

THE UNEMPLOYMENT OF NONWHITE AMERICANS: THE EFFECTS OF ALTERNATIVE POLICIES

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PREFACE

This paper examines federal programs and policies which affect the differential in **employment** status of **nonwhite** and white Americans. The paper discusses the impacts of **macroeconomic** policy, targetted employment creating programs, tax programs, education and training programs, anti-discrimination programs, and the unemployment compensation system, on the racial unemployment gap. The paper was prepared at the request of **Parren J. Mitchell**, Chairman of the House Budget Committee Task Force on Human Resources.

This is the second of three studies undertaken by the Congressional Budget **Office** to examine the causes and possible remedies to the problem of economic inequality between **nonwhites** and whites. The first study, "The Impact of Economic Recovery On Unemployed Nonwhite And White Americans: Preliminary Assessment," released in the fall of 1975, examined the unemployment experience of nonwhites and whites during recent years with emphasis on the recent recession. It discussed alternative economic recovery strategies and their impact on unemployment rates of the two races. The third study will examine various measures of racial inequality, such as employment, income, wealth, educational attainment, and housing. It will analyze alternative policies to bring about equality in these dimensions.

In keeping with **CBO's** mandate to provide **nonpartisan** analysis of policy options, this report contains no recommendations. The paper was prepared by David S. **Mundel**, with the assistance of Alan Fein, and contributions by Marc P. **Freiman**, Karl D. Gregory, Robert H. Meyer, and Charles Betsey.

Alice M. **Rivlin**
Director

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SUMMARY

Nonwhites experience substantially higher rates of unemployment than do whites. Not only does this problem represent a failure to achieve social and economic equality and a waste of human resources that could be otherwise utilized in producing goods and services but it also places a harsh burden on the individuals concerned and their families. Income is lost, skills may deteriorate, seniority may be lost, and an **individual's** sense of pride and self-esteem may be damaged.

The gap between the unemployment rates of **nonwhites** and whites has remained sizeable while the economy has experienced both good and bad periods. During recessions, nonwhites are more likely to be the **first** fired (or laid off) and their joblessness increases more rapidly than that of whites. During recoveries, nonwhites are less likely to be among the first employees to return to work and their unemployment rate declines more slowly than the white rate. Even at low overall rates of unemployment the **nonwhite** rate has been **approx-**imately 4 percentage points higher than the white rate. During the recent recession and current recovery, the gap between the unemployment rates has followed the characteristic pattern, shown in Table 1, of widening in absolute terms with higher total unemployment, but narrowing in terms of the **ratio.1/**

Table 1--**UNEMPLOYMENT** DURING THE CURRENT BUSINESS CYCLE
(The unemployment rate by race)

	October 1973	May 1975	June 1976
White	4.2%	8.3%	6.8%
Nonwhite	8.5	14.2	13.3
Total	4.7	8.9	7.5
Nonwhite minus White	4.3	5.9	6.5
Ratio--Nonwhite divided by White	2.0	1.7	2.0

1/ The differential between the unemployment rates of nonwhites and whites can also be expressed in terms of a ratio. Over time, the ratio has remained at approximately 2 to 1. During recessions, the ratio has tended to decline because nonwhites leave the labor force more frequently when unemployed. During **recoveries, however,** the gap between the two rates may decline, while the ratio increases.

There are a number of **reasons--including** discrimination, educational attainment and achievement, job location, and the situation of the labor **market--for** the higher unemployment rates experienced by **nonwhites**. In general, **nonwhites** have less education and lower skill levels and thus they are more frequently in less-skilled and lower paying jobs than whites. **Moreover**, even when their education and skill levels are equivalent to those of whites, nonwhites have often been relegated to lower quality jobs because of labor market discrimination. Their relegation to lower paying jobs results in higher unemployment among nonwhites because in these jobs employers and employees have little motivation to develop long-term attachments between jobs and workers. Thus, turnover is frequent. Because these jobs are disproportionately at the margin of the job structure, they are only offered in numbers **sufficient** to result in low **nonwhite unemployment** during periods of very high demand for **labor**. Nonwhite unemployment may also be higher than white unemployment because of the greater geographic distances between nonwhite residences (in core urban neighborhoods) and newly developing jobs (in suburban **communities**).

These many sources of the nonwhite, white unemployment gap indicate the need for a combination of long- and short-term **macroeconomic** and targeted policy instruments if the gap is to be reduced. Untargeted **macroeconomic** instruments will not reduce that part of the gap that is caused by discrimination and the other reasons cited above. Thus, the differential indicates a need for specifically targeted **antiunemployment** instruments in order to reach full employment of all groups.

The government currently uses five basic strategies to reduce unemployment and its resulting costs to society and individuals. Each of these strategies influences both aggregate unemployment and the relative unemployment of segments of the labor **force--e.g.**, whites and nonwhites; young and old; and women and men.

The five basic strategies are:

1. stimulative fiscal policy to increase aggregate demand;
2. expenditure and tax programs specifically directed at increasing public and private employment (e.g., public service employment and economic **development**);
3. direct cash assistance to the unemployed in order to reduce the financial burdens of unemployment;
4. programs to increase the training and education of current and potential workers;
5. programs and policies that facilitate and regulate the functioning of the labor market and other markets that influence output and the demand for labor.

These strategies have both short- and long-term effects.

Stimulative fiscal policies can have substantial effects on the overall level of joblessness and on the difference between the non-white and white unemployment rates. The smaller the gap between actual and potential Gross National Product (**GNP**), the smaller the gap between the unemployment rates of whites and **nonwhites**. If the 1980 unemployment rate is 4 percent, the gap between the **nonwhite** and white rates will be approximately **4.8** percentage points. If, **however**, the 1980 rate is **6.3** percent, the gap will be approximately **5.2** percentage points.

Employment-creating programs can also have significant effects on the overall employment rate and the gap between white and nonwhite unemployment rates. The net effects of these programs depend on the wage levels of the jobs created; administrative costs; the rates of fiscal substitution and displacement; and the share of created jobs filled by nonwhites. The effects of some possible employment-creating program options are provided in Table 2.

Table 2--**EFFECT OF ALTERNATIVE EMPLOYMENT-CREATING PROGRAMS**
ON TOTAL AND NONWHITE EMPLOYMENT, FY 1977
(1000s of jobs per \$1 billion in outlays,
12 months following initiation of outlays)

Program Activities	Number of Jobs Created	Estimated Percent of Jobs Filled by Nonwhites b/
<u>Public Service Employment</u>		
CETA Titles II and VI	97	27%
Targeted Toward:		
Long Term Unemployed	97	18
Poverty Population	118	28
Summer Youth Employment	355 <u>a/</u>	41
<u>Accelerated Public Works</u>	69	15
<u>Countercyclical Revenue</u>		
<u>Sharing</u>	89	24
<u>Tax Cut</u>	46	17
<u>General Government</u>		
<u>Expenditures</u>	55	n.a.

a. Job year equivalents.

b. See text for **derivation**.

n.a.-not available.

The effect of **job-creating** activities on the **nonwhite** unemployment rate and the gap between the nonwhite and white rates depends on the number and proportion of newly created jobs filled by **nonwhites**. Unless at least 17 percent of the new jobs are filled by nonwhites, the gap between the unemployment rates will widen. If 40 percent of the created jobs are filled by nonwhites, the gap will narrow by approximately 0.14 percentage points for each 100,000 jobs created.

Other public and private sector employment-creating activities can also be implemented. These include labor intensive public expenditure programs, **e.g.**, housing rehabilitation; community economic development activities; employment tax credits; and subsidized loans to promote labor intensive business development. The effect of these programs on the nonwhite, white unemployment gap is highly uncertain, but it could be significant if the programs are carefully targeted and adequately funded.

The unemployment compensation system operates as a general macroeconomic stimulus and provides benefits to particular unemployed individuals. The **macroeconomic** effects are essentially the same as those of a general tax cut. Nonwhites are less likely to receive benefits than whites because they are disproportionately in industries that are not covered by unemployment compensation and they have poorer work histories than whites. Even when they do receive benefits they receive smaller benefits because, on the average, they earn less at their jobs than do whites.

Federal education and training programs can **affect** the long-term **employability** (and resulting unemployment) of the work force. The effect of these programs on nonwhite unemployment depends on the extent of nonwhite program participation, the aggregate level of demand for **labor**, and on the extent of discrimination in the labor market. Recent (although limited) evidence shows that nonwhites experience small earnings gains as a result of training programs; **however**, the long-term persistence of these gains is doubtful. Increased educational attainment contributes to higher absolute and relative earnings for nonwhites; **however**, nonwhite education levels remain substantially below those of whites. The long-term effect of the federal education and training programs on nonwhites depends both on the amount spent and the allocation of resources among programs. Programs differ significantly in their nonwhite participation rates and the extent of targeting toward economically disadvantaged populations which are disproportionately nonwhite (Table 3).

Table 3--PARTICIPATION IN SELECTED EDUCATION
AND TRAINING PROGRAMS BY NONWHITES

Programs	Percent of Nonwhite Participants/Recipients
Elementary and Secondary Education	
ESEA Title I	55%
Higher Education	
Supplementary Education Grants	68
College Work Study	41
National Direct Student Loans	39
Training	
Work Incentive Program	47
CETA Title I	44
Job Corps	60

Discrimination in both the education and training processes that affect the future **employability** of the labor force and in the labor market that affects the demand for **nonwhite** workers increases the unemployment rate of **nonwhites**. Federal antidiscrimination and affirmative action policies probably lower these **effects**, but a quantitative assessment of the impact of these policies is difficult and uncertain. Data on the effects of existing programs on unemployment are limited. The design, operation and management as well as budget support for these programs are crucial to the effect they will have in eliminating discrimination.

While beyond the scope of this analysis, the following factors are also thought to contribute to the disproportionate unemployment burden placed upon nonwhites: differences in the quality of education received by blacks and whites; residential segregation that prevents people from living near jobs; a transportation system that is designed to get people from the suburbs into the central city, but not to get people out of the central city into areas with job opportunities in the suburbs; and the effect of drug use and abuse. These factors are also appropriate targets for corrective policies.

INTRODUCTION

Unemployment continues to be a national problem. It results in a waste of human resources and a lower level of output of goods and services. Unemployment also places a burden on the individuals concerned. Not only is there the loss of income associated with joblessness, but skills may **deteriorate**, seniority may be lost, not to mention the damage to an **individual's** sense of pride and self-esteem. Even at low aggregate rates of **unemployment**, the **probability** of being unemployed is higher for some persons and groups than others. Therefore, full employment of all groups is not solely an economic problem of restoring full-capacity production levels or full aggregate employment.

