FY 1977 is \$7.4 billion, \$150 million more than current annual outlays.

3. TO TARGET ON ECONOMICALLY DEPRESSED AREAS, THUS FACILITATING THE DEVELOPMENT AND EXPANSION OF JOB PRODUCING PRIVATE ENTERPRISE, PROPOSALS INCLUDE:

- Accelerated depreciation for plant construction and equipment in areas with unemployment of 7 percent or more. This will be accomplished by allowing very rapid amortization for non-residential buildings and capital equipment. Buildings will be amortized over a period equal to one-half their useful life. Capital equipment put in place in new or expanded facilities will be amortized over 5 years; the full investment tax credit can be claimed on such capital equipment. This incentive will apply to projects begun after January 19, 1976, and before January 20, 1977, and that are completed within 36 months.

- Proposed "Supplemental Community Development Act, which authorizes \$780 million for FY 1977 in block grants to states, cities, and counties with unemployment above 8 percent. Seventy-five percent is earmarked to metropolitan cities and urban counties.
- Continuation of EDA Public Works programs, which provide grants and loans to build, rebuild or expand public facilities in economically depressed areas to attract private business.
- Continuation of EDA business loan program, which provides direct loans for plants and equipment, working capital loan guarantees and direct working capital loans.
- Continuation of EDA technical assistance program, which funds training, planning and management assistance activities.

4. TO TARGET FEDERAL ASSISTANCE ON SPECIFIC GROUPS OF UNEMPLOYED, INCLUDING LOW-SKILLED WORKERS, YOUTH AND MINORITIES, PROPOSALS INCLUDE:

- Continuation of CETA, Title I assistance to state and local governments for institutional and on-the-job training, work experience, vocational education, job placement services and transitional public service employment for economically disadvantaged, unemployed, and underemployed persons. The FY 1977 budget proposes \$1.6 billion for Title I -- the same level as was authorized for FY 1976.
- Continuation of CETA Title II state and local public service employment programs in areas of high unemployment. The FY 1977 budget proposes \$400 million for Title II -- the same level as was authorized in FY 1976.



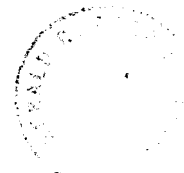
- Continuation of CETA national training programs for target populations, including criminal offenders, Indians, migrants, and through Job Corps, severely disadvantaged youth (age 16-21). The FY 1977 budget include \$414 million for these programs -- the same level as was authorized for FY 1976.
- Continuation of CETA summer youth employment program, which provides jobs for economically disadvantaged youth, age 14 to 21. The Administration's supplemental budget request of \$528.4 million for 888,100 jobs (\$88.4 million more than for last summer) has been enacted.
- Continued funding into 1977 of the Temporary Employment Assistance for public service jobs in areas of substantial unemployment, at which time a 9 month phase out will begin, so that by September 30, 1977 the TEA program can be completed.
- Continuation of the Office of Minority Business Enterprise, which assists minority businesses in securing public and private loans and funds public and private organizations that provide management and technical assistance to minority businesses. The FY 1977 budget proposes to maintain the OMBE program at its current level.
- Continuation of the Work Incentive Program, which provides assistance in obtaining jobs to those receiving aid to families with dependent children. Proposed legislation would eliminate funding for work and training services, and limit funding of supportive services to 30 days of a job search, thereby reducing outlays for FY 1977 by \$55 million.

5. TO ALLEVIATE ECONOMIC HARDSHIP AMONG THE UNEMPLOYED, PROPOSALS INCLUDE:

- A temporary extension of unemployment insurance benefits beyond the 39 weeks of maximum duration up to 52 weeks, financed by the Federal unemployment tax.



- Creation of a special unemployment assistance program, financed from general revenues, for workers not covered under the regular program (about 12 million), or those without adequate work history in the base period used by many states to determine eligibility for the regular UI programs, to provide for them a total of up to 26 weeks of benefits.
- A proposal to expand coverage under the regular UI program to 92% of the work force by including agricultural workers, domestic workers, state and local hospital employees and elementary and secondary school employees.
- Continuation of 100 percent federal funding of state offices providing job matching to workers and employers. In 1975, the employment service placed 4.2 million in jobs and in 1977 expects to achieve 4.4 million placements. Outlays in 1977 are estimated at \$569 million, \$20 million more than in 1976.



ASSESSMENT OF CURRENT POLICY NOTING POTENTIAL CRITICISMS

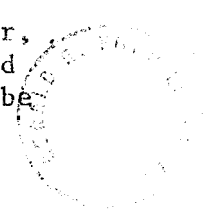
The Administration's current policy toward unemployment seems to be strong in meeting objectives 1, 2, and 5. A high priority has been placed on stimulating private sector growth and containing federal expenditures. This is as it should be in the interest of creating the most productive and permanent job opportunities while containing inflation, freeing capital for private investment and proceeding with economic recovery.

The proposals and programs directed at objectives 2 and 3 have been given a lower priority and are subject to criticism. Proposed outlays for programs which target on specific groups and areas, which have suffered disproportionately high rates of unemployment have been reduced.

The FY 1977 budget proposes to reduce outlays for CETA \$600 million below the FY 1976 level. The Title I state and local CETA training and employment program outlays would be reduced from \$1.76 billion in FY 1976 to \$1.58 billion in FY 1977. The Title II public service employment program outlays would be reduced from \$673 million in FY 1976 to \$400 million in FY 1977. The authorization levels for the CETA programs are approximately the same as for FY 1976 except for the summer youth program which is \$88.4 million higher than the request for last summer. But because some of the 1974 and 1975 funds carried over into FY 1976, the CETA outlays for FY 1977, are significantly lower.

The proposed FY 1977 budget for EDA is \$136.6 million lower than the FY 1976 level, including reductions from \$166.5 million to \$113.3 million for public works, from \$58 million to \$40 million for the business loan program and from \$14 million to \$6 million for technical assistance.

The historical record shows that a substantial reduction in the national unemployment rate will bring sizeable declines in the unemployment rates for specific groups such as youth, minorities, and other workers who are unskilled or whose skills are not in demand, and in geographic areas of high unemployment. However, rates for these disadvantaged groups will still be high in relation to the national average, and rates in some depressed areas will be reflecting, not merely temporary distress, but also chronic, long-term problems which require special attention. Therefore, it is useful to consider, in the context of existing priorities, a range of options which could potentially reduce such unemployment. The following sections describe some possible packages that are aimed at these objectives.

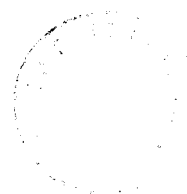
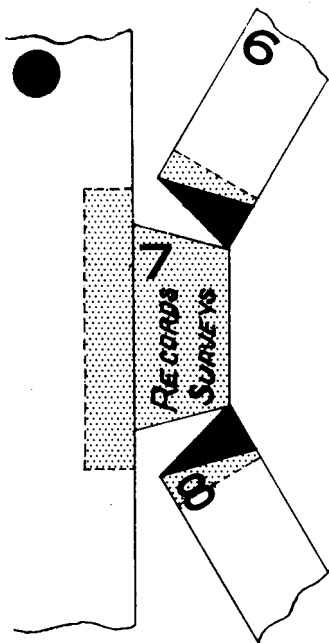


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COMBINATIONS OF POLICIES TO REDUCE UNEMPLOYMENT INCLUDING TARGETING ON
YOUTH AND OTHER UNSKILLED OR INAPPROPRIATELY SKILLED WORKERS

<u>Minimum Effort</u>	<u>Low Effort</u>	<u>Intermediate Effort</u>	<u>High Effort</u>	<u>Superior Effort</u>
	Minimum Effort	Low Effort	Intermediate Effort	High Effort
	+	+	+	+
(1) Nation-wide improvement of Job Data Banks and Matching Systems and their use	(2) Step-up of summer-time program for youth	(5) Graduated tax credit* for firms providing on-the-job training	(8) Acceleration of building repair and maintenance program	(10) Wage supplement to firms hiring unemployed over 24 years old
	+	+	+	
	(3) Step-up of CETA program	(6) Graduated tax credit for additional equipment for job training	(9) Wage supplement to firms hiring unemployed youth 16-24 years old	
	(4) Tailor on-the-job training programs to accommodate the specific schedules of young people still in school.	+		
		(7) Technical assistance in setting up and operating on-the-job training		

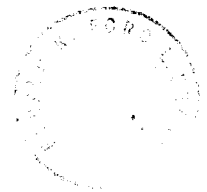
*Graduated tax credit would be greater for smaller firms which generally have less financial basis for supplemental activities.

