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THE IMPACT OF FISCAL POLICY
ON MANPOWER REQUIREMENTS

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Throughout the first half of the 1960's, the topic of unemployment rose to the forefront of public policy discussions of economic matters. The annual unemployment rate remained above 5% each year from 1958 through 1964. It has only recently dropped below 5% in 1965 when the annual rate was 4.6%. The decreasing rate of unemployment throughout 1965 and the first part of 1966 has occurred in the wake of an increasing commitment to the war in Viet Nam. The stepped-up Federal purchases of military materials and logistics combined with the sharply increased draft call -- which is approaching 420,000 a year -- have served to obfuscate temporarily the unemployment issue. Whether it has become a dead issue for the remainder of the decade or whether it now rests in suspended animation only to be awakened when peace returns to Southeast Asia is not at all clear. The premise upon which this paper rests is strongly with the latter view. Namely, it is likely that unemployment will return as the prime issue to perplex economic policy-makers in a peacetime economy. For this reason, a discussion of the approaches used to the problem of unemployment -- even though the issue has lost for the moment its aura of urgency -- still retains its meaningfulness as an important and relevant subject of inquiry. In fact, it may be more enlightening to discuss the issue now when the focus of attention has shifted momentarily away then it was when the issue was on centerstage.

During the 1950's and early 1960's, the U.S. economy had three perceptible boom periods. They were 1951-1953 (unemployment averaged about 3% each year); 1955-1957 (unemployment averaged over 4% each year); and 1961 to the present (unemployment averaged over 5% each year--until 1965). These periods -- by virtually every economic indicator -- were times of prosperity. Yet each period was characterized by a higher average rate of unemployment than its predecessor. This "stair-step" phenomena has been called "creeping prosperity unemployment." Moreover, during the course of these years, it has become increasingly apparent that the nature of the unemployment problem was markedly different from that which ravished the nation during the 1930's. Its character was -- and is -- noticeably distinguishable. During the depression decade, millions of people from all areas, industries, and occupations were unemployed. The downgrading of skill requirements was widespread. The incidence of unemployment and underemployment was virtually universal. Unemployment of recent times, however, has borne little resemblance to that traumatic period (except to those directly affected). Rather than witnessing mass unemployment, the nation has -- as Professor John Dunlop has termed it -- a problem of class unemployment. In this technical age, characterized by rising job requirements, the momentum generated by the prosperity enjoyed by the majority of the population has overshadowed the fact that certain sub-groups of our society have been left behind. Whether the reason be that they belonged to certain racial groups; or lacked sufficient occupational training; or suffered from a physical handicap; or failed to acquire adequate educational training; or possessed an obsolete skill; or worked in a declining industry; or lived in a geographically "depressed area"; or classified as "too old to work, too young to die"; or any combination of these traits, these groups were either unwanted or

unneded.

The altered character of unemployment in recent years served to ignite a heated debate by concerned parties over exactly what was the cause and what was the remedy for this ailment. In academic circles, the controversy was between the "structuralists school" and the "aggregate demand school."¹ The former argued that the inordinately high rates of unemployment sustained by these disadvantaged groups were due to the changing character of the labor market. The demand for certain types of labor was increasing more rapidly than the supply of labor could adjust to the new manpower requirements. On the other hand, the latter school held that the high unemployment was caused by the fact that total spending in the economy was insufficient to provide an adequate overall demand for labor.

In terms of public policy recommendations, the issue has been between those who advocate emphasis upon the new manpower policy approach versus those who favor stress upon the now traditional fiscal policy approach. Currently, the issue is no longer one of an "either-or" nature but rather of the equally important question of "how much of each." Before examining the synthesis of these positions, it is useful to explore each independently.

Fiscal policy is defined as the manipulation of government spending and taxation programs in a manner as to affect the aggregate levels of production, income, and employment. Accordingly, with respect to unemployment,

¹ There is a host of literature on this debate but two articles stand out in presenting the views of the respective schools of thought. They are: Charles C. Killingsworth, "Automation, Jobs, and Manpower" Exploring the Deminsions of the Manpower Revolution Vol. I, Subcommittee on Employment and Manpower, Committee on Labor and Public Welfare, 88th Cong. 2d Sess., pp. 194-219, and Walter W. Heller "The Administration's Fiscal Policy" Unemployment and the American Economy Arthur M. Ross (ed.) John Wiley and Sons Inc. 1964, pp. 93-115.

the proper fiscal policy remedies call for increased government expenditures, reduced taxes, or a combination of both. To combat inflationary tendencies, the reverse recommendations would be in order. Thus, it is apparent that the core of fiscal policy is the unbalanced federal budget. Fiscal policy measures and the unbalanced federal budget are one and the same animal. It is impossible to be in favor of one and be opposed to the other. It has been this aspect of fiscal policy which, unfortunately, has blocked rational public discussions -- outside of the university economics class -- of the impact of fiscal policy upon the economy up until the most recent of times.