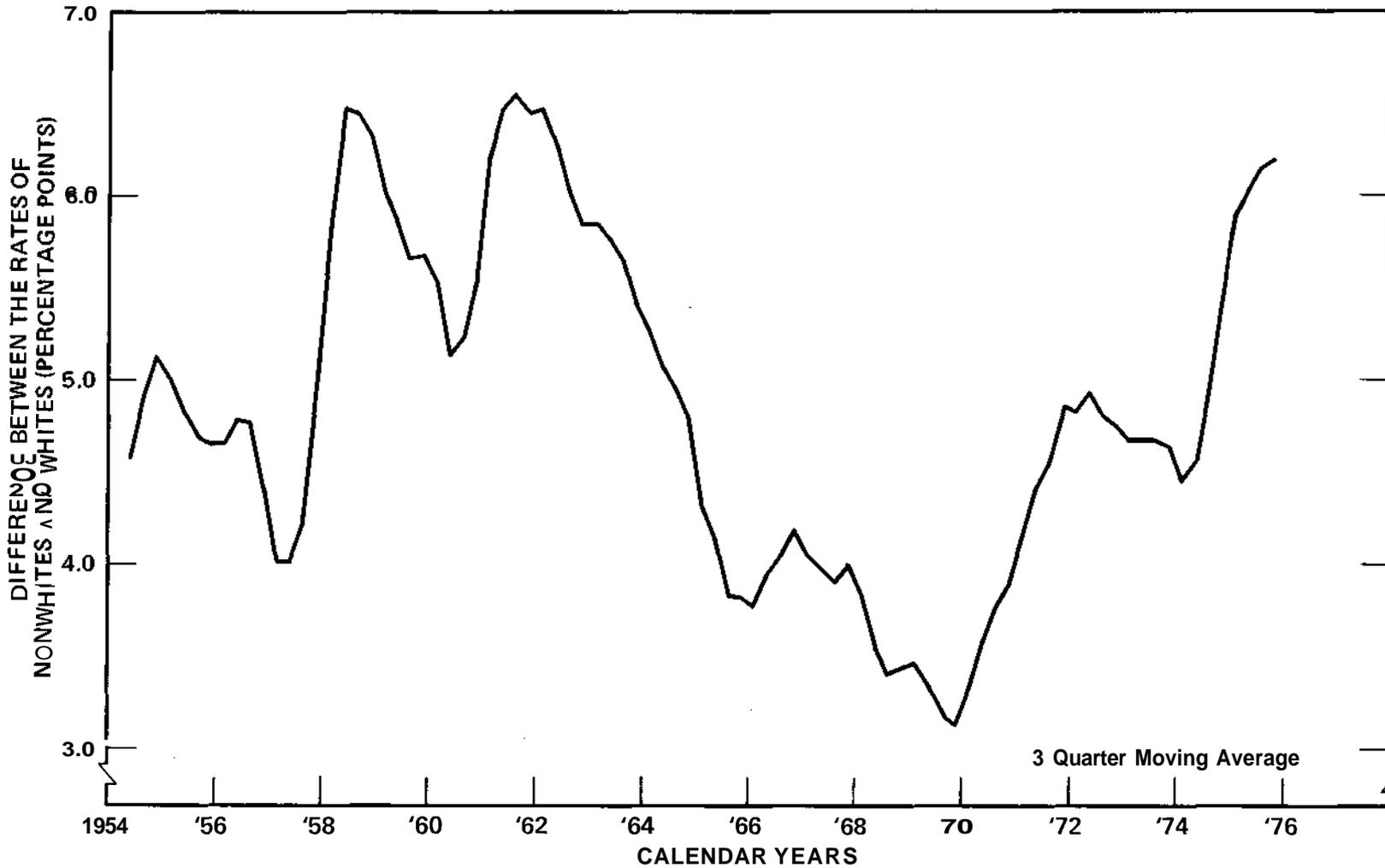
The unemployment rates of whites and nonwhites remain substantially different despite the major governmental efforts during the 1960s to reduce economic inequality. Inequalities also continue to exist in labor force participation rates, discouraged worker rates, the incidence of underemployment, earnings, and working conditions.

Long-term trends in the unemployment rates reveal little reduction in the gap between whites and **nonwhites.**^{2/} The recent recession has reinforced the notion that unemployment rates and the gap between the unemployment rates of nonwhites and whites vary in a highly cyclical fashion, and that these cyclical variations mask any long-term trends that might indicate greater equality within the labor market. In each cycle, the gap widened with increasing unemployment and narrowed more slowly during recovery. Some evidence does, **however**, suggest that the gap has narrowed slightly over the last two decades.

^{2/} The differential between the unemployment rates of nonwhites and whites can also be expressed in terms of a ratio. Over time, the ratio has remained at approximately 2 to 1. During recessions, the ratio has tended to decline because nonwhites leave the labor force more frequently when **unemployed**. During a recovery, **however**, the gap between the two rates may decline, while the ratio increases. There are a variety of factors which affect the unemployment rates of whites and nonwhites, the gap between these rates, and the ratio of white unemployment rates to **nonwhite** unemployment rates. These include such factors as age and sex distribution, labor force participation rates, and a number of other demographic characteristics. In the absence of a commonly accepted measure of the white, nonwhite unemployment differential, the estimate used in this study should be used very carefully.

Figure 1.

DIFFERENCE BETWEEN NONWHITE AND WHITE UNEMPLOYMENT RATES



Source: CBO calculations based on Bureau of Labor Statistics data.

A distinct long-term trend does emerge for teen-agers. Since the mid-1950s, the gap between unemployment rates for **nonwhite** and white teen-agers has been larger than the gap between the rates of white and nonwhite adult males or females and it has widened steadily over time. The teen-age gap is approximately **24.2** percentage points today. Cyclical movements of the economy have not moderated this strong trend toward continued widening of the gap for teen-agers.

The unemployment rates somewhat underestimate the difference between the jobless experiences of whites and **nonwhites**. Discouraged workers (those who leave the labor force because they believe jobs are unavailable) are disproportionately nonwhite and they are not counted among the unemployed. In the fourth quarter of 1975, the unemployment rates for whites and nonwhites were 7.7 percent and 13.9 percent respectively and the comparable jobless rates (derived by adding in the discouraged workers) were 8.4 percent and 16.3 percent. The gap between the unemployment rates was thus 6.2 percentage points while the gap between the jobless rates was 7.9 percentage points. The ratio between the nonwhite and white unemployment rates was **1.8:1** and between the jobless rates was **1.9:1**.

The gap between the median incomes of whites and nonwhites is substantial but it has been slowly closing. In 1950 the median income of nonwhite families was 54 percent of that of white families (\$1,869 vs **\$3,445**). By 1974 it had reached 62 percent. The median income of nonwhite families in 1974 was \$8,265 while for white families it was \$13,356. The growth in black family income has been slower. In 1974, the median black family income was only 58 percent of that of white families. Over the last sixteen years the proportion of families below the poverty level has decreased for both whites and **nonwhites**, but the decrease has been proportionately greater for whites. In 1959, 53 percent of all nonwhite families were below the poverty level, as opposed to 18 percent of white families. The nonwhite percentage dropped to 28 in 1974 while the white percentage fell to 7.

Five Basic Strategies to Reduce Unemployment

The government can use five basic strategies to reduce unemployment and its resulting costs to society and individuals. Each of these strategies influences both aggregate unemployment and the unemployment of segments of the labor **force--e.g.**, young and old; women and men; and whites and nonwhites. The strategies have differential effects on whites and nonwhites and the gap between their unemployment **experiences**. Each

of these strategies also influences other attributes of work status. These strategies have both short- and long-term effects on unemployment. The five basic strategies are:

1. stimulative fiscal policy to increase aggregate demand and **employment**;
2. expenditure and tax programs specifically directed at increasing public and private employment (**e.g.**, public service employment, employment tax credits, and economic development **stimulants**);
3. programs to increase the training and education of current and potential workers;
4. direct cash assistance to the unemployed in order to reduce the financial burdens of unemployment; and
5. programs and policies that facilitate and regulate the functioning of the labor market and other markets that influence the demand for labor and output.

The short-run instruments include aggregate fiscal stimulus, employment creating programs, and the unemployment compensation system. Aggregate fiscal stimulus can be provided through a variety of macro-economic mechanisms that either increase government expenditures or reduce tax revenues.

Employment creating programs operate to create jobs in both the public and private sectors of the economy. Public sector employment creating programs include:

1. Public Service Employment--Job-creating programs that either fund jobs in state and local governments, or in federal programs. These programs can be used either **countercyclically** during periods of high unemployment or during periods of low aggregate unemployment to hire workers who remain unemployed.
2. Accelerated Public Works--Countercyclical programs that fund manpower-intensive and short-term public works projects during periods of high unemployment.
3. Countercyclical Assistance to State and Local Governments--Aid to state and local governments designed to allow them to maintain service and employment levels during periods of high unemployment and reduced tax receipts.

The success of these programs in the aggregate depends on the extent to which they add new jobs rather than simply replace existing ones; the average salaries of the jobs they provide; and the proportion of their outlays spent for wages and salaries. Their effects on the unemployment rate depend on the proportion of the newly created jobs that are held by formerly unemployed individuals. The success of these policies in closing the gap between the white and **nonwhite** unemployment rates also depends on the degree to which they employ and induce the employment of **nonwhites** who otherwise would have been jobless.

Private sector employment creating programs include general tax cuts for business firms and:

1. Employment Tax Credits and Wage Subsidies--Tax expenditures and direct outlays aimed at increasing or maintaining employment in the private sector. These can be used either **countercyclically** or to reduce structural unemployment during periods of low unemployment and they can either be in the form of general subsidies; subsidies for new or additional jobs; or targeted toward less skilled jobs.
2. Public Support for Private Employment Generating Projects--e.g., Support for labor intensive activities undertaken by nonprofit organizations.

The magnitude of the effects of tax and expenditure instruments oriented toward stimulating increased private sector employment is difficult to predict. There has been little experience with employment tax credits, and the responses of private employers to subsidies that reduce labor costs relative to capital costs are not clear. The other factors which determine the effectiveness of these approaches are basically the same as those for the public sector programs.