Office of the Chief Economist
Department of Commerce
March 22, 1976

Explanatory Notes

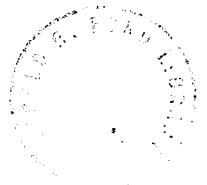
- (1) Nationwide improvement of job data banks and their use would assist in reducing unemployment due to market search costs and insufficient labor market knowledge. Additional funds could be allocated for the strengthening of computer facilities and for expanding the availability and coverage of job listing and for encouraging the use of such information. The Department of Labor would coordinate efforts in conjunction with the State Employment Service (ES), the Veterans Administration, the Bureau of Indian Affairs and the various welfare agencies serviced by ES. The equal employment opportunity agencies would also be involved.
- (2) The step-up in summertime jobs for youths would be under the Employment and Training Assistance Account (ETA), and the Comprehensive Employment and Training Act (CETA). These added jobs would satisfy some of the youth job demand which occurs over the vacation period from school as well as providing additional temporary job possibilities for non-vacation youths.
- (3) The CETA programs cover several areas of job and training assistance and combine several approaches to the unemployment problem: on-the-job training, institutional instruction, vocational rehabilitation, work experience, public service employment, labor market services, and program support for research, development, and evaluation. These approaches cover all ages and would apply especially to the poor, youths 16-21 years old, those with less than a high school education, those with little or no training skills, and welfare recipients. Of the 1974 and 1975 enrollees in the CETA Title I program, over half were of minority races and of the 1975 Title II program, over 40 percent were minority races. The CETA efforts are presently scheduled to be cut in 1977 under the budget proposals. This decision could be reversed and additional funds provided to expand the program.
- (4) Since about 40 percent of the teenagers unemployed are looking for part time work, a special effort should be made to provide after school and Saturday training. Such programs would encourage youngsters to complete their regular education and win a high school diploma, and they would provide a background of job experience and skills for full time employment after graduation.

- (5) A tax credit could be given to firms providing on-the-job training for presently unemployed workers. Adequate safeguards should be provided to assure that the workers involved do not replace already employed workers and that newly trained workers are guaranteed employment for some specified period of time. Such a credit should stimulate added training efforts, since the credit cuts the firms' tax bills and helps pay for the projects. In 1975, there were only 196,000 new enrollees and only 158,000 years of service estimated for the on-the job training (OJT) programs of the Government. The graduation in the tax credit is intended to allow the smaller firms' participation as well as the larger firms since often the former have less financial latitude for supplemental activities such as OJT. The Internal Revenue Service in conjunction with the Department of Labor would administer the system.
- (6) The graduated tax credit on OJT equipment complements the assistance to the firms under (5). Quite often job training efforts demand additional equipment and firms are reluctant to make the added investment for training purposes, even though the equipment may be put to direct production use quickly when the training periods are short. This feature should overcome some of the firms' resistance to taking on OJT activities. Capital goods production would be stimulated. Administration would be as in (5).
- (7) Firms that are only marginally interested in OJT may be induced to consider adopting possible programs of this kind if skilled, experienced direction in planning, operation, and evaluation is made available to them. This component would certainly cut the risk that first-time OJT firms face and should assist even those firms with ongoing programs to improve their performance. Administration would be the same as in (5), but the actual technical assistance should be provided by private sector companies on a contract basis.
- (8) The acceleration of scheduled or necessary but not scheduled building repair and maintenance programs would pertain to ongoing neighborhood and public service programs. The acceleration would be directed particularly towards public buildings and their surroundings. Mechanical, masonry, and carpentry skills would be demanded and equipment for the tasks as well. This would provide immediate employment for unemployed construction workers since these projects can be implemented quickly.



- (9) The wage supplement component for the hiring of unemployed youths 16 to 24 years old would effectively reduce the minimum wage rate to firms hiring in this category of worker. The supplement should be increased the longer a worker is continuously employed (with a maximum stipulated) by the same employer. Adequate safeguards are necessary to assure that newly hired workers do not displace present workers on the payroll or other workers hired under this program. Eligible workers include only those who have proof that they have been actively seeking work for a specified period of time or who are looking for their first job. The supplement consequently should stimulate employment if the minimum wage rate level is an impediment to increased hiring. The wage supplement system could be administered by the Department of Labor.
- (10) The extension of (8) to include all unemployed should allow firms to hire from a broader range of skills and experience associated with the different age levels. Older unemployed workers might find job openings that were not previously available when a firm had to pay the minimum wage. The administration of this effort would be as in (8).

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March 25, 1976

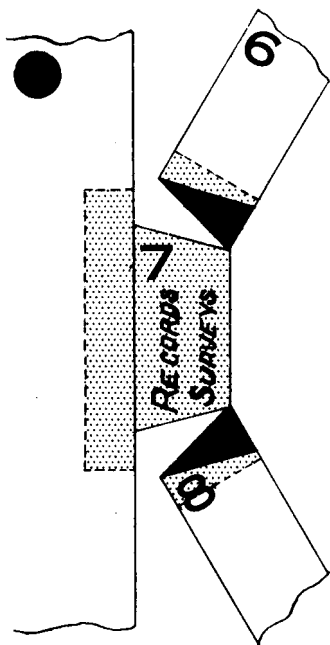


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COMBINATIONS OF POLICIES TO TARGET ON GEOGRAPHIC AREAS WITH HIGH RATES OF UNEMPLOYMENT

Minimum Effort

- (1) Reduce or waive matching requirements for EDA public work projects in areas of high unemployment.
- (2) Expand the business loan authority in EDA which provides direct loans and loan guarantees to businesses. This could be targeted on areas of high unemployment.

Intermediate Effort

Minimum Effort

+

- (3) Extend eligible period for accelerated depreciation allowance to 2 years and narrow the targeting by raising required unemployment rate above the proposed 7 percent.

High Effort

Intermediate Effort

+

- (4) Raise the investment tax credit from the proposed 10 to 12 percent for businesses in areas of high unemployment.

Explanatory Notes

- (1) Reducing or waiving matching requirements for EDA public works projects would facilitate participation in the public works grant program by local governments in areas where unemployment is high and where rising costs and falling revenues may preclude contribution of the required match. Currently, for Title I Public Works, 50% match is required in areas with unemployment of 6-8 percent, 40% for 8-10 percent, 30% for 10-12 percent and 20% if unemployment is above 12%.
- (2) Expanding the business loan authority in EDA would provide a direct stimulus to private investment in areas of high unemployment. This program provides direct loans to businesses for construction and fixed equipment, working capital loan guarantees, and direct working capital loans. The loan guarantees could be particularly effective in terms of return on investment as EDA currently holds only 10-25 percent of the loan amount in reserve for possible losses.
- (3) The Administration's proposal which would allow accelerated depreciation of new plants and equipment purchased within one year by businesses in areas with unemployment of 7 percent or more could be extended to two years. The one year cut-off probably would not allow enough start up time for planning construction and equipment purchases over and above what would have taken place in the absence of an accelerated depreciation allowance. Also, this could be further targeted by raising the required unemployment rate.
- (4) Raising the investment tax credit from the proposed 10 percent to 12 percent for businesses in areas of high unemployment (10 percent or more) provides an additional countercyclical stimulus to such businesses in the form of expanded cash flows and increased profitability of investment projects. Such a policy offers an additional incentive for expansion of increased employment. Such an additional tax credit should be structured to phase down to the proposed permanent 10 percent credit when unemployment falls below 10 percent.

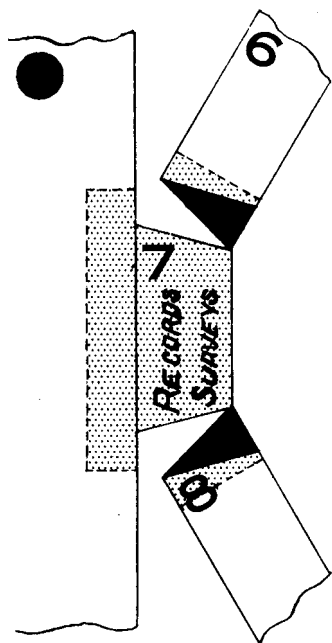


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-
- Table 9. Teenage Population 16-19 and Total Population 16+, 1975 to 1990.



Briefly summarized, these tables show, in general, that:

- . only about one-fourth of the unemployed in 1975 were men of prime working age (25-54), while close to one-fourth were teenagers and about one-third were adult women.
- . about one-sixth of the unemployed - chiefly teenagers - were seeking only part-time work.
- . by duration, 37 percent of the unemployed in 1975 had found jobs or left the labor force after one month; only about one-sixth continued to seek work for longer than 6 months.
- . of the long-term unemployed - 27 weeks and over - 37 percent were men between the ages of 25 and 54, 21 percent were women in this age group, and 14 percent were young men ages 20 to 24. About 40 percent were white collar or service workers.
- . the number of persons drawing unemployment benefits was equal to 78 percent of the unemployed with work experience in the earlier part of 1975, and about 63 to 69 percent in the later part.
- . by region, unemployment is highest in the Northeastern and Pacific States, and lowest in the agricultural Great Plains. The sharpest increases from a year ago have occurred in the Northeast and the Great Lakes region.
- . the proportion of the population holding jobs was higher in 1975 than in 1958 - a similar recession year - and transfer payments - pensions, social security, unemployment benefits, etc., - have increased 2 1/2 times in real terms on a per capita basis over the past 10 years.
- . labor force participation rates projected to 1990 are expected to continue upward for teenagers and for women under 65, but downward for adult men.
- . the relative size of the labor force of middle age will be increasing sharply from 1975 to 1990, at the expense of the under-24 and over-65 age groups. These changes largely reflect corresponding shifts in the composition of the

population, modified somewhat by changing rates of labor force participation.