The evolution of fiscal policy stems from the so-called "Keynesian revolution" of the thirties. Professor John M. Keynes, writing in his General Theory (1936), noted the relationship between the level of aggregate spending and the level of aggregate employment in the nation. Often, he observed, the private sector of the economy fails to provide an adequate amount of spending to insure employment opportunities for all who seek work. Accordingly, the responsibility for furnishing sufficient residual spending to reach the full employment level rests squarely with the federal government. Fiscal policy remedies act to breach the expenditures gap. This federal responsibility was codified with the passage of the Employment Act of 1946.

Conceived during an era of mass unemployment, fiscal policy is today often referred to an employment policy. The fact that these terms have become synonyms is symptomatic of the times in which fiscal policy originated. Manpower utilization was by no means the burning issue of the period. To the contrary, the most pressing problem of the thirties was job creation. It mattered little what type of job was created or what

preparation was needed for the job. The national problem was job scarcity-- not labor scarcity. Under such circumstances, manpower utilization questions understandably took a second seat. Fiscal policy remedies were conceived primarily to increase **aggregate** purchasing power. Their prime objective is to set in motion the processes by which total spending is increased and the labor surplus is absorbed.

Class unemployment, conversely, is an entirely different problem. It is not characterized by widely diffused pattern of unemployment. Instead, its impact is concentrated upon certain groups (as teenagers, Negroes, the aged, the poorly educated); industries (as agriculture, textiles, mining); occupations (as the unskilled, blue collar categories); and regions (as the Appalachian area, rural America, the copper country in Michigan). Concurrent with the high level of unemployment sustained by these particular categories, the parallel evils of underemployment and low labor force participation rates exist. The dominant feature of class unemployment is that selected groups are hard hit while most other groups in society are left unscathed. In fact, in the present technical age which places a premium upon the possession of skills and education, the anomaly exists that there is a labor shortage for many of the "in" group categories which the members of the "out" group categories cannot qualify to fill. In such a situation, manpower utilization has become a priority issue. In this situation, fiscal policy -- with its shotgun style remedies designed to increase purchasing power -- is simply an insufficient approach. It provides no procedure for equipping the unemployed with skills or training to meet the rising manpower requirements for jobs. Currently, rifle shot measures are needed that zero-in on the particular enclaves of the unemployed. It has been in response to this trend that manpower policy has recently come

into full bloom.

Manpower policy encompasses those proposals relating to the development of human resources and the matching of available manpower to available jobs. Recognizing the existence of various immobilities in the labor market, manpower proposals seek to reduce the prevailing obstacles to the attainment of employment opportunities. While there have been piecemeal attempts in the past to develop the nation's human resources,² the "manpower revolution" itself is of recent vintage. The Area Redevelopment Act of 1961 is commonly agreed to represent the landmark of this new course for public policy. Since its passage, there followed in rapid succession a host of legislation -- each designed to attack a specific category of class unemployment. Without discussing the details of each, the list includes such historic legislation as: the Manpower Development and Training Act of 1962 (as liberalized and broadened by amendments in 1963 and 1965); the Vocational Education Act of 1963; the Economic Opportunity Act of 1964, the Appalachian Regional Development Act of 1965; the Elementary and Secondary Education Act of 1965; and the Higher Education Act of 1965. The objectives and procedures envisioned by these laws have few legislative precedents. Together these programs represent a marked departure from the previously established reliance upon fiscal policy remedies as the mainstay weapons used in any foray against unemployment. These manpower policies are concerned with upgrading the skill and educational

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The Smith-Hughes Vocational Training Act of 1917; the Servicemen's Readjustment Act of 1944; the Vocational Rehabilitation Act of 1954, and the National Defense Education Act of 1958 could be considered forerunners to the current legislation in the area. There was no attempt, however, to relate these programs into any type of unified effort to increase the caliber of the labor force.

levels of the civilian labor force. Their philosophical base is an attack on inequality of opportunity for employment. The primary program to combat poverty in the United States, for example, is not called the Anti-Poverty Act, but rather it is entitled the Economic Opportunity Act. In our technical age of rapidly accelerating job requirements, manpower policy represents the most realistic course of action. Manpower policy, in a word, is concerned with "employability." These programs concentrate upon enhancing the "earning power" of the individual rather than upon the fiscal policy approach of increasing the "purchasing power" of society.