The unemployment compensation system is designed to reduce the individual **financial** burden of unemployment and to provide automatic fiscal stimulus as unemployment increases. The stimulus and benefits provided by the unemployment compensation system affect whites and nonwhites differently. The stimulus effects are similar to those of general tax reductions. The benefits for nonwhites and whites are different because nonwhites have lower incomes and therefore usually lower benefits and work less often in covered employment. The effects of the unemployment compensation system on unemployment are not entirely desirable. There is evidence that the system provides disincentives to work and that these disincentives increase unemployment

during periods of low unemployment. The unemployment compensation system also creates incentives to stay in the labor force while looking for work. Both of these factors increase measured unemployment.

Longer-term instruments designed to affect unemployment include employment-creating programs; education and training programs; and market facilitation and regulation activities.

The long-run **effects** of employment-creating programs include new public and private jobs created directly as a result of federal program support and additional jobs resulting from the general fiscally stimulative effects of the funding. Direct jobs can be restricted to populations experiencing high unemployment by careful targeting and eligibility requirements. Fiscally stimulated or indirect jobs may be created for several years after the funding of the direct jobs. Jobs can also be created by economic, business, and community development activities.

A wide variety of education and training programs are currently funded by the federal government **in** order to increase the **employability** of the work force. These programs increase the skill level of employees and thus increase their attractiveness to potential employers. Their incomes and their opportunities for finding employment increase. The effect of federal support in these programs is in large part a function of the extent to which it raises total support, rather than simply **re-**placing support from state and local governments and individuals. The effect of these programs on unemployment rates and income levels is difficult to estimate. To some extent, education and training programs may simply move unemployment from one group to another. The degree to which the white, **nonwhite** differentials are affected depends on the degree to which the programs are targeted toward population groups with proportions of **nonwhites**. A number of existing education and training programs are oriented toward the economically **disadvantaged** population.

The **effects** of market facilitation and regulation policies—such as antidiscrimination policies, and job placement and counseling services are **difficult** to estimate and highly uncertain.

PART I

THE PROBLEM AND ITS CAUSES

PART I - I

THE RECENT EMPLOYMENT EXPERIENCE
OF **NONWHITES** AND WHITES

In May 1975, when the recent recession was at it worst, 8.3 million people were unemployed on a seasonally adjusted basis. This number had risen from 4.2 million in October 1973, the peak of the previous business cycle. The national unemployment rate in May 1975 was 8.9 percent, contrasted with 4.7 percent in October 1973. Of the 4.1 million additional unemployed in May 1975, 15 percent were nonwhite (See Table 4.)

The fraction of **recession-induced** unemployment accounted for by nonwhites was greater than their share of the labor force. While nonwhite adult males were 5.7 percent of the civilian labor force in the fourth quarter of 1975, they accounted for 10.2 percent of the total increase in unemployment from the fourth quarter of 1973; white adults (both sexes) were 80.1 percent of the civilian labor force and accounted for only 72 percent of the increase in unemployment over the last two years. These numbers understate the extent of joblessness and its distribution among racial groups. The number of white discouraged workers (those who are unemployed and have ceased looking for jobs because they think there are none available) rose by 140,000 or by 26 percent in the **two-year** period. The number of nonwhite discouraged workers rose by 166,000 or 117 percent.

The jobless rate (unemployed and discouraged workers) for the fourth quarter of 1975 was 8.4 percent for whites and 16.3 percent for nonwhites. The comparable unemployment rates were 7.7 for whites and 13.9 for nonwhites.

Unemployment rates and jobless rates also understate the disproportionate incidence of low work status among nonwhites. There are several other reasons why the traditional methods of measuring unemployment and joblessness do not reflect the true extent of these problems: (1) These rates do not include that part of the employed population that works part time because it cannot **find** full-time work; (2) the actual number of people unemployed (as opposed to the average number) is not measured; and (3) the duration and frequency (number of spells) of unemployment is not measured. Twenty percent of the involuntary part-time workers in the fourth quarter of 1975 were nonwhite. While the average number of unemployed in 1974 was 5.1 million, the total number who experienced some unemployment was 18.4 million. While the average duration of unemployment of whites and nonwhites is similar during normal economic times, it is much greater for nonwhites during recessions. The average number of spells of unemployment is also greater for nonwhites.

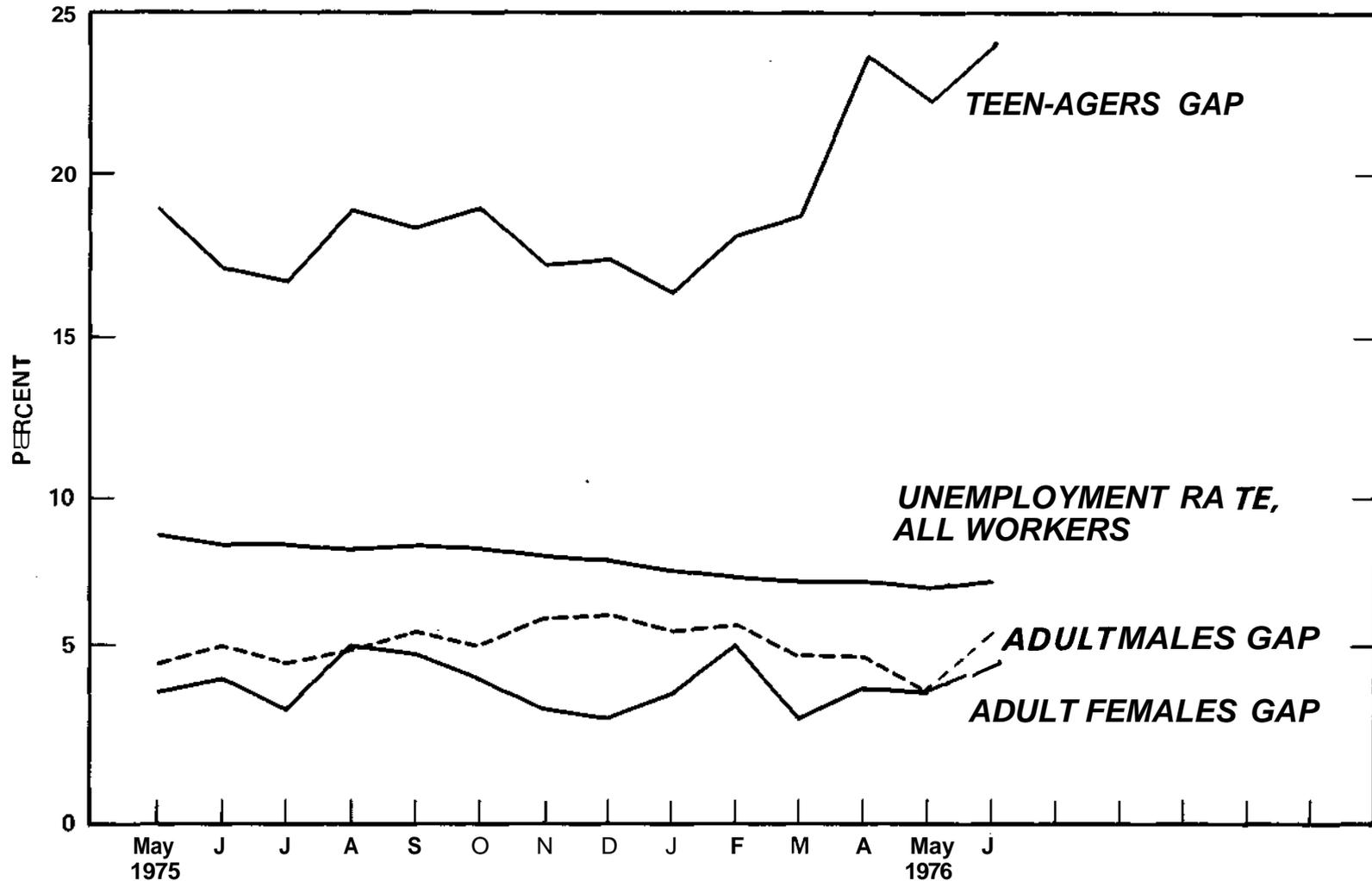
Table 4--Unemployment During the Current Business Cycle
(by race, sex, and age)

	OCTOBER 1973		MAY 1975		JUNE 1976	
	Number of Unemployed	Unemployment Rate	Number of Unemployed	Unemployment Rate	Number of Unemployed	Unemployment Rate
TOTAL	4,161	4.7	8,250	8.9	7,143	7.5
Male, 20+	1,527	3.1	3,667	7.2	3,063	6.0
Female, 20+	1,386	4.5	2,771	8.4	2,445	7.1
Both sexes, 16-19	1,248	14.3	1,812	20.3	1,635	18.4
WHITE	3,338	4.2	6,798	8.3	5,685	6.8
Male, 20+	1,238	2.8	3,068	6.7	2,482	5.4
Female, 20+	1,106	4.1	2,276	8.0	1,919	6.5
Both sexes, 16-19	994	12.7	1,454	18.3	1,284	16.1
NONWHITE	861	8.5	1,483	14.2	1,444	13.3
Male, 20+	301	5.8	604	11.6	575	10.7
Female, 20+	310	7.5	525	12.1	519	11.3
Both sexes, 16-19	250	27.7	354	37.3	350	40.3

Seasonally adjusted BLS data from January, February and June 1976 issues of Employment and Earnings.

Figure 2.

UNEMPLOYMENT RATE GAPS (NONWHITE-WHITE) DURING THE RECOVERY



Sources: "Employment and Earnings," U.S. Department of Labor, June 1976.

The economic recovery has lowered the total unemployment rate to **7.5** percent in June 1976. About **1.1** million fewer people are **unem-**ployed now than in May 1975. The **recovery, however,** has not affected all groups equally. Twenty percent fewer white adult males are unemployed now than in May 1975 compared with 5 percent fewer non-white adult males. Nonwhite teen-agers and adult females have hardly **benefited** from the recovery. One percent less of each group are now unemployed than before the recovery began.

Because of the effect on the unemployment **picture,** duration of unemployment should be examined. Prior to the **recession,** in the third quarter of 1973, 37 percent of unemployed **nonwhites** were out of work for nine or more weeks. The comparable figure for whites was 25 percent. During the peak of the recession in the second quarter of 1975, 56 percent of unemployed nonwhites were out for nine or more weeks, in comparison with 48 percent of whites. The number of nonwhites who experienced long durations of unemployment rose by 27 percent, while the number of whites rose by 20 percent.