- . the teenage population of labor force age (16-19) is expected to decline by 3.4 million between 1977 and 1990. Its share of the population age 16 and over will fall from 10.8 percent in 1975 to 7.4 percent in 1990. This trend in itself will tend to reduce the teenage unemployment rate.

Attachments

Thomas W. Kraseman
Office of the Chief Economist
Department of Commerce
March 22, 1976



COMMENTS ON TABLE 1

Table 1 illustrates the shift in the composition of unemployment since the late 1950s away from men in their prime working ages and toward teenagers and young people, especially young women. These changes reflect similar shifts in the age - sex composition of the population and labor force. The proportion of married men in the unemployed fell from 39.1 percent in 1958 to 26.1 percent in 1975, while teenagers rose from about 15 percent in 1958 to 22 percent in 1975, and women ages 20 - 24 from 5 to 10 percent. As the last line on the table shows, some 40 percent of the teenagers and 16 percent of the young women in 1975 were seeking part-time employment, compared with only 3 percent of unemployed men 25 - 54.

The increased proportion of teenagers and women in the labor force makes for a higher overall level of unemployment, since these groups for various reasons have higher average unemployment rates than adult men.

The changes in the age - sex composition of unemployment from 1969 to the later years shown are due very largely to the effects of the business cycle and to the discharge of servicemen as the Vietnam War tapered off. The continuing secular increase in the relative shares of teenagers and women in the labor force probably had a minor influence also.



TABLE 1

Age - Sex Composition of Unemployment,
Selected Years, 1958 - 1975

(number in thousands)

		Unem- ployment Total	Teen- age	Adult Men			Adult Women			Married Men, Spouse Present
				Age 20-24	Age 25-54	Age 55+	Age 20-24	Age 25-54	Age 55+	
1958	Number	4602	678	478	1729	473	223	866	153	1799
	Percent	100.0	14.7	10.4	37.6	10.3	4.8	18.8	3.3	39.1
1969	Number	2832	853	270	517	175	290	614	113	582
	Percent	100.0	30.1	9.5	18.3	6.2	10.2	21.7	4.0	20.6
1973	Number	4304	1226	514	854	227	471	867	148	905
	Percent	100.0	28.5	11.9	19.8	5.3	10.9	20.1	3.4	21.0
1974	Number	5076	1410	631	1043	245	552	1024	171	1072
	Percent	100.0	27.8	12.4	20.5	4.8	10.9	20.2	3.4	21.1
1975	Number	7830	1752	1059	1966	403	769	1612	268	2044
	Percent	100.0	22.4	13.5	25.1	5.1	9.8	20.6	3.4	26.1
1975	Number	7824	1717	1041	2024	405	813	1530	282	1955
4th Q	Percent	100.0	21.9	13.3	25.9	5.2	10.4	19.6	3.6	25.0
1975 Unemployed seeking part- time work		1393	703	95	57	69	120	282	68	
Unemp. seeking part-time as % of unemp. in each group		17.8	40.1	9.0	2.9	17.1	15.6	17.5	25.4	



COMMENTS ON TABLE 2

The most important point to note in this table is that in a normal year, half or more than half of the people reported as unemployed in a given month have either found jobs or left the labor force one month later. Even in years of severe recession - 1958 and 1975 - less than one out of six unemployed people have been continuously seeking work for longer than 6 months. The public and the news media tend to regard the unemployed as a static group, composed of the same people from month to month; actually it is highly fluid.

The percentage of long-term unemployed - 27 weeks and over - in the total was slightly higher in 1975 than in 1958 for the years as a whole, but equal in the fourth quarters. These data suggest the increased coverage and duration of unemployment benefits in 1975 compared with 1958 has had no more than a slight effect, at most, on the length of job search.

The higher proportion of long-term unemployment in the fourth quarter of 1975 compared with 1975 as a whole simply reflects the fact that in a recovery period, short-term unemployment declines faster than long-term, because plant shutdowns and other short-term layoffs diminish before new workers are hired. Hence, the "average duration" of unemployment tends to increase in the early stages of a recovery, and is therefore a misleading figure.

TABLE 2.

Unemployment by Duration
Selected Years, 1958 - 1975

(number in thousands)

	Total Unem- ployment	Under 5 Weeks	5-14 Weeks	15-26 Weeks	27 Weeks and Over	Percentage Distribution			
						Under 5	5 - 14	15 - 26	27+
1958	4602	1753	1396	785	667	38.0	31.3	17.1	14.5
1959	3740	1585	1114	469	571	42.4	29.8	12.5	15.3
1961	4714	1806	1376	728	804	38.3	29.2	15.4	17.1
1962	3911	1663	1134	534	585	42.5	29.0	13.7	15.0
1968	2817	1594	810	256	156	56.5	28.8	9.1	5.5
1969	2832	1629	827	242	133	57.5	29.2	8.5	4.7
1970	4088	2137	1289	427	235	52.3	31.5	10.4	5.7
1971	4993	2234	1578	665	517	44.7	31.6	13.3	10.4
1972	4840	2223	1459	597	562	45.9	30.1	12.3	11.6
1973	4304	2196	1296	475	337	51.0	30.1	11.0	7.8
1974	5076	2567	1572	563	373	50.6	31.0	11.1	7.3
1975	7830	2894	2452	1290	1193	37.0	31.3	16.5	15.2
1958 4Q		1622	1168	729	861	37.0	26.7	16.6	19.7
1975 4Q		2786	2294	1211	1562	35.5	29.2	15.4	19.8
1976 Mar.		2609	1905	903	1391	38.3	28.0	13.3	20.4

NOTE: Detail may not add to totals because of rounding.

COMMENTS ON TABLE 3

This table presents the size and composition of the long-term unemployed - those who need work desperately enough to keep up the search for 6 months or more. By age, a little more than one-third are men in their prime working ages - 25 to 54; one-fifth are women in this age bracket; one-third are married men. By occupation, nearly 30 percent are white collar workers and 11 percent are service workers. By industry, 12 percent held their last jobs in construction, while 38 percent came from trade, finance, and service.



TABLE 3

Composition of Unemployment 27 Weeks and Over
Annual, 19751. By Age, Sex and Marital Status

	Total Unemployment 27 weeks and over (000)	Percent Distri- bution	Male (000)	Percent of Total Unemployment 27+ weeks	Female (000)	Percent of Total Unemployment 27+ weeks
All Ages	1193	100.0	750	62.9	443	37.1
16 - 19	110	9.2	66	5.5	44	3.7
20 - 24	244	20.5	165	13.8	79	6.6
25 - 54	661	55.4	409	34.2	252	21.1
55 - 64	129	10.8	78	6.5	51	4.3
65+	50	4.2	32	2.7	18	1.5
Married, with Spouse Present			393	32.9	250	21.0

2. By Industry and Occupation of Last Job

Occupation:	Number (000)	Percent of Total	Industry: 1/	Number (000)	Percent of Total
White Collar, Total	343	28.9	Agriculture	11	0.9
Professional & Managerial	129	10.8	Construction	139	11.7
Sales Workers	45	3.8	Manufacturing	441	37.0
Clerical Workers	169	14.2	Transportation	58	4.9
Blue Collar, Total	643	53.9	Trade, Finance, & Service	417	35.0
Craft Workers	174	14.6	Public Adminis- tration	34	2.8
Operatives	346	29.0	No Previous Experience	68	5.7
Laborers	123	10.3			
Service	135	11.3			
No Previous Experience	68	5.7			

1/Includes wage and salary workers only.

NOTE: Details may not add to totals because of rounding.

COMMENTS ON TABLE 4

This table focuses on the unemployment insurance program. The left side relates the number of persons drawing unemployment benefits to the total number of unemployed with work experience (and who might therefore be eligible for unemployment benefits). While the figures are not adjusted for seasonality, they do suggest that the proportion of the unemployed who were receiving unemployment benefits was significantly lower in autumn than in spring last year. This decline may be a reflection of the rising rate of benefit exhaustions, shown on the right side of the table.