Reliance upon earning power remedies means implicitly that the issue of unemployment no longer resides solely in the domain of the economist. Employability mandates that the talents of many of disciplines be marshalled into the effort. The sociologist, the psychologist, the speech therapist, the vocational counselor, the job market analyst, and so on, all have an important role to play.

Thus, here in the mid-sixties, a turning point in the course of public policy has occurred. Fiscal policy -- while still an important and necessary underpinning for full employment -- is no longer a sufficient remedy. Rising manpower requirements in the job market have drastically altered the demand for labor. Provision must be made by public policy to assist the supply of labor to adjust rapidly to the changing character of labor demand. The application of fiscal policy during a period of increasing concern over labor utilization is incomplete because it does nothing to equip the unemployed to qualify for the type of jobs that are today in strongest demand. Professor John K. Galbraith stated this proposition

before the Joint Economic Committee in early 1965. He testified that:

"Tax reduction, which puts a few more spendable dollars in the pockets of the comparatively well to do, does nothing to make the unemployable more employable. And it exposes the question of the quality of employment.

By sufficiently expanding demand, we can draw some semi-illiterate youngsters off the street and into jobs. Then the official employment figures will look better. But this is something I would like to stress, they will be **lousy** jobs and those who hold them will be the first to be discharged when a machine comes along that can do the work better.

The test is not jobs alone but the preparation of people for high quality employment."³

Extensive reliance upon fiscal policy to combat class unemployment is suspect for three basic reasons. First, the increased spending could trigger inflationary pressures as firms -- responding to the stimulus of rising demand for their goods and services -- scramble in the competition for the limited number of qualified workers. Secondly, the shortage of qualified labor means that many firms will be unsuccessful in their recruiting efforts. These firms, accordingly, will be forced to employ people who do not possess the needed job qualifications. Such a practice does not represent an upgrading of the work force but rather a downgrading of job quality. Thirdly, the philosophical premises upon which fiscal policy rests seriously neglects the major bottleneck in the employment field today. Namely, the fact that it takes highly trained people to train and educate others. The mere appropriation of government funds or the reduction of tax rates does not in any way provide a procedure by which others are prepared

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"Statement of John Kenneth Galbraith", Hearings before the Joint Economic Committee, Part II, (February 24, 1965), p. 14.

for jobs. College professors, high school teachers, vocational instructors, job counselors are not created by mere legislative action. While fiscal policy is important in leveling the wide fluctuations of the business cycles, it is unrealistic in this technical age to place faith in this approach to achieve full employment in a peacetime economy.

Manpower policy, by the same token, is no remedy for mass unemployment. Its success is premised upon the maintenance of a high level of aggregate spending in the economy. Manpower policy, while a strong supplement to fiscal policy is by no means a complete substitute. In recent years, however, aggregate spending has been substantial and prosperity widespread yet the unemployment rate remained high (especially in the sub-groups). In these situations, manpower considerations must dominate the attention of the economic policy-maker.

In closing, it seems clear that the term employment policy as it is used today needs to be broadly re-defined. Employment policy for the last half of the twentieth century needs to include both policy approaches. Fiscal policy will retain its concern with the quantity of employment opportunities; manpower policy with the opportunity for ~~and~~ the quality of employment. It is the opinion of ~~this~~ writer, however, that the accelerating manpower requirements for jobs will dictate that the major employment questions of forthcoming years will be with these issues of job opportunity and job quality. If this is true, economic policy debates will increasingly be preoccupied with the ways and means by which manpower policy can be broadened both in scope and in depth. The priorities of the times make it appear that manpower policy is riding the wave of thinking for future with the hitherto intellectual dominance of fiscal policy receding as a ripple of the past.