Other aspects of white and **nonwhite** work status have also changed during the recent years. There have been changes in the level and distribution of income for whites and nonwhites in recent years. The ratio of nonwhite to white median income rose from .56 in 1964 to .63 in 1969 and fell to .62 in 1974. Another important dimension is the distribution of income. During the decade from 1964 to 1974, the fraction of both white and nonwhite families in the lower end of the income distribution (below \$7,000 in constant dollars) declined as families moved up the income **ladder.** The largest declines were in the proportions of families in the lowest brackets. There were also **sub-**stantial increases in the proportion of families earning \$15,000 and over for both whites and nonwhites. The proportion of nonwhites in this income group grew by **12.5** percentage points and the proportion of whites grew by **14.4** percentage points. (See Table 5 for detailed **figures.**)

Virtually all of the gains for both nonwhites and whites were made in the first five years of the period, from 1964 to 1969. There were **1.3** million more persons at or below the poverty level in 1974 than in 1973. The percentage of persons falling below \$7,000 of income increased among whites by 0.5 percentage points, and decreased among nonwhites by about 0.1 percentage points.

Remedying this type of discrimination requires special emphasis on weeding out of the hiring process any aspect that may have a discriminatory impact and is not clearly related to actual job functions. The existence of statistical discrimination also suggests support for programs that improve the educational level and skills of minorities. With better education and training, these groups would be less easily subjected to exclusion through the use of these discriminatory screening criteria.

One of the most quoted of the studies attempting to measure the impact of discrimination on unemployment rates is the study by Harry O. **Gilman**.^{9/} He examined the influence of color, industry, and education on the unemployment rates of male workers (by **occupation**). The data, largely unpublished, from the **Current Population Survey**, were for 1950 and averages of 1957 through **1961**. **After** controlling for other variables, being **nonwhite** added **2.9** percentage points to the unemployment **rate**.^{10/} For those occupations beginning with craftsmen and extending through the higher skill levels, being non-white added **3.17** to the unemployment rate.

^{9/} "Economic Discrimination and **Unemployment**," American Economic Review, LV December 1965, No. 5, Part 1.

^{10/} Since ability and perhaps other variables were not held constant, the coefficient may misstate the effect of discrimination.

Table 5--FAMILY INCOME, 1964, 1969 and 1974
 FAMILIES BY TOTAL MONEY INCOME IN CONSTANT
 DOLLARS BY RACE OF HEAD
 (IN 1974 DOLLARS)

TOTAL MONEY INCOME	Percent of Families in:			CHANGES FROM:		
	1964	1969	1974	64-74	64-69	69-74
	(Percentage Points)					
<u>WHITE</u>						
Under \$3,000	7.5%	5.0%	4.3%	-3.2	-2.5	-0.7
\$3,000 to 4,999	9.0	6.5	6.8	-2.2	-2.5	0.3
\$5,000 to 6,999	10.2	7.5	8.4	-1.0	-2.7	0.9
\$7,000 to 9,999	17.9	13.9	13.5	-4.4	-4.0	-0.4
\$10,000 to 11,999	17.6	10.9	10.5	-2.1	-1.7	-0.4
\$12,000 to 14,999	15.2	16.3	14.6	-0.6	1.1	-1.7
\$15,000 and over	27.6	44.2	42.0	14.4	12.3	2.1
MEDIAN INCOME ..DOLLARS	\$ 10903	\$13175	\$ 13356	\$ 2453	\$ 2272	\$181
<u>NONWHITE</u>						
Under \$3,000	20.5%	13.9%	13.5%	-7.0	-6.6	-0.4
\$3,000 to 4,999	19.6	14.1	16.0	-3.6	-5.5	1.9
\$5,000 to 6,999	17.1	13.7	13.1	-4.0	-3.4	-0.6
\$7,000 to 9,999	17.5	18.5	16.1	-1.4	1.0	-2.4
\$10,000 to 11,999	8.1	9.6	8.3	0.2	1.5	-1.3
\$12,000 to 14,999	7.1	11.6	10.7	3.3	4.2	-0.9
\$15,000 and over	9.8	18.6	22.3	12.5	8.8	3.7
MEDIAN INCOME ..DOLLARS	\$6102	\$ 8328	\$8265	\$2163	\$2226	\$-63
RATIO OF MEDIAN INCOME	56.0	63.2	61.9	5.9	7.2	-1.3
SOURCE: <u>CURRENT POPULATION REPORTS</u> , SERIES P-61, No. 99 (JULY 1975) p.7.						

PART I - II

THE CAUSES OF THE **DIFFERENTIAL** **EMPLOYMENT** EXPERIENCES OF **NONWHITES** AND WHITES

Aggregate **unemployment** and its distribution within the population result from an **array** of complex and interacting forces. Basically, unemployment results from an unsuccessful search for work, but the reasons for this lack of success are varied relating to both the demand and supply sides of the labor market. The range of theories and the causes of unemployment and corrective policies they suggest are outlined in Table 6.

The causes concern themselves with three aspects of the labor market:

Demand for Labor: The economy operating below its potential and thus demanding fewer workers than are available and offering unattractive job opportunities.

Supply of Labor; A labor force that is inadequately educated and trained and without **sufficient** experience and other capabilities for performing well in the jobs that are required by the economy.

Functioning of the Labor Market; The imperfect functioning of labor markets so that discrimination, inadequate information requiring long job search **times**, and unrealistic expectations on the part of workers and employers produce high unemployment.

The demand side of the labor market (i.e., the supply of jobs) **can** be measured by the total number of jobs available; the skill requirements and geographic locations of the available jobs; the business, industrial, and governmental sectors in which jobs are offered; and the quality or desirability of the offered jobs.

The supply side of the labor market (**i.e.**, the available workers) can be measured by the total number of workers available; the number actively **seeking** employment and the **workers'** skill levels and locations; and their job desires. Each of these aspects of labor supply influences both total unemployment and the distribution of unemployment among segments of the labor force. Unemployment is also influenced by **workers'** needs for income and alternative sources of support. Younger workers without family responsibilities and

Table 6 --ALTERNATIVE THEORIES OF UNEMPLOYMENT AND THEIR IMPLICATIONS ON THE CAUSES OF UNEMPLOYMENT AND ON THE APPROPRIATE INSTRUMENT FOR INTERVENTION

ALTERNATIVE THEORIES OR CAUSE-EFFECT MODELS	PREDOMINANT CAUSES OF UNEMPLOYMENT	INSTRUMENTS TO ATTACK UNEMPLOYMENT
1. KEYNESIAN	Inadequate aggregate demand	More fiscal stimulus through tax cuts or hikes in spending supportive monetary policy
2. STRUCTURAL	Technological change, immobility of labor, labor-job skill conflict, discrimination, artificial barriers (minimum wage)	Manpower training, education, regional and ghetto development strategies, mobility allowances, employer subsidies for payroll or for investment in labor intensive industry, regulation, deregulation
3. NEO-CLASSICAL (a) Perfect competition	Taste for discrimination or employer perceptions of "reality"	Changes tastes and perceptions (method unspecified) or else wait for long run when competition will remove gap
(b) Market power and other imperfections	Oligopoly, monopoly, immobility, wage rigidities, noncompeting groups	Selected regulatory changes to make wages flexible, resources mobile, increase competition, and to lower minimum wages
(c) Human capital	Inadequate education, training, and other development of human skills	Education, manpower development and training, on the job training, subsidies to firms and employees, retraining, opportunities industrialization centers
(d) Job search and turnover	Poor information, faulty expectations, inexperience in job search for new workers, job market inefficiency	Strengthened state and local employment services, improved job market training and information, better connections to the world of work for new entrants and reentrants, improved worker and employer information, mobility allowances
(e) Crowding, occupational segregation	Discrimination, low skills, disadvantageous location and other handicaps	As in 3 (b), 3 (c) and 3 (d). Particularly strong anti-discrimination emphasis, new job opportunity structures
4. INDUSTRIAL RELATIONS OR BARGAINING MODEL	Self-interest buttressed by unequal existing distribution of power. Behavioral interaction between workers, firms, unions, and government in complex environment where the less powerful groups receive lower benefits and opportunities.	Organization of disadvantaged, new mechanisms so they can better support their self-interest, regulation to offset illicit use of power. Increase skills of disadvantaged, promote up-grading, apprenticeship, etc., and systematic attack on discrimination
5. DUAL LABOR MARKET	Division of jobs into two markets and different market behavior. Locking in of disadvantaged in secondary market with poorest, often dead-end jobs, least pay, stability, training possibilities, upward mobility and little incentive for good work habits	Creation of better jobs, higher minimum wages, changing character of institutions which penalize the disadvantaged, regulatory activities to bar discrimination and other barriers to entry into the primary job market, upgrading secondary jobs

workers who are not their **families'** principal source of support will probably be unemployed more frequently. Workers who can receive unemployment compensation and other income assistance **benefits** will be more likely to remain in the labor force if they lose their jobs (because this is a requirement for unemployment compensation benefits) than other workers.

Because unemployment results from a wide array of simultaneous and interacting supply and demand phenomena, it is difficult to assess the independent effects of the various causes. These interacting phenomena also indicate the need for a mixed system of instruments in order to lower total unemployment and reduce the disparities between the unemployment experiences of whites and nonwhites.