"Regular programs" here refers to the insurance programs apart from any extended benefits. In the present situation, special programs to extend both coverage and duration of benefits are in effect and nearly all of the people who exhaust their regular benefits can begin to claim benefits under these programs. The "Federal supplemental" program, however, represents the end of the line - those who exhaust under this program become ineligible for further benefits.

It is extremely difficult to evaluate the significance of unemployment benefit exhaustions. Not all of those who exhaust are desperately in need of a job, since people who plan to leave the labor force will naturally continue to claim benefits as long as possible; and they are not disqualified unless they refuse a job in their usual occupation at their normal rate of pay. A worker's unemployment benefits are based on his employment and earnings in a "base year" which in nearly all states is not a calendar year, but a flexible period of four consecutive quarters. Thus, many of those who exhaust their entitlement from one base year soon become eligible to claim benefits derived from employment in a new base year. It should be noted that for many workers, employment is intermittent; construction workers are a prime example, and auto workers another. Such workers may be drawing down their unemployment benefits and earning credits toward new benefits, all in the same year.



TABLE 4

Unemployment, Unemployment Insurance
Benefits, and Benefit Exhaustions, 1/
1975

(Numbers in thousands)

	Unemployed with Work Experience	Insured Unemployment, All Programs <u>2/</u>	Percent Insured to Experienced Unemployment	Benefit Exhaustions			
				Regular Programs		Federal Supplemental	
				Quarterly Total	Weekly Average	Quarterly Total	Weekly Average
1974 December	5496	3910	71.1%	503 <u>3/</u>	39	-	-
1975 January	7535	5213	69.2	-	-	-	-
February	7600	5751	75.7	741	57	36	3
March	7704	5886	76.4	-	-	-	-
April	7186	5647	78.6	-	-	-	-
May	6887	5202	75.5	1206	93	250	19
June	7366	4892	66.4	-	-	-	-
July	7033	4990	71.0	-	-	-	-
August	6740	4590	68.1	1257	97	319	25
September	6741	4254	63.1	-	-	-	-
October	6431	4044	63.0	-	-	-	-
November	6467	4120	63.7	1400	108	500	38
December	6463	4460	69.0	-	-	-	-

1/ Data are not seasonally adjusted. 2/ Weekly average. 3/ Fourth quarter total.

COMMENTS ON TABLE 5

Table 5 shows that the region with the highest average unemployment in November of 1975 (the latest available month) was New England, particularly southern New England. In second place were the Middle Atlantic and the Pacific regions, with both showing virtually the same rate. However, Michigan, at 12.2 percent, had the highest rate for any single State. In all of these places, unemployment over the years has usually been higher than the national average. The lowest unemployment rate in November was in the West Central States - north and south - mainly reflecting the relatively prosperous condition of agriculture and the oil and gas industry.

Unemployment this past November was higher than a year earlier in all major regions of the country, but the sharpest increases over the year occurred in the New England, Middle Atlantic, and East North Central States. This was largely due to the highly cyclical character of the durable goods industries which are of major importance in these areas.




TABLE 5

Unemployment and Unemployment Rates
by State, January & February 1976
(not seasonally adjusted)

	January 1976 Unemployment		February 1976 Unemployment	
	Number (000)	Rate (Percent)	Number (000)	Rate (Percent)
New England				
Maine	43.9	10.3	42.1	9.9
New Hampshire	20.4	5.9	19.9	5.8
Vermont	19.4	9.8	19.1	9.6
Massachusetts	303.2	11.2	286.6	10.6
Rhode Island	55.0	13.3	51.7	12.6
Connecticut	161.7	11.1	153.7	10.6
Middle Atlantic				
New York	779.3	10.4	768.5	10.3
New Jersey	NA	NA	NA	NA
Pennsylvania	NA	NA	NA	NA
South Atlantic				
Delaware	20.3	8.4	20.1	8.2
Dist. of Columbia	28.3	8.3	26.9	7.9
Maryland	140.7	7.7	136.0	7.5
West Virginia	49.1	7.6	48.0	7.4
Virginia	138.2	6.2	137.3	6.2
North Carolina	176.6	7.2	167.4	6.9
South Carolina	86.5	7.5	85.9	7.4
Georgia	170.5	8.2	163.3	7.9
Florida	389.1	11.1	384.5	11.0
East South Central				
Kentucky	NA	NA	NA	NA
Tennessee	146.0	8.3	145.0	8.3
Alabama	123.7	8.7	121.8	8.6
Mississippi	55.4	6.3	56.1	6.4

NA - Not Available

Continued - Unemployment and Unemployment Rates by State

January 1976				February 1976	
	Number	Rate		Number	Rate
West South Central					
Arkansas	64.0	7.9		60.8	7.4
Louisiana	104.6	7.4		105.2	7.3
Oklahoma	91.7	7.9		91.5	7.9
Texas	280.1	5.3		283.4	5.4
East North Central					
Ohio	414.3	8.9		413.9	8.9
Indiana	184.0	7.8		174.8	7.5
Illinois	NA	NA		NA	NA
Michigan	470.8	12.2		450.1	11.7
Wisconsin	159.4	7.7		167.6	8.0
West North Central					
Minnesota	NA	NA		NA	NA
Iowa	83.8	6.6		83.2	6.6
Missouri	148.5	7.3		132.7	6.5
North Dakota	16.6	6.5		17.8	6.9
South Dakota	16.0	5.6		15.7	5.4
Nebraska	47.8	6.9		48.1	7.0
Kansas	49.8	4.8		53.0	5.0
Mountain					
Montana	30.7	9.7		29.1	9.2
Idaho	NA	NA		NA	NA
Wyoming	8.9	5.2		8.8	5.1
Utah	41.9	8.2		39.0	7.7
Colorado	NA	NA		NA	NA
New Mexico	30.7	7.3		32.5	7.6
Arizona	82.9	9.4		79.6	9.1
Nevada	29.4	10.4		29.8	10.4
Pacific					
Washington	162.4	10.8		154.8	10.3
Oregon	123.5	11.9		115.2	11.1
California	986.8	10.5		1012.7	10.8
Alaska	21.1	11.6		20.9	11.0
Hawaii	29.6	8.3		31.1	8.7

NA - Not Available

COMMENTS ON TABLE 6

Table 6 shows, in general, that the economic hardship caused by a given amount of unemployment has been declining.

Column 1 is the ratio of U.S. resident population to employment. These are the number of people who would be dependent on each employed person if there were no alternative source of income. The ratio has fallen, partly because of the declining number of young children, and partly because of the increased proportion of women and teenagers who are employed.

Column 2 shows that transfer payments - mostly pension, social security and welfare payments and unemployment insurance - have increased nearly 2 1/2 times in the past decade in real terms.

Column 3 is a variation of Column 1, and shows that employment as a percentage of the noninstitutional population 16 years and over has risen significantly. Even though the conventional unemployment rate in 1975 was 8.5 percent, against 6.8 percent in 1958, (see Column 4) the percentage of the population of 16 years and over who were employed was higher in 1975 than in 1958. The rise in this percentage began about 1965, the year when the number of births began to fall markedly. When the economy has achieved a full recovery, it is likely that the percentage will exceed the high figure shown for 1973 and 1974.



TABLE 6

The Burden on the Employed Population:
 Population per Person Employed and
 Real Transfer Payments per Capita
 Selected Years 1947 - 1975

	(1)	(2)	(3)	(4)
	<u>Population ^{1/} per Person Employed</u>	<u>Transfer Payments per Capita (1972 \$)</u>	<u>Employment as a Percent of Population 16 years and older</u>	<u>Unemployment Rate</u>
1947	2.53	\$ 154	56.0	3.9
1950	2.57	177	56.1	5.3
1955	2.65	165	56.7	4.4
1958	2.76	215	55.4	6.8
1960	2.72	225	56.1	5.5
1965	2.72	271	56.2	4.5
1970	2.59	424	57.4	4.9
1971	2.60	472	56.6	5.9
1972	2.55	500	57.0	5.6
1973	2.49	536	57.8	4.9
1974	2.46	568	57.8	5.6
1975	2.51	654	56.0	8.5

^{1/} Total resident population, all ages.

COMMENTS ON TABLE 7

This table shows the projections of the labor force by age and sex through 1990. The projections, although the latest now available, were based on labor force and population data for 1972 and were published in 1973. The trends foreseen at that time were correct in direction, but some of the changes have occurred much sooner than the demographers were expecting. While the participation rates for women of all ages under 65 and for teenagers of both sexes have continued upward as anticipated, the rates for women age 25-54 and for teenagers of both sexes had by 1975 already exceeded the levels projected for 1990. The projections show declining participation rates for men in all age groups, but the rates for men age 55 to 64 had by 1975 already fallen below those projected for 1990, evidently because early retirements have been much heavier than anticipated.