Demand for Labor

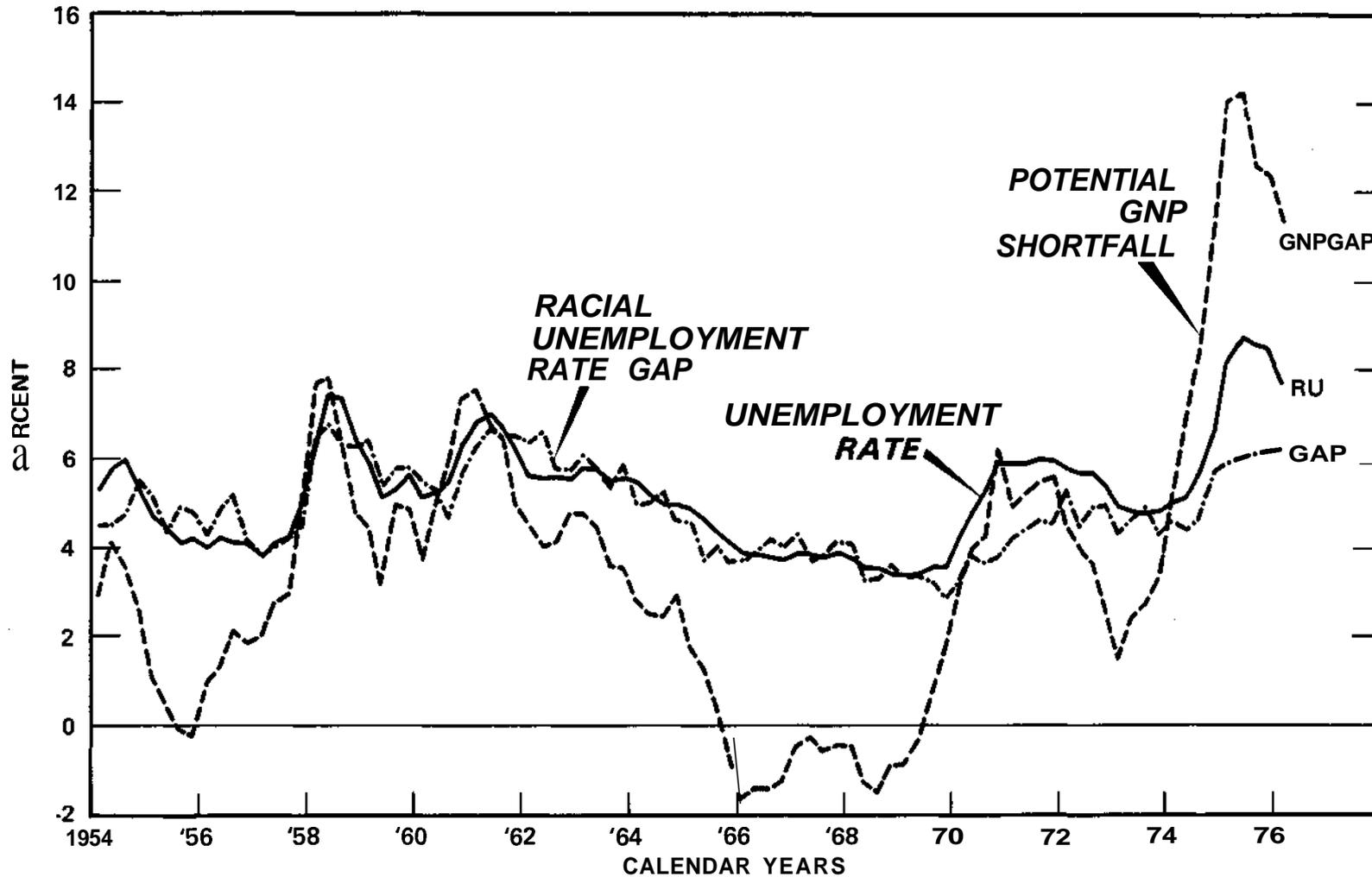
Aggregate demand has a powerful impact on the level of employment and upon the racial unemployment differential. Recent experience documents the relatively low gap between the unemployment of nonwhites and whites during periods of high employment levels and high capacity utilization. In calendar year **1969**, the unemployment rate overall was 3.5 percent (for nonwhites 6.4 percent) with a racial gap of 3.3 percentage points. Previously, the lowest white, **nonwhite** gap occurred during the Korean War period, in **1953**, when the unemployment rate for whites was **2.7** percent, and the rate for nonwhites, **1.8** percentage points higher.

The economy has operated below its potential in all but **five** of the last 21 years, exceptions being 1956 and 1966 through **1969.3/** The higher the shortfall the greater are both total unemployment and the gap between nonwhite and white unemployment (see Figure 3). In 1975, the shortfall in GNP was **13.3** percent, the highest by far in the 21-year period shown. This corresponded with an unemployment rate of **8.5** percent, and a gap between the nonwhite and white rates of **6.1** percentage points.

3/ The shortfall of potential GNP is defined as: potential GNP minus actual GNP. It is often expressed as a percent of potential GNP. Potential GNP is the level of the **nation's** output of currently produced goods and services, were the economy operating with employment at 96 percent of persons who are either working or actively seeking work.

Figure 3.

UNEMPLOYMENT RATE, RACIAL UNEMPLOYMENT GAP, AND POTENTIAL GNP SHORTFALL



Source: Congressional Budget Office computation, Data Resources, Inc. data bank.

Increased **inflationary** pressures can also result from high **capacity** utilization. The rate of inflation has declined from **double-digit** levels in 1974 to just over 8 percent in 1975, and is projected to be between 6.4 and 6.9 percent by the fourth quarter of 1977 as measured by the consumer **price** index. The tradeoff between reductions in unemployment and higher prices remains a potential obstacle to relying exclusively on **macroeconomic** measures to stimulate the economy and to reduce the **white, nonwhite** unemployment rate differential.

Even if the supply of jobs (**i.e.**, demand for **labor**)—in the **aggregate**—is ample, there will be unemployment: if the skill **requirements** of the available jobs differ from the skill levels of the **unemployed**; if the geographic and industrial locations of jobs differ from those of the unemployed; and if the quality of the jobs is low. If job quality is low, job seekers will continue to look for work rather than accept employment immediately and employed workers will be more likely to quit. Both of these actions will increase unemployment. Unemployment also results from poor information about what jobs are available which lengthens the time required for job search.

Each of these factors may cause the unemployment rates of non-whites to exceed those of whites at both high levels of aggregate unemployment and at full employment. Individuals who live in "poverty areas" and economically declining communities experience significantly higher levels of unemployment. Blacks disproportionately live in these regions and consequently have higher rates of unemployment. **If**, because of discrimination, location, and educational and skill attainment, **nonwhites** are disproportionately located in the lower quality job market, their unemployment rates will be higher.

Labor Supply

Education and skill development or training are among the factors that contribute to the level of employment and the differential in unemployment rates by race. Investments in education and training add to an **individual's** ability to perform a job productively, and hence his **employability** and earnings.

Inadequate educational attainment (years of school or training completed) and achievement (quality of educational performance) are probably causes of increased unemployment. They determine skill levels and they may act as indicators of a **worker's** ability to be trained. Employers are reported to regard educational attainment as a sign that employees can successfully complete **on-the-job** training. This is important to employers, for training is expensive, especially if the worker leaves before the employer has recouped its cost. If education

and training are complementary, that is, if education raises the **workers'** output both directly and indirectly as a result of the effects of further **on-the-job** training, employers will have a vested interest in keeping more skilled workers employed. **Nonwhites** may be concentrated in lower paying occupations **with higher** unemployment rates because these jobs only require limited educational attainment.

More highly educated **workers--both** whites and **nonwhites--have** lower unemployment rates than less educated workers, as shown in Table 7. The gap between white and **nonwhite** unemployment rates is smaller for those workers who have some **postsecondary** education than for those with none. More highly educated workers from both racial groups were also less affected by the recent recession.

Table 7--**UNEMPLOYMENT** RATES BY EDUCATIONAL ATTAINMENT,
BOTH SEXES, 1974 and 1975, AGE 18+

	<u>Years of School</u>	<u>Total</u>	<u>White</u>	<u>Nonwhite</u>	<u>GAP</u> (NW-W)
1974	Less than 12	6.7	6.1	9.3	3.2
	12	4.7	4.3	8.9	4.6
	More than 12	3.1	2.9	5.3	2.4
1975	Less than 12	12.6	11.7	17.0	5.3
	12	9.1	8.4	15.0	6.6
	More than 12	4.9	4.7	7.2	2.5

Research by Freeman and **Holloman** indicates a decline in the **benefit of** attending college in recent years. However, the opportunities for black graduates appear to have improved in the 1960s and the early 1970s (at least until **1974**). "The share of black graduates obtaining managerial **jobs...jumped** from 5 percent in 1964 to 11 percent in 1969 and then to 19 percent in 1973, while white representation in **management** was relatively unchanged. Perhaps more importantly, the starting salaries of black college graduates rose to parity with those of whites in the 1960s and early 1970s, after decades of being substantially **lower.**"^{4/}

^{4/} Richard Freeman and J. Herbert Holloman, "The Declining Value of College **Going,**" **Change,** September 1975.

There is an inverse relationship between the levels of education and unemployment for most occupations. Both blacks and whites in the more prestigious occupations have higher levels of educational attainment and lower unemployment **rates.**^{5/} Black unemployment rates are higher than those of whites for men and women in all occupations (except male **nonfarm** laborers and private household **workers**). This holds true in professional and technical occupations in which blacks have the same or superior educational attainment level as whites. In **addition**, there is a disproportionate presence of **nonwhites** in those occupations which require lower skill levels and which have the highest unemployment rates.

Imperfect Functioning of the Labor Market

Among the other reasons that have been presented for the gap in unemployment rates of whites and nonwhites are the **existence of dual labor markets** and **racial discrimination within the labor market.**^{6/}

Some argue that one source of the racial unemployment gap may be that the labor market consists of two relatively distinct sectors, a primary labor market and a secondary labor market. The primary sector has the best and the most rewarding, steady, and preferred jobs. Employees in this sector are secure, receive job promotions regularly, and enjoy regular working conditions. Unemployment in the primary sector stems largely from declining activity, either in the economy as a whole or in the specific industries. Loss of a primary sector job is not likely to be permanent, and may only result in temporary employment in a less preferred position or a temporary furlough.

The secondary labor market sector is characterized by **low-paying** jobs, limited advancement, and unstable employment. Layoffs, discharges, and resignations are frequent, and unemployment may be high even when the economy is operating close to its potential. Since the positions in the secondary labor market are short-term, **low-skilled**, and generally unattractive, there is little incentive for workers

^{5/} A study by Harry **Gilman** ("Economic Discrimination and Unemployment," *American Economic Review*, LV December 1965, No. 5, Part 1.) examines the influence of occupation on unemployment rates while controlling for race, education, and a few other variables. He finds that the lower the skill level of an occupation generally, the more important additional years of educational attainment were for lowering the unemployment rate. For all **occupations**, the high-skill occupations, and the **low-skill** occupations, one year of additional educational attainment lowered the unemployment rate by .58, **.33**, and **1.16** percentage points respectively.

^{6/} It should be noted that **prelabor** market discrimination can and has occurred with respect to education and training and that the **discrimination** affects the skill distributions of nonwhites.

to remain on the job and develop good work habits and obtain valuable work experience. These characteristics are tolerated by the **employer**, because he has a large pool of applicants seeking **positions**, none of which require investments in training or other transition costs. High turnover rates and unemployment result. Workers laid off merely shift from one **low-paying** position to another or become unemployed. Minorities and teen-agers frequently fall within this second labor **market**.^{7/} They are employed disproportionately in **low-wage** jobs, and shift more frequently from being unemployed to **low-paying** jobs and back again.

Nonwhites may be disproportionately in the secondary or high **unemployment** labor market for several reasons. Discrimination may limit their entry into the primary market and relegate them to the secondary market. Lower educational attainment may limit their access to primary jobs because they lack needed skills or are judged less **trainable** by prospective employers. The dual labor market theory predicts that the unemployment gap between **nonwhites** and whites is largely a result of an inability to obtain steady jobs in the primary sector.

There appears to be agreement that **discrimination** plays a major **role** in explaining a **significant** part of the unemployment rate differential. Traditional theories explain the role of discrimination in terms of an inclination of employers for discrimination which results in unemployment and lower wage rates for the groups discriminated **against**.^{8/}

Another type of discrimination, statistical discrimination, may not be directed at a particular job applicant, but it can be just as effective. Employers make hiring decisions without complete and adequate information about prospective employees. In order to reduce this uncertainty, these employers use various methods to discriminate among **applicants—e.g.,** tests and reference checks. Statistical discrimination occurs when characteristics related to a group (e.g., a racial minority) are used to infer information about a particular individual. At the most blatant level, employers may make observations about nonwhites as a group, relative to whites, and then on that basis hesitate to hire individual nonwhites. At a more subtle level, employment tests may contain sections that are not precisely relevant to the job for which the applicant is applying and the scores on these tests may reflect **socioeconomic** or racial background rather than potential job performance.

^{7/} Peter B. **Doeringer** and Michael J. **Piore**, Internal Labor Markets and Manpower Analysis, Lexington, **Massachusetts**, D. C. Heath, Lexington Books, 1971.

^{8/} See Gary S. **Becker**, The Economics of Discrimination, University of Chicago Press, 1957.

Remedying this type of discrimination requires special emphasis on weeding out of the hiring process any aspect that may have a discriminatory impact and is not clearly related to actual job functions. The existence of statistical discrimination also suggests support for programs that improve the educational level and skills of minorities. With better education and training, these groups would be less easily subjected to exclusion through the use of these discriminatory screening criteria.

One of the most quoted of the studies attempting to measure the impact of discrimination on unemployment rates is the study by Harry O. Gilman. ^{9/} He examined the influence on the unemployment rates of male workers (by occupation) of **color, industry**, education, prime age work force, and percent of wage and salary workers. The data, largely unpublished, from the Current Population Survey, were for 1950 and averages of 1957 through 1961. After controlling for other **variables**, being **nonwhite** added **2.9** percentage points to the unemployment rate. ^{10/} For those occupations beginning with craftsmen and extending through the higher skill levels, being nonwhite added 3.17 to the unemployment rate.

^{9/} "**Economic Discrimination and Unemployment**," American Economic Review, LV December 1965, No. 5, Part 1.

^{10/} Since ability and perhaps other variables were not held constant, the coefficient may misstate the effect of discrimination.

PART II

SHORT- AND **LONG-RUN** POLICIES AND PROGRAMS

PART II - I

THE PROJECTED EFFECT OF ALTERNATIVE **MACROECONOMIC CONDITIONS**
ON WHITE AND **NONWHITE** JOBLESSNESS

Since aggregate demand has such a powerful **impact** on the racial gap in joblessness (**i.e.**, unemployed and discouraged workers **combined**), the contribution of changes in **macroeconomic** conditions to which could narrow this gap over the near future is of paramount concern. There are many possible combinations of monetary, expenditure, and tax policies that can result in increased aggregate demand and higher labor and capital utilizations. These alternative combinations of **macro-**economic policies for influencing the course of the economy would result in different paths the economy might take in the future.^{11/} In order to show the **effect** of the alternative macroeconomic conditions on white and **nonwhite unemployment**, the CBO has simulated the effects of three of these **paths**—a moderate recovery path, a rapid recovery path, and a full employment (4 percent unemployment) path.

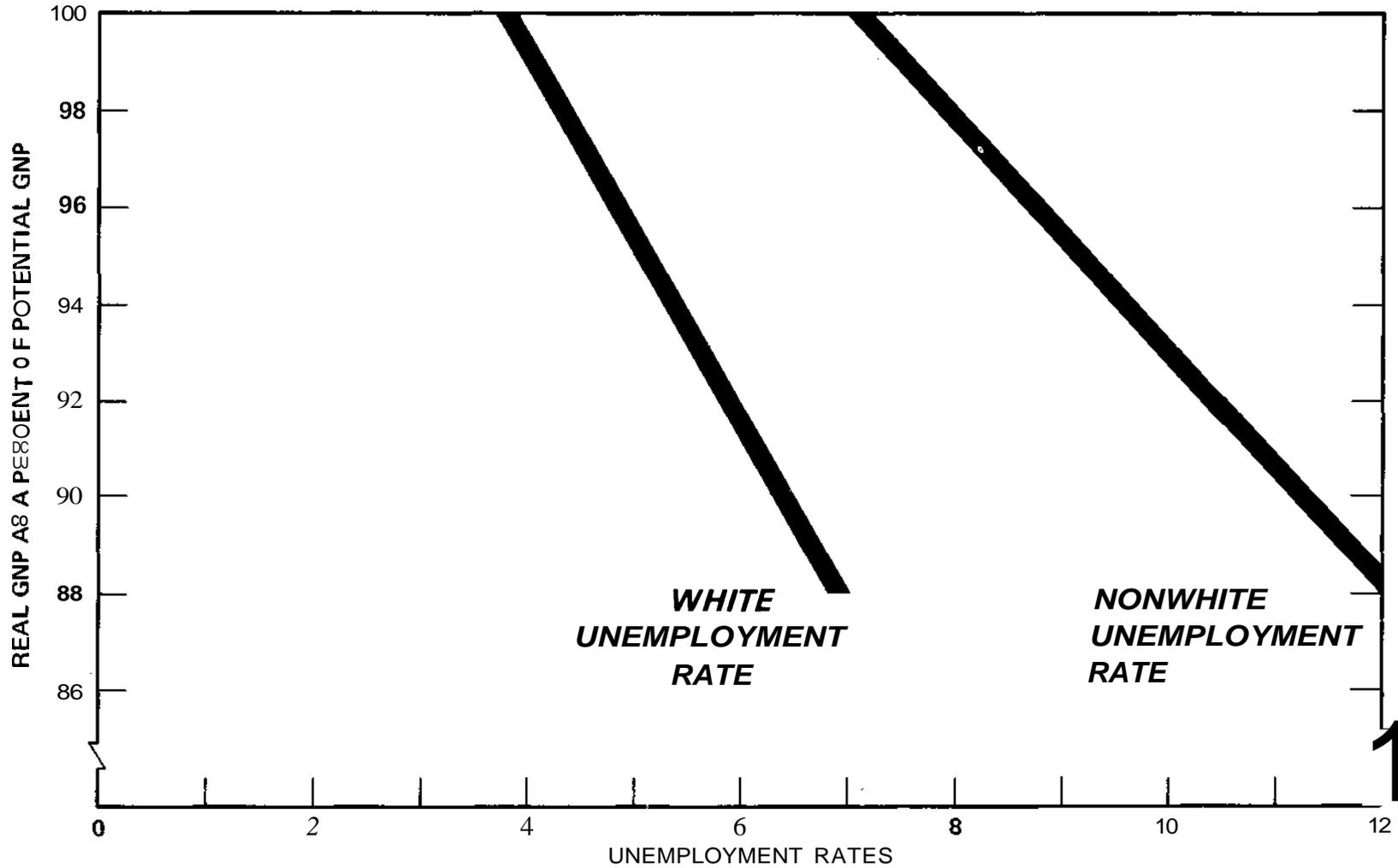
The results of these simulations, summarized in Figure 4, show the relationship between the unemployment rates of whites and nonwhites and the capacity utilization of the economy. The unemployment rates of both whites and **nonwhites** and the gaps between these rates increase as the economy operates further away from its potential. These simulations suggest that for every 1 percent increase in **GNP** induced by aggregate economic policy, the nonwhite unemployment rate will decline by approximately 0.4 percentage points. Because the white unemployment rate declines more slowly, the gap between the nonwhite and white rates will narrow. However, even at full employment, the gap between the white and nonwhite unemployment rates is likely to be approximately 4 percentage points if only macroeconomic policies are undertaken.

Even if the economy reached full employment by 1980, **one-quarter** of the unemployed would be nonwhite, reflecting in part a greater expansion of the nonwhite population in the intervening **years**, only partially offset by a more rapidly rising labor force participation rate for whites. Other expansion paths leading to less than full employment by 1980 would produce even higher unemployment rates and a somewhat higher racial differential. If the unemployment rate in 1980 were **4.5** percent, the gap between nonwhite and white unemployment rates would be **4.9** percentage points. If the 1980 unemployment rate were **6.3** percent, the gap between the unemployment rates would be approximately **5.2** percentage points.

^{11/} See Budget Options for Fiscal Year 1977: A Report to the Senate and House Committees on the Budget, Congressional Budget Office, Washington, D. C., March 15, 1976, p 17-33.

Figure 4.

WHITE AND NONWHITE UNEMPLOYMENT VS. GNP CAPACITY UTILIZATION



Source: Congressional Budget Office estimates.

Macroeconomic policies—even if they result in the achievement of full **employment—will** leave substantial numbers of individuals unemployed and a sizeable differential between the **nonwhite** and white unemployment rates. Employment creating **programs**, the unemployment compensation **system**, education and training programs, and **antidiscrim-**ination policies may lower unemployment below the levels achievable through fiscal policy alone; lower the individual burdens of unemployment; and, if carefully targeted, reduce the nonwhite, white differential in both the short- and long-run. These instruments are discussed in Part II, Chapters II through V.

PART II - II

THE **EFFECTS** OF **EMPLOYMENT** CREATING AND INDUCING **PROGRAMS**
ON WHITE AND **NONWHITE** **EMPLOYMENT** AND UNEMPLOYMENT

A wide range of expenditure programs and tax policies can directly influence the level of **employment** and the resulting levels of unemployment. General federal expenditures and tax cuts influence employment as do more targeted employment programs. These latter programs can be utilized either **countercyclically—to** increase employment during periods of high aggregate **unemployment—or** to reduce **unemployment** below the levels achievable by **macroeconomic** fiscal policy alone. The jobs created by the programs can be made available to all workers or targeted **specifically** toward **groups—e.g.,** teen-agers and **lower-income** heads of **families—who** have high unemployment rates during all stages of business cycles. Programs that are targeted toward population groups in which **nonwhites** are more highly represented will have greater effects in reducing the **nonwhite-white** unemployment gap.