The apparent discrepancy between the rise shown in the overall participation rate for men and the declines in all of the component age groups is due to a marked shift in the composition of the population. The record-large age cohort born in the first 15 years after World War II will be moving into their middle years when labor force participation is at a peak. They will be replacing the relatively small cohort born during the 1930's and early 1940's. This substantial increase in the size of the middle-age labor force will more than offset the slight decline in the participation rate expected for men in this age group. The much smaller age cohort born in the latter 1960's and early 1970's will be moving through the teenage years when participation rates are much lower than in adult years.

The BLS is now in the process of revising its labor force projections, and expects to publish the new estimates this summer.

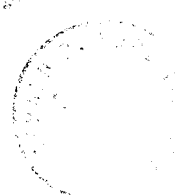



TABLE 7

Total Labor Force by Age and Sex, Projected to 1990

	Labor Force in Numbers (thousands)				Labor Force Participation Rates, Percent			
	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>Actual</u> <u>1975</u>	<u>Projected</u>		
	<u>1980</u>	<u>1985</u>	<u>1990</u>		<u>1980</u>	<u>1985</u>	<u>1990</u>	
Total, 16 years & over	94,793	101,809	107,716	112,576	61.8	60.8	61.3	61.5
Men, Total	57,706	62,590	66,017	68,907	78.5	78.0	78.3	78.4
16 to 19	5,127	4,668	3,962	3,901	60.9	56.0	55.5	55.4
20 to 24	8,186	8,852	8,496	7,404	85.9	83.0	82.5	82.1
25 to 54	35,503	39,282	43,761	48,160	94.5	94.0	94.0	93.8
55 to 64	6,984	7,730	7,716	7,307	75.8	79.1	78.1	77.5
65 and over	1,906	2,058	2,082	2,135	21.7	21.2	20.0	19.3
Women, Total	37,087	39,219	41,699	43,669	46.4	45.0	45.6	45.9
16 to 19	4,059	3,669	3,203	3,188	49.3	45.5	46.4	47.0
20 to 24	6,116	6,592	6,523	5,826	64.3	63.4	64.9	66.2
25 to 54	21,636	22,662	25,441	28,261	56.0	52.7	53.6	54.4
55 to 64	4,244	5,057	5,213	5,003	41.4	44.7	45.4	45.8
65 and over	1,033	1,239	1,319	1,391	8.3	8.6	8.5	8.3

SOURCE: Bureau of Labor Statistics, Projections abridged from table in Monthly Labor Review, July 1973, page 4. Projections are now in process of revision. The new projections of the labor force, published in the March 1976 MLR, are 103,310,000 in 1980 and 109,749,000 in 1985. Age-sex detail is not yet available.



COMMENTS ON TABLE 8

The labor force distributions shown on this table reflect a combination of trends in the population and in the labor force participation rates for the age and sex groups shown. Population changes are the more important because of the abrupt and substantial changes in the birth rate which have occurred during the past 50 years--notably the drop in the early 1930's, the very steep rise in 1946-47, and the sudden sharp decline in 1971-72. During the next 15 years, the size of the population in given age groups will of course be reflecting these earlier sharp variations in the birth rate.



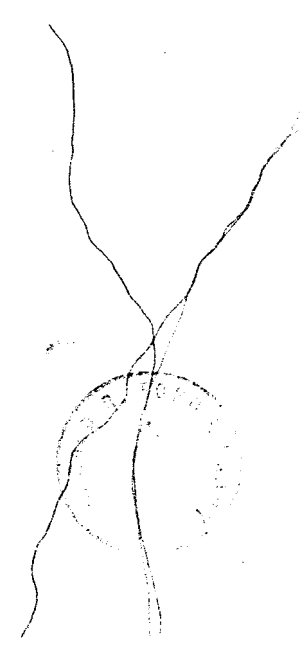
TABLE 8

Composition of the Labor Force, by Age and Sex
(percents)

<u>Ages</u>	<u>Labor Force</u>			
	<u>Actual</u>	<u>Projections</u>		
	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>
Men, Total	100.0 60.9	100.0 61.5	100.0 61.3	100.0 61.2
16 to 19	5.4	4.6	3.7	3.5
20 to 24	8.6	8.7	7.9	6.6
25 to 54	37.5	38.6	40.6	42.8
55 to 64	7.4	7.6	7.2	6.5
65 and over	2.0	2.0	1.9	1.9
Women, Total	39.1	38.5	38.7	38.8
16 to 19	4.3	3.6	3.0	2.8
20 to 24	6.5	6.5	6.1	5.2
25 to 54	22.8	22.3	23.6	25.1
55 to 64	4.5	5.0	4.8	4.4
65 and over	1.1	1.2	1.2	1.2

SOURCE: Bureau of Labor Statistics, Projections
abridged from table in Monthly Labor Review,
July 1973, page 5.

NOTE: Component figures may not add to totals
because of rounding.



COMMENTS ON TABLE 9

The teenage population in 1977 will be reaching a peak for many years to come. By 1990 it will have declined by 3.4 million or 20 percent. Teenagers as a percent of the population of labor force age (16 and over) have already begun to decline. This drop will be fairly slow for the next couple of years, but will accelerate sharply after 1978 and remain sharp until 1985. A renewed sharp downtrend will occur in the late 1980's.

Since the demographers are expecting very little change in teenage labor force participation over the next 15 years, it is reasonable to expect that the sharp drop in teenage population will also mean a decline in the very high teenage unemployment rates of recent years.

TABLE 9

Teenage Population 16 - 19
and Total Population 16+,
1975 to 1990

(in thousands)

July 1	Total Population 16+	Teenage 16 - 19	Percent Teens to Total
1975	155,589	16,784	10.8%
1976	158,081	16,917	10.7
1977	161,213	16,958	10.5
1978	163,060	16,917	10.4
1979	165,403	16,820	10.2
1980	167,660	16,682	9.9
1981	169,730	16,309	9.6
1982	171,575	15,807	9.2
1983	173,295	15,269	8.8
1984	174,905	14,706	8.4
1985	176,533	14,356	8.1
1986	178,227	14,307	8.0
1987	179,977	14,433	8.0
1988	181,240	14,360	7.9
1989	182,628	14,034	7.7
1990	183,744	13,558	7.4

SOURCE: Census Bureau, Population Estimates and Projections, Current Population Reports, Series P-25, No. 601, Issued October 1975.



COMMENTS ON TABLE 10

This table shows that in 1975, unemployment rates by sex were a little higher for women than for men, and by race were substantially higher for blacks than for whites. The white-black differences were largest for teenage girls, but smallest for women over 25. The rates for black women were a little lower than for black men, but among adult whites the reverse was true.



TABLE 10

Unemployment by Race, Sex, and Age
1975White

Age Group	<u>Both Sexes</u>		<u>Males</u>		<u>Females</u>	
	<u>Number</u> (000)	<u>Rate</u>	<u>Number</u> (000)	<u>Rate</u>	<u>Number</u> (000)	<u>Rate</u>
16 years & over	6371	7.8	3597	7.2	2774	8.6
16 to 19	1406	17.9	781	18.3	625	17.4
16 and 17	650	19.5	365	19.7	285	19.2
18 and 19	756	16.7	416	17.2	340	16.1
20 to 24	1455	12.3	860	13.2	595	11.2
25 to 54	2918	5.9	1606	5.2	1312	7.1
55 to 64	457	4.5	264	4.1	193	5.1
65 and over	135	5.1	86	5.0	49	5.3

Negroes and other Races

16 years & over	1458	13.9	787	13.7	671	14.0
16 to 19	347	36.9	176	35.4	171	38.5
16 and 17	139	39.0	74	39.4	65	38.9
18 and 19	207	35.4	101	32.4	106	38.3
20 to 24	373	22.8	199	22.9	174	22.5
25 to 54	659	10.0	360	10.0	299	9.9
55 to 64	59	5.7	36	6.1	23	5.3
65 and over	21	7.2	17	9.5	4	3.1



COMMENTS ON TABLE 11

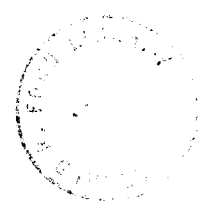
The most significant point on this table is that a substantial percentage of the unemployed teenagers are seeking only part-time jobs. The figures are monthly averages, and include the summer vacation months when many teenagers are looking for full-time work. The percentage seeking part-time work during the school year, therefore, is somewhat higher than the figures shown.

The year 1973 was included to show the situation in a year of moderate unemployment. Unemployment of full-time job seekers increases more in a recession than that of part-time job seekers, and therefore the percentage of part-time job seekers is lower in 1975 than in 1973.



TABLE 11

Unemployed 16 - 24 Seeking Part-Time
Work, as a Percent of Total Unemployed



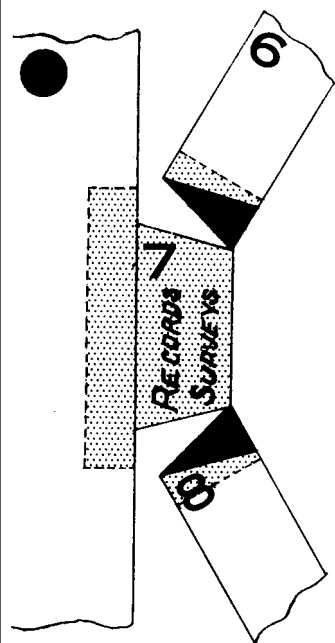
	1975			1973		
	Total Unemployment (000)	Seeking Part-Time Work (000)	Percent Seeking Part-Time	Total Unemployed (000)	Seeking Part-Time Work (000)	Percent Seeking Part-Time
Total 16 - 24	3580	917	25.6	2211	679	30.7
16 to 19	1752	703	40.1	1226	545	44.5
16 and 17	790	484	61.3	628	395	62.9
18 and 19	963	219	22.7	598	149	24.9
20 to 24	1828	214	11.7	985	134	13.6
<u>White</u>						
Total 16 - 24	2861	766	26.8	1697	557	32.8
16 to 19	1406	584	41.5	951	447	47.0
20 to 24	1455	182	12.5	746	110	14.7
<u>Negroes and other Races</u>						
Total 16 to 24	720	151	21.0	514	122	23.7
16 to 19	347	119	34.3	275	98	35.6
20 to 24	373	32	8.6	239	24	10.0

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MINIMUM WAGES AND TEENAGE UNEMPLOYMENT

Background Information

Throughout the post World War II period, the teenage unemployment rate has been more than double the unemployment rate for all workers; in recent years, it has been around 3 times the total rate. During the recent recession, the teenage unemployment rate reached a high of 20.7 percent in June and August 1975, declining to 19.1 percent as of March 1976; the unemployment rate for all workers has declined from a peak of 8.9 percent to 7.5 percent. Official unemployment figures do not include persons who want jobs but are discouraged by the lack of job prospects. If these had been included, the teenage rate would have been about 1½ percentage points higher in 1975 and early 1976.

Although analytical studies of the effect of minimum wages on teenage unemployment have produced somewhat conflicting conclusions, the weight of the evidence, as well as economic theory, suggests that minimum wages are a factor of significance in teenage unemployment. Compared with older workers, teenagers tend to have fewer skills, to make more mistakes on the job, and to require closer supervision and training. Because of the rapid job turnover of young people, employers are often unable to benefit from expenditures they make on training teenagers. Thus, unless they are permitted to pay wages which reflect the relatively low productivity and low job attachment of teenage workers, employers are likely to decide not to hire such workers.

Because there are only limited job opportunities available to them, black teenagers are placed at a special disadvantage by any reduction in jobs resulting from minimum wage requirements. Many black teenagers are concentrated in inner city locations which industries have been leaving. The unemployment rate for black and other nonwhite teenagers has recently been about 35 to 40 percent compared with rates of 15 to 20 percent for white teenagers. ^{1/} Thus, it appears that black teenagers are among the major victims of the minimum wage legislation. (Table I)

^{1/} U.S. Department of Labor, Employment and Earnings (February 1976), pp. 41, 42, 45.

As a result of the 1966 and 1974 amendments to the Fair Labor Standards Act, many more teenage workers are now covered by minimum wage legislation than was the case in the past. Of particular importance in this respect has been the extension of minimum wage coverage to large numbers of service industry and retail trade workers. In January 1976, retail trade and service workers accounted for more than a third of the total persons aged 16 to 19 years who were employed. ^{1/} (Table II)

In the case of the categories of workers who were covered by minimum wage legislation prior to 1966, the minimum wage rose from \$1.40 an hour in 1967 to \$2.30 an hour beginning January 1, 1976. For these workers, the rise in the minimum wage has been roughly the same as the increase in average hourly earnings in the private economy. In the case of farm workers and nonfarm workers who have recently come under the coverage of the minimum wage legislation, the legal minimum wage rate has been somewhat lower than the rate for workers who were subject to minimum wage legislation prior to 1966. However, by January 1, 1978, each of the various groups will be subject to the \$2.30 per hour minimum rate. ^{2/} Since average hourly earnings in trade and service are roughly 15 percent below the general average, the impact of a uniform minimum wage is greater in these industries. The impact is also relatively greater in lower-wage regions, notably the South.

Despite the evidence of some adverse effects of minimum wages on teenage unemployment, the labor unions are strong supporters of minimum wage legislation. The unions generally support as broad coverage for minimum wage legislation as possible and oppose special exemptions for young people. The unions take the position that exemptions from minimum wage levels are merely a form of wage cutting, taking jobs from adult workers.

Indexing of Minimum Wages

There has recently been some discussion of the merits of indexing minimum wage rates. ^{3/} If an indexing procedure were adopted, minimum wage rates would probably be adjusted more frequently than has been the case in the past. Indexing might result in minimum wages being maintained

^{1/} Employment and Earnings, p. 53.

^{2/} U.S. Department of Commerce, Statistical Abstract of the United States 1975, p. 369.

^{3/} See the memorandum of April 19, 1976, regarding legislative proposals to index minimum wages from Secretary W.J. Usery, Jr., to the Executive Committee of the Economic Policy Board.

at higher real levels and at higher levels relative to average wage rates than would otherwise be the case.

The effects of indexing minimum wages on employment of course would vary depending upon the particular indexing procedure adopted. To the extent that it resulted in higher real minimum wage rates over a period of time, however, indexing would tend to cause higher levels of unemployment for teenagers and other marginal workers. Indexing, moreover, could have the effect of preventing increases in the general level of prices and wages from correcting, even for short periods of time, the distortions in the relative wages paid to workers of differing productivity levels that result from the imposition of minimum wage rates.

Research Results

In the past decade, there have been a number of studies of the impact of minimum wage legislation on teenage unemployment. A study published in 1970 by the Bureau of Labor Statistics (BLS) indicated that: (1) It is difficult to separate the effects of minimum wage legislation from the numerous other factors affecting teenage unemployment, (2) minimum wage legislation did not appear to be a major cause of teenage unemployment in the postwar period and (3) minimum wage legislation appeared to have its principal adverse impact on the employment of teenagers in the case of younger teenagers (those aged 16-17 years), black teenagers, and teenagers living outside of large cities. 1/

At the time the BLS study was undertaken, fewer teenagers were covered by minimum wage legislation than is now the case. Also, the study notes that during the period covered by the BLS analysis, Federal manpower programs may have partly offset the adverse effects of minimum wages on teenage employment. 2/

The BLS study notes that, under the Fair Labor Standards Act, "establishments holding full-time student certificates have the legal authority to hire youth at 85 percent of the minimum wage." Based on surveys of employers, the study concluded that "Apparently for some employers at least a 15-percent 'discount' was not enough to offset the poorer quality of student help." 3/

1/ Thomas W. Gavett, "Youth Unemployment and Minimum Wages," Monthly Labor Review (March 1970), pp. 3-12. This article is short version of Youth Unemployment and Minimum Wages, Bulletin 1657, U.S. Department of Labor, Bureau of Labor Statistics, 1970.

2/ Ibid., p. 11.

3/ Ibid., p. 7.



Several more recent studies have shown that minimum wage legislation has been an important contributor to the high levels of teenage unemployment. For example, according to a doctoral dissertation sponsored by the Manpower Administration of the Department of Labor, "The minimum wage has been an important factor in increasing teenage unemployment. Based on the number of jobs at various wage levels covered by the minimum wage and reasonable estimates of the elasticity of demand for labor, one would expect a permanent increase in the minimum wage from \$1.60 to \$2.00, maintained at the same real level, to increase the overall unemployment rate by something like .5 percentage points, with a far greater impact on teenagers." "A reasonable decrease in the minimum wage of about 15 to 20 percent might decrease the unemployment rate for teenagers by something like two percentage points." 1/

Another study concerning teenage unemployment concludes that "...the unemployment effects associated with increases in the minimum wage are substantial, are felt in their maximum impact after only a relatively short period of time and persist for a considerable period of time." 2/

In its 1975 report, the Council of Economic Advisers took note of the distorting effects that minimum wage requirements have on teenage unemployment. According to the Council, "Some adults, but more teenagers, do not have the skills to command a wage that equals or exceeds this minimum cost of employment for other than peak periods of demand in the business of a particular firm. The knowledge that some job openings exist at the minimum wage may encourage some to continue searching, thus adding to the number of unemployed. Others may drop out of the labor force altogether. Since the minimum wage reduces wage differentiation among workers, it will generate a greater decline in employment for the less skilled and for those subject to discrimination in the labor market. These effects explain part of ~~the~~ substantially higher unemployment rate for teenagers compared to adults and for black teenagers compared to white teenagers." 3/

The Council also noted that "The minimum wage may also have a more insidious long-run effect on the careers of youths, particularly teenagers out of school. Traditionally, on-the-job training has done much to improve skills. Such job training may be unprofitable for employers if they must pay higher minimum wage rates. The youths who suffer most would be precisely those who might need the most help-- youths with little schooling and greater learning difficulties and those subject to discrimination." 4/

- 1/ Alan Aron Fisher, The Problem of Teenage Unemployment, Ph.D Dissertation, Univ. of California, (Berkeley, 1973), pp. 2-3.
- 2/ Douglas K. Adie, "The Lag in Effect of Minimum Wages on Teenage Unemployment," Proceedings of the 24th Annual Winter Meeting, Industrial Relations Research Assoc. (New Orleans, 1971, pp. 45-46.
- 3/ Economic Report of the President (Feb. 1975), pp. 90-91.
- 4/ Ibid., p. 107



While these various studies do not contend that the elimination of minimum wage legislation would cause unemployment rates for teenagers to fall to the levels for workers as a whole, the studies do indicate that minimum wage legislation contributes to teenage unemployment. Thus, policymakers should give careful consideration to this matter.