Programs that directly increase employment decrease unemployment by providing jobs and general fiscal stimulus. Their net direct effect on employment depends on the extent to which they add **on,** rather than simply **replace,** outlays by other levels of government and private firms (**i.e.,** fiscal **substitution**); the average salaries of the jobs they **pro-**vide; the proportion of their outlays going to wages and salaries; and the proportion of the created jobs that displace other jobs. Their **effect** on the unemployment rate is a function of the proportion of the newly created jobs that are held by formerly unemployed individuals as opposed to individuals who are either new entrants or reentrants to the labor force. The effect of these programs on inflation can be limited by the extent to which they are targeted on population groups and geographic areas with high unemployment and by the relative **attrac-**tiveness of the positions they create and with those likely to be created in the private sector during periods of economic growth and recoveries.

In order to have the greatest effect, employment-creating programs that are aimed at creating jobs for the groups with consistently high unemployment rates should provide more stable work environments. One means of doing this is to create higher quality jobs than those traditionally held by these groups. **Low-status** jobs often lead to high turnover rates and reduced probabilities of long-term employment. Long-term solutions should ideally provide opportunities for upward mobility and greater job attachment.

Public Service Employment

Support for different public service employment programs will have different effects on both white and **nonwhite** employment and unemployment. Support for traditional public service employment **programs—e.g.,** those supported under **Titles** II and VI of the Comprehensive **Employment** and Training Act (**CETA**)—**would** fund approximately 61,000 direct jobs per \$1 billion in outlays assuming salaries of \$7,500. The net budget cost of these outlays would be less than \$1 billion because of subsequent reductions in income assistance, **unemployment** compensation outlays and increases in tax **revenues.**^{12/} Because of fiscal substitution and **macro-**economic stimulus, the net number of jobs created by this expenditure would be approximately 97,000 twelve months after the funding for the program is begun. If the pattern of program participation remains at its fiscal year 1975 average, approximately 32 percent of the directly created jobs would be filled by **nonwhites.**^{13/} Seventeen percent of the indirectly created jobs would be filled by **nonwhites.**^{14/} In total, approximately 26,000 (27 percent) of the newly created jobs would be **filled by nonwhites** for **each** \$1 billion of outlays. This number and **pro-**portion probably depend on the **macroeconomic** conditions within which the program is operated and the overall level of program funding.

Other kinds of public service employment programs could have different effects on nonwhite unemployment. If the direct jobs component of the program was targeted on workers from poverty-level families, workers who have been unemployed for longer periods of **time,** or **disadvantaged** youth, the percent of funded jobs filled by nonwhites would differ. These programs might also tend to have lower rates of **fiscal** substitution and displacement because of the restricted eligibility standards. These jobs could also have lower salary levels because the private sector opportunities and income assistance benefit eligibilities for these individuals are more limited. Both of these factors would change the magnitude of effect on outlays on nonwhite employment and **unemployment.**

^{12/} See Budget Options for Fiscal Year 1977; A Report to the Senate and House Committees on the Budget, Congressional Budget Office, Washington, D.C., March 15, 1976, p 203-210.

^{13/} See Employment and Training Programs, Congressional Budget Office, April 1976.

^{14/} Derived from Ralph **Smith,** Some Implications for Whites and Nonwhites of Not Attaining Full Employment, The Urban Institute, Washington, **D.C.,** March 1, 1976.

Although unemployed **nonwhites** have longer lengths of unemployment than unemployed **whites**, they constituted less than **one-fifth of** those who are unemployed for nine or more weeks in the fourth quarter of 1975. A public service employment program directed at workers with long durations of unemployment would employ lower percentages of nonwhites than one targeted on those below the poverty level. If the program would only employ workers who had been unemployed more than eight **weeks**, approximately 19 percent of the directly funded jobs would be **filled by nonwhites** assuming that the hiring was **nondiscriminatory** with respect to race. If the average salaries of these jobs were \$7,500 and the rate of fiscal substitution were 50 percent, \$1 billion in outlays would create a total of approximately 97,000 jobs of which 18 percent would be filled by nonwhites.

As stated previously, **nonwhite** youth (ages 16-19) have traditionally high rates of unemployment. In June 1976, the unemployment rate for this group was **40.3** percent. Targeting a public service employment program on **disadvantaged** youth would result in a high proportion of jobs being filled by nonwhites. In 1975, approximately 43 percent of the employees in the summer youth employment program were nonwhites. The average salary for participants in this program is about \$521 for about ten weeks. One billion dollars in outlays creates approximately 354,700 direct and indirect jobs (on an annual basis) assuming a 10 percent fiscal substitution rate. The **large** number of youth placed in jobs under the summer youth program results from the **program's** low wage level (approximately \$2,700 per year) and the assumed low rate of fiscal substitution. Approximately 40 percent of these jobs would be filled by nonwhites. A youth employment program does not necessarily have to be restricted to the summer months. **Teen-agers—especially** black **teen-agers—hav** higher unemployment rates during the entire calendar **year**, and a **youth-oriented** job creation program (e.g., a youth conservation or service corps) could substantially reduce the unemployment rates of this age **group.15/** Table 8 summarizes the employment effects of several alternative public service employment instruments.

15/ A more thorough analysis of **teen-age** unemployment will be contained in a future **CBO** Report.

Table 8—EFFECT OF ALTERNATIVE PUBLIC SERVICE EMPLOYMENT PROGRAMS ON TOTAL AND **NONWHITE** EMPLOYMENT
(per \$1 billion, 12 months following initiation of outlays)

	Number of Jobs Created		Percent of Jobs Filled by Nonwhites	
	Direct Effect	Total Effect	Direct Effect	Total Effect
<u>Public Service Employment Programs</u>				
CETA Titles II & VI	61,000	97,000	32	27
Targeted Toward Poverty Population	91,000	118,000	32	28
Targeted Toward Long-Term Unemployed	61,000	97,000	19	18
Summer Youth Employment	331,000 *	354,700 *	43	41

* **Annualized** number of jobs

A chief determinant of the effect of these program options on the white, nonwhite unemployment rate differential is the proportion of newly created jobs filled by **nonwhites**. Approximately 17 percent of the newly created jobs must be **filled** by nonwhites to keep the gap constant. If 10 percent of every 100,000 new jobs created in fiscal year 1977 were filled by nonwhites, the nonwhite unemployment rate would fall by **.05** percentage points. The white rate would decrease by **.09** percentage points and the gap between the two would widen by **.04** percentage points. If 40 percent of the jobs created were filled by **nonwhites**, the nonwhite unemployment rate would be **.20** percentage points lower and the unemployment rate of whites would fall by **.06** percentage points. Thus, the gap would narrow by **.14** percentage points. These estimates assume that 81 percent of the newly employed whites and 58 percent of the nonwhites were previously in the labor **force.16/**

16/ Ralph Smith, Some Implication for Whites and Nonwhites of Not Attaining Full Employment, The Urban Institute, March 1, 1976.

Public Works and Countercyclical Revenue Sharing

The net effects of accelerated public works programs and countercyclical revenue sharing are different from those of public service employment programs because of different wage **levels**, administrative **costs**, and different rates of fiscal substitution. A previous **CBO** study estimates that \$1 billion in outlays would create approximately 69,000 and 81,000 jobs in accelerated public works programs and countercyclical revenue sharing programs **respectively**.^{17/}

The programs would have different effects on whites and **nonwhites**. If we assume that the direct jobs funded by an accelerated public works program would be **filled** by unemployed construction workers and that there would be no discrimination in their hiring, approximately 12 percent would be filled by nonwhites. If a countercyclical revenue sharing program drew its new employees in a **nondiscriminatory** way from the population of unemployed government workers, approximately 28 percent of its direct jobs would be filled by nonwhites. Table 9 summarizes the employment effects of these two program alternatives. If either an accelerated public works or a countercyclical revenue sharing program were targeted toward geographic areas with high concentrations of unemployed **nonwhite** workers (e.g., central **cities**), the effects of the outlays on nonwhite unemployment would probably be higher.

Table 9—**EFFECT OF ACCELERATED PUBLIC WORKS AND COUNTERCYCLICAL REVENUE SHARING PROGRAMS ON TOTAL AND NONWHITE EMPLOYMENT**
(per \$1 billion in outlays, 12 months following the initiation of outlays)

Programs	Number of Jobs Created		Percent of Jobs Filled by Nonwhites	
	Direct Effect	Total Effect	Direct Effect	Total Effect
Accelerated Public Works	31,000	69,000	12	15
Countercyclical Revenue Sharing	56,000	89,000	28	24

^{17/} Temporary Measures to Stimulate Employment; An Evaluation of Some Alternatives, Congressional Budget Office, September 2, 1975.

Because these employment-creating expenditure programs will create tax payments and reduce unemployment compensation and other federally supported income assistance program **benefits**, their net budget costs will be below their direct outlay costs. These net budget costs will depend on the level of salaries **paid**; the number of previous income assistance beneficiaries employed under these programs; the amounts of the benefits they have been receiving; the rates of **fiscal** substitution; and the general economic stimulus their outlays **produce**.^{18/}

Other federal expenditure programs can also reduce the unemployment rates of **nonwhites** and thus reduce the difference between the unemployment experience of whites and nonwhites. Programs which expand employment in sectors in which the proportion of unemployment accounted for by nonwhites is high (**e.g., construction**); programs that use large quantities of less skilled labor (**e.g., urban beautification** and housing **rehabilitation**); and programs that provide resources to areas or regions with substantial populations of **unemployed** or underemployed nonwhites will all tend to reduce the gap between **nonwhite** and white unemployment rates more than will general government expenditures.

Private Sector Employment Stimulants

The effects of direct expenditures and tax expenditures directed to **stimulating** increased private sector **employment** by providing **wage subsidies** are more difficult to predict. There has been little experience with either employment tax credits (ETC) or direct subsidies. Furthermore, the responses of private employers and employees to reductions in labor costs are highly uncertain. Empirical studies show that an employment subsidy would produce more labor demand under conditions of low unemployment and thus would not be a highly effective countercyclical instrument.

Currently, the earned income credit offers a tax credit to low income earners in an attempt to induce more people into the work force. This credit is not a universal approach to reducing unemployment since it is only available to low income workers who have dependent children. The credit to employers for employing public assistance recipients under the work incentive program (WIN) is the only tax provision which

^{18/} For estimates of these costs see the Congressional Budget Office, Budget Options for Fiscal Year 1977, pp. 203-210.

is explicitly directed toward increasing the demand for labor. In 1975 this credit was expanded to apply to aid to families with dependent children (AFDC) recipients besides those in the WIN program, but the fact that it is directed at AFDC recipients limits its scope. To the extent that **nonwhites** are disproportionately represented among **lower-income groups**, these tax policies will have greater effects on their employment and unemployment than on others.