Issue Paper

In view of the evidence that minimum wage legislation contributes to teenage unemployment, it may be advisable to have an issue paper prepared on this topic for future consideration by the Policy Board. The Department of Labor would probably have to play the leading role in the preparation of such a paper. However, the Department of Commerce could participate in the work.

Among the topics that the issue paper probably ought to treat are the following:

- (1) The likely impacts of a reduction in the minimum wage rate on the employment of teenagers in general and on the employment of the various categories of teenagers (e.g., the impacts on teenagers of various races and in various locations).
- (2) Any adverse effects that a reduction in the minimum wage rate for teenagers would have on the employment of older workers in general and on the employment of various categories of older workers (e.g., the effects on workers who are union members, workers who live in areas which are especially hard hit by unemployment, and workers who are employed by industries for which unemployment rates are unusually high).
- (3) The appropriate age group for a reduced minimum wage rate.
- (4) The appropriate level for the minimum wage rate for young people.
- (5) Administrative problems that might arise if there were different minimum wage requirements for younger and older workers.
- (6) Policy changes, other than a reduction in minimum wage rates for teenagers, which could be adopted in order to reduce the costs of employing young people without providing windfall gains to existing employers of young people.



Table I

Selected Employment Statistics for 1975

<u>Type of Data</u>	<u>Persons Aged 16-19 Years</u>	<u>Total Population</u>
Total Employment (Millions)	7.0	84.4
Total Unemployment (Millions)	1.8	7.8
Unemployment Rates (Percent):		
All Persons	19.9	8.5
White	17.9	7.8
Black and Other Races	36.9	13.9

Source: U.S. Department of Labor, Monthly Labor Review
(April 1976), pp. 68, 70

Table II

Principal Occupations of Teenage Workers

<u>Occupation</u>	Number of Persons Aged 16-19 Years Employed in January 1976 <u>(1,000's)</u>
Service Workers	1927
Food Service Workers	1039
Clerical Workers	1324
Nonfarm Laborers	788
Operatives, Except Transport	703
Sales Workers	594
Retail Trade	527
Craft and Kindred Workers	340
All Occupations <u>1/</u>	6,353

1/ Includes occupations not listed above.

Source: U.S. Department of Labor, Employment and Earnings
(February 1976), p. 53.

CEA Comments on DOL paper: "Minimum Wage Youth
Differential" (May 1976)

(1) Cover Memo

Although we can agree with the cover letter that "Many factors other than the minimum wage tend to increase unemployment among teenagers," this is not relevant to the issue at hand. If there are five causal factors, no matter which one we examine, there are always four other causal factors. The relevant question is: Is there a factor that decreases youth employment opportunities that can be corrected by public policy without creating additional inefficiencies or a new public program or agency? Given the nature of most teenage unemployment, no one policy could (or should) bring the teenage unemployment rate down to that for adult men. The question is whether a teenage differential in the minimum wage can create more job opportunities than currently exist.

(2) Review of the Literature

The brief DOL summary of six studies focusing on the employment impact of minimum wage rates (Tab A) concludes "to date there is no clearcut evidence of the effects of the minimum wage on teenage employment. Each of the studies contains evidence that the minimum wage has caused disemployment for some groups of teenagers but the results are not consistent for all teenage groups." This conclusion does not follow from the research results reported in the DOL literature review. Although estimates of the magnitude of the



disemployment effect may vary, the preponderant evidence is that the disemployment effect exists, particularly for 16-19 year olds.

Table 1 summarizes the partial effects of the minimum wage on teenage employment reported in Tab A of the DOL memo for six studies and a seventh study (Kosters and Welch). Although a few positive coefficients emerge, the coefficients are predominantly negative and generally significant. If the minimum wage had no net effect, positive and negative coefficients should be equally represented. Of the coefficients reported in Table 1 from the six studies cited by DOL for all teenagers and white teenagers, 22 are negative and significant, eight are negative but not significant, two are positive but not significant, and one is positive and significant. If positive and negative coefficients were equally likely, the probability of obtaining three or fewer positive coefficients out of a total of 33 is approximately zero. This is strengthened if we include the Kosters-Welch finding. Hence, the empirical studies DOL cites provide a high degree of confidence that there is a negative effect of the minimum wage on teenage employment.

The coefficients are less significant (although still negative) for those 14 to 15 years compared to youths 16 to 19. This is not surprising since the sample size of employed 14 and 15 year olds is much smaller and other factors, including child labor laws and minimum schooling laws limit their employment opportunities. Because of this other legislation, many employed 14 to 15 year olds would be in the uncovered sectors (newspaper delivery, babysitting, running errands, etc.) even if the minimum wage rate were lowered.




Table 1. Signs of the partial effect of the Federal minimum wage on teenage employment (ages 16-19 unless otherwise noted)^{1/}

	White				Non-White			
	Negative		Positive		Negative		Positive	
	Signi- ficant	Not signi- ficant	Not signi- ficant	Signi- ficant	Signi- ficant	Not signi- ficant	Not signi- ficant	Signi- ficant
1. Kaitz	3	0	1	0	0	1	3	0
2. Hashimoto & Mincer	1	1	0	0	1	1	0	0
3. Kelly (1975)	3	1	0	0	1	2	1	0
4. Kelly ^{2/} (a)	4	0	0	0	--	--	--	--
(1976) (b)	3	0	1	0	--	--	--	--
5. Welch ^{2/} Time series								
(a) 14-19	0	4	0	0	--	--	--	--
(b) 16-19	3	1	0	0	--	--	--	--
(c) Cross- section 14-19	2	1	0	1	--	--	--	--
6. Welch & Cunningham ^{2/}	3	0	0	0	--	--	--	--
7. Kusters & Welch ^{2/} (normal employment)	2	0	0	0	2	0	0	0

^{1/} For the six studies used in the DOL paper and Kusters and Welch AER 1972.

^{2/} Regressions are for all teenagers, not done separately by race.

Among black teenagers, the results reported by DOL are weaker, but are predominantly negative, a higher minimum wage is associated with less employment. A lower level of statistical significance for blacks is to be expected since a black teenage population one-ninth of the white population implies that the standard error for blacks would be about three times larger, and hence the t-ratio one-third the size for whites. Only the Kaitz study (1970) finds more positive than negative coefficients for black teenagers, but none are statistically significant and his regressions for white teenagers and all teenagers show negative effects. Subsequent researchers have found negative effects for black teenagers.

In summary, even though there is some ambiguity in the results for black teenagers (about 15 percent of all teenagers), the analyses reported by DOL for all teenagers and white teenagers show significant negative effects of the minimum wage on teenage employment. The papers by Hashimoto and Mincer and by Welch (reply to Shiskin) suggest an employment elasticity of 0.2 may be a "best estimate" of the medium term effect of a youth differential in the minimum wage. This means that a 15 percent youth differential (currently 35 cents per hour) would increase teenage employment by 3 percent, or about 225,000 jobs.

(3) Other Factors Effecting Teenage Employment

Tab B briefly outlines several factors that have limited youth employment opportunities including child labor laws, compulsory schooling laws, and employer reluctance to hire teenagers because of insufficient training, a belief that they are unreliable and the draft (no longer relevant). However, Tab B fails to mention that minimum wage legislation places an additional constraint on employers willing to legally hire teenagers in spite of these other constraints.

In addition, the minimum wage reduces the incentive to hire workers with little training. If a worker is worth \$2.50 per hour to the employer after a six month training period during which the worker is worth only \$1.75 per hour, a \$2.30 per hour minimum wage will discourage the firm from hiring an untrained worker. The firm may give lack of training as the reason for not hiring the worker, yet the fundamental cause is the minimum wage.

Similarly, Tab B attributes teenage unemployment in the inner city to the population movement off the farm to urban areas and the exit from the inner city to the suburbs of job opportunities requiring little skill. However, while these factors would be responsible for a slower rise over time in the demand for youth labor (and hence earnings) in the inner city compared to the suburbs, the minimum wage accelerates a decline in relative legal teenage employment in the inner city. Inner city employers cannot compensate for the higher costs of doing business, or make full use of a large labor pool since the minimum wage places a floor under wage rates.

The DOL memo concludes Tab B by noting that it would take time for employers to adjust to a teenage differential. This is not an argument against a teenage differential. Rather, it implies that one

should not expect large instantaneous employment increases. In addition it raises the issue of employer's perception of the permanence of the differential. If employers believe a differential is temporary or is a special program they are less likely to adjust their employment and methods of operation to that implied by a long-term youth differential. It is in part for this reason that the DOL employment exemption certificate program is less likely to generate job opportunities for student teenagers than a legislated national policy of a youth differential.

(4) Minimum Wage Coverage

Since 1961 Federal minimum wage coverage has been extended from 62 percent of private nonsupervisory employees to about 85 percent in 1976. Most of the increase in the last 15 years has been in the youth intensive service industries (including retail trade) and agriculture. Under current legislation coverage can be expected to expand as smaller retail establishments (measured in real dollars) are covered by the legislation. The expansion of coverage has pushed youths into the shrinking noncovered sector.^{1/}

In Tab C (summarized in Table 2) DOL outlines the exemptions to the minimum wage and provisions for sub-minimum wages, some of which

1/ See, for example, Welch, Economic Inquiry 1974, Brozen, Journal of Law and Economics 1962. Also, using the 1960 and 1970 Census of Population data regressions computed by the CEA indicated that, holding overall occupational growth constant, teenage employment grew more rapidly in sectors not covered by the minimum wage in 1970.

Table 2. Exemptions from the Federal minimum wage - under legislation and DOL certification^{1/}

<u>Program</u>	<u>Minimum wage</u>	<u>Participants (1975)</u>	<u>Discussion</u>
1. Sectors not covered	No minimum.	8 million, of whom about 1 million are teenagers.	Nonsupervisory workers exempt from the minimum wage are nearly all in the private sector, of whom 5 million are in small retail trade and service occupations.
2. Tip credit	Credit up to 50 percent of applicable minimum wage.	720,000 hotel & restaurant workers qualify, of whom 135,000 are teenagers.	For hotel, restaurant and transportation workers (cab drivers, porters) for tips actually received.
3. Student learner program (Sec. 14, FLSA)	Must pay at least 75 percent of the minimum.	17,000	For teenagers in a bona fide training program who work part-time.
4. Full-time student program (Sec. 14, FLSA)	Must pay at least 85 percent of the minimum.	515,000 (over 60 percent employed in colleges)	For retail and service establishments, agriculture and colleges employing their own students.
5. Disabled (Sec. 14, FLSA)	--	177,000 (of which 131,000 are in sheltered work-shops)	

^{1/} Total number of workers effected at least some time during the year.

Source: Employment Standards Administration
Department of Labor.

are targeted on youths. Employers must devote time and other resources each year to apply for student exemptions, there are limits on the extent of sub-minimum employment and given the ad hoc nature of the process the permanence of the student sub-minimum is also uncertain.

No special sub-minimums exist for out-of-school youths. Yet, youths not enrolled in school have higher rates of unemployment than students.^{1/}

(5) Summary

The research results reported in the DOL paper "Minimum Wage Youth Differential" indicate that increases in the minimum wage are associated with decreased employment for teenagers, even though the exact magnitude of the decrease (elasticity) is still uncertain.

(A "best estimate" of the elasticity is 0.2.)

The Department of Labor is apparently not adverse to the principle of a youth sub-minimum. In the report "Workers Certification Under Section 14 of the FLSA" (1976), DOL wrote (p. 33) concerning the Full-Time Student Exemption Program:

"In view of the high unemployment rate among students, the continued need to provide employers with sufficient incentive to employ young workers, and the reliance of an ever increasing number of employers on this rather limited sub-minimum wage allowance, it is the recommendation of the Secretary of Labor that the provisions for sub-minimum wage employment of full-time students be retained."

^{1/} Data on employment status by schooling enrollment status are available only for October of each year. In October 1974, 16-19 year olds enrolled in school had an unemployment rate of 15.4 percent compared to 17.2 percent for those not in school.

However, out-of-school teenagers also have high rates of unemployment, and low rates of labor force participation in part due to scanty job opportunities.

If a youth differential were formalized as a permanent feature of the minimum wage system, the costly and uncertain exemption certificate system could be discarded. In addition to expanding job opportunities for teenagers it would further the Administration's efforts to have less government regulation and paperwork for private firms.

COUNTERCYCLICAL JOB CREATION EXPERIMENTATION

Background

The period of the 1974-75 recession was marked by considerable debate about the merits of various "job creation" programs to provide quick acting employment opportunities for those thrown out of work because of the recession. At various times, expanded public service employment, public works programs, employment tax credits, civilian conservation corps, and "employer of last resort" schemes were proposed in the Congress and elsewhere.

The Administration took the position that the private sector ultimately must be relied upon for creation of permanent jobs, and that short term hardship was best dealt with by means of the unemployment insurance system and welfare programs. Nevertheless, the period was marked by the enactment of several PSE and expanded public works initiatives none of which was very substantial. The total array of initiatives was not related to any coherent rationale. Some evidence is available from this and previous experiences from which inferences might be drawn as to the advantages and disadvantages of the various approaches to alleviate cyclical unemployment. However, no very systematic evaluation efforts were undertaken in connection with these initiatives as to their countercyclical usefulness. More information exists about the merits of various approaches to deal with structural unemployment problems, but the problems are very different.

It is reasonable to expect that the economy will again at some time in the future experience a recession. Therefore, it would be useful for the government to be in a position to select the most productive programs with some notion of their likely impact.

Objective

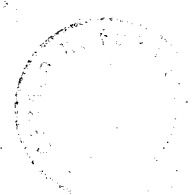
To undertake a series of carefully controlled experiments with respect to various proposals for direct federal intervention to create jobs so that the characteristics of such programs may be understood better if and when they are

considered as major government initiatives again. Such characteristics might include:

- Cost-effectiveness in creating jobs
 - Net cost per job created
 - Number of jobs created, short-term and long-term
 - Magnitude of substitution effect
 - Social productiveness of jobs created, including the usefulness of any training component
- Economic and administrative time lags involved: period of time elapsed between Congressional appropriation and entry onto the payroll of the program.
- Differential effects on various demographic groups, occupations, etc.
 - Financial status of persons employed
 - Unemployment status of persons employed
 - Age, sex, racial characteristics of persons employed
- Problems in terminating
 - What happened to participants afterward?
 - What pressures to continue?

Types of Programs To Be Investigated

Public Service Employment: Title VI of CETA represented a major effort by the Federal government to use PSE as a countercyclical tool. Careful evaluation of the results of the Title VI program should indicate areas in which the above questions were insufficiently addressed, thus pointing the way toward the need for further experimentation.



Public Works Programs: Additional appropriations were made available to the Economic Development Administration of the Department of Commerce. The same kind of post hoc evaluation of this program should identify areas in which further experimentation is needed.

Employment Tax Credit: No general program of this sort has been undertaken. Certain aspects of the WIN program, as expanded by the Tax Reduction Act of 1975, might provide some guidance as to how an experimental tax credit program might be structured in order to yield the most useful information.

Employer of Last Resort: No such program has been undertaken, and the idea is vague. However, a suitable experiment might be mounted in a limited geographic area with some kind of residency requirement to preclude an incentive for substantial immigration.

Pitfalls

(1) "Hawthorne Effect". The fact that a locality or a firm has been selected for the experiment might bias results in favor of greater efficiency, less delay, and more cost effective job results.

(2) Difficulty of isolating the experiment. Modern economic activity is not easily isolated to a locality, state, or, indeed, nation. A successful experiment would require imaginative measures in order to isolate the experimental situation from exogenous economic developments.

(3) Proliferation problem. The political process shows a marked tendency to insist on a proliferation of the number of communities, states, or firms eligible for any kind of Federal resources. However, the tendency for this to occur might be lessened by careful preconsultation with key members of Congress.

(4) Resistance to experimentation. Governmental experiments in the past have on occasion met with strong resistance from organized groups who objected to serving as "guinea pigs."

Next Steps

(1) Available literature should be reviewed carefully to determine the key issues which remain open with respect to the various program possibilities.

(2) Experimental design should be sketched out and preliminary dollar estimates developed.