There are several existing tax provisions which may actually decrease the demand for labor. The investment tax credit (ITC), for **example**, decreases the cost of capital goods and thereby may increase the demand for them at the expense of additional demand for **labor**. Payroll taxes such as those that support the social security and **unemployment compensation systems** ~~may~~ to the extent that they are not passed on to **employees** ~~reduce~~ demand for labor by increasing labor costs.

One ~~study~~—a simulation of the manufacturing sector from 1962 to 1971—~~found~~ that by removing the ITC and holding output constant, **blue-collar** labor would have increased and, **white-collar** labor would have **decreased**.^{19/} Under this condition of constant output, the substitution of labor for capital would have lowered productivity and increased the real prices of output. By allowing the level of output to adjust to these new prices and lowered **productivity**, lower output, and lower total labor use would have resulted. It is important to note two caveats about these results. First the simulation was conducted for the manufacturing **sector**, which is more labor **intensive** than other sectors. Second, the magnitude of the effect of the ITC on employment was higher in years when unemployment rate was low.

The same study also measured the effect of instituting an employment tax credit while leaving the ITC intact. Decreases in the cost of labor induce **blue-collar** labor to be substituted for **white-collar labor**. **However**, by **implementing** the ETC and **leaving** intact the ITC, the cost of production decreases, which increases the level of output. As a result, the increase in labor input is not diluted by a decrease in overall output.

In summary, an ETC would increase **blue-collar** labor at the expense of decreasing **white-collar** labor and the use of capital. There are no studies available which measure the net number of jobs created (new jobs minus displaced workers) per dollar of tax credit. To the extent that nonwhites are over represented in the **low-skilled** labor force, **ETCs** would encourage employment of nonwhites.

^{19/} E. R. Berndt, J. R. Kesselman, and S. H. Williamson, Tax Credits For Employment Rather Than Investment, Institute for Research on Poverty, University of Wisconsin, Madison, June 1975.

To the extent that **nonwhites** are more highly represented in **blue-collar** and less skilled occupations, the current investment tax credit may increase the difference between their unemployment rates and those of whites. An employment tax credit, especially one targeted on additional or new workers, would tend to decrease the gap between the white and **nonwhite** unemployment rates. The employment effects of both investment and employment tax credit instruments would be greater during periods of low aggregate unemployment.

Direct expenditure and loan programs can also be utilized to increase private sector employment in general and among specific target groups. The government can preferentially purchase goods and services from **minority-owned** businesses if stimulus of their **development** and the economies in which they operate is **desired.**^{20/} The federal government can also lend money to minority businesses in order to stimulate their development and success and increase their **employment.**^{21/} The net effects of preferential procurement from and lending to minority businesses on nonwhite employment and unemployment levels has not been carefully assessed. The net effects would probably differ from the gross effects because of substitution and displacement in much the same way as gross and net effects differ for public employment **programs.**

^{20/} The federal government currently operates a preferential procurement program that purchases from small minority businesses.

^{21/} The Small Business Administration currently operates a minority business development program that makes loans of up to \$100,000.

PART II - III

THE EFFECT OF THE **UNEMPLOYMENT COMPENSATION** SYSTEM ON
WHITES AND **NONWHITES**

In fiscal year 1976, the unemployment compensation system **pro-**vided approximately \$20 billion in benefits to approximately 15 million unemployed workers. These benefits both reduce the effects of individual income losses resulting from unemployment and provide general **fiscal** stimulus to the economy. All unemployed workers are not eligible for unemployment compensation benefits. The benefits in most states vary according to previous work histories and wage levels. Several factors may make the impacts of the unemployment compensation system on whites and **nonwhites different.**^{22/} Full data on these **effects** are generally unavailable because the unemployment compensation reporting systems collect only a minimal amount of data.

In April 1975, 638,000 nonwhites or 13 percent of all claimants claimed **benefits** under the regular unemployment compensation **program.**^{23/} At the same time, **18.5** percent of the **unemployed** were nonwhite. The difference between the nonwhite proportion of the jobless and of **unem-**ployment compensation recipients is even larger. The difference between these two percentages is due to a variety of factors.

One such factor is coverage. The major groups of workers that are not covered by regular unemployment compensation programs are state and local government employees, domestic workers, and agricultural workers. Table 10 shows that nonwhites are disproportionately **repre-**sented in these **occupations.**^{24/}

^{22/} For more information on the unemployment compensation system, see Unemployment Compensation Background Report, Congressional Budget Office, November 28, 1975.

^{23/} This statistic does not apply to the extended benefits, Federal Supplemental **Benefits (FSB)**, and Special Unemployment Assistance (**SUA**) programs. Also, claimants are not the same as benefit **recipients**—approximately 85 percent of claimants become recipients.

^{24/} While the occupational and industrial categories in Table 10 are not exactly equivalent to the uncovered sectors, they are roughly equivalent.

Table 10—**NONWHITE** REPRESENTATION IN SECTORS WITH
LOW **UNEMPLOYMENT** COMPENSATION COVERAGE

	Total Workers (1975) thousands	Percent Nonwhite
Private household service workers	1,187	37%
Farm laborers and supervisors	1,357	13
Government workers	14,771	28
All labor force	84,783	11

Another factor that determines eligibility for unemployment **com-** **pen-** **sation** **benefits** is work history, expressed as some minimum weeks of employment and/or minimum earnings in a given period. Such detailed data for the unemployed are not easily obtainable, but as noted earlier, **nonwhites** have less stable work histories than whites. It is possible, **however**, to look at the white, **nonwhite** differential in some of the individual factors that make up the work history needed to determine eligibility for unemployment compensation.

One such factor is age. In April 1975, 21 percent of the **unem-** **ployed** were under 20, whereas 25 percent of the nonwhite unemployed were under 20. Since young workers generally have poorer work histories, this may help explain the lower participation of nonwhites in the unemployment compensation system.

In addition, nonwhites have a proportionately greater number of spells of unemployment, which limits their ability to build employment histories necessary for eligibility.

A number of changes within the unemployment compensation system which are actively under consideration may alter the **system's** effects on nonwhites. Mandatory extension of coverage to previously uncovered industries (such as those covered under the current Special Unemployment Assistance [SUA] program or in proposed unemployment compensation **legislation—H.R. 10210**) will increase the proportion of nonwhites who will be potentially eligible for regular unemployment compensation **benefits**.

The payroll tax system that supports the unemployment compensation system may actually reduce employment and increase unemployment by raising the cost of labor if the tax is not shifted to the workers or consumers directly. This effect may be more significant for workers with high turnover rates and low wage **levels**, because the payroll tax is a larger share of their wages. Furthermore they may not have the necessary work history to receive benefits when unemployed. This situation disproportionately affects **nonwhites** because of their lower **wage** levels and higher turnover rates. Proposed increases in **unemployment compensation payroll taxes** in order to improve the self-**financing** structure of the system may actually increase the **magnitude** of these negative effects.

PART II - IV

THE EFFECT OF FEDERAL EDUCATION AND TRAINING PROGRAMS ON **NONWHITES** AND WHITES

The effectiveness of programs designed to increase the employability of the labor force depends on several factors: the extent that they change participant characteristics (e.g., **skills**, attitudes, and credentials) and the extent that they provide additional training and education. If they simply replace resources that would have otherwise been provided by other sources of support, they will affect unemployment solely in the short run by replacing these other resources. Even if these programs change participant characteristics and add net resources, their net effect on unemployment will be lessened to the extent that program participants simply displace other job holders and cause them to become unemployed. This labor market displacement is more likely to occur during periods of high unemployment when demand for labor is substantially below supply. The effects of **employability**-increasing programs on the employment, unemployment, and incomes of nonwhites depend on the resulting increases in education and training services received by nonwhites, the effect of these services on those recipients, and overall distribution of educational and skill attainment in society as a whole. For example, if increases in **nonwhite** educational attainment are paralleled by similar or larger increases in white educational attainment, the differences between nonwhite and white unemployment rates will probably remain unchanged. The role of education and training in reducing this unemployment rate differential will also depend on the extent of discrimination within the labor market. If discrimination is substantial, even nonwhites with **substantial** education may remain unemployed or underemployed.

School Enrollment and Attainment

The rates of enrollment and levels of schooling completed by whites and nonwhites have become more equal over the last decade, but the remaining inequality is significant. Most of the changes in school enrollment have affected older students. In 1965, 9 percent of the nonwhite population age 20 to 24, were enrolled in school while 20 percent of whites of the same age were enrolled. By 1974, these fractions had grown to 17 and 22 percent, respectively (see Table 11). The move toward equality in school completion was equally dramatic (see Table 12). In 1965, 49 percent of the nonwhites age 20 to 24, and 76 percent of the whites had completed at least four years of high school. By 1974, the nonwhite figure had risen to 72 percent and the white to 85 percent. The changes in the educational attainment of the population is more clearly shown in the age 25 to 34 group (see Table 13). In 1940, approximately 39 percent of whites age 25 to 34 and 11 percent of the nonwhites had completed high school. By 1974

Table 11--PERCENTAGE ENROLLED IN SCHOOL, BY AGE:
1965, 1970, and 1974

Age	Black			White		
	1965	1970	1974	1965	1970	1974
3 and 4 years	12 <u>a/</u>	23	29	10	20	29
5 years	59	72	87	72	81	90
6 to 15 years	99	99	99	99	99	99
16 and 17 years	84	86	87	88	91	88
18 and 19 years	40	40	44	47	49	43
20 and 24 years	9	14	17	20	23	22

a/ Includes persons of "other" races.

Source: "Social and Economic Status of Black Population 1974," Census Bureau.

Table 12--LEVEL OF SCHOOLING COMPLETED BY
PERSONS 20 TO 24 YEARS-OLD, BY SEX:
1960, 1965, 1970, And 1974

Level Of Schooling And Year	Total		Male		Female	
	Black	White	Black	White	Black	White
Percentage completing 4 years of high school or more:						
1960	42	66	39 <u>a/</u>	65	45 <u>a/</u>	68
1965	49	76	50	76	48	77
1970	65	83	62	83	67	83
1974	72	85	68	86	75	85
Percentage completing 1 year of college or more:						
1960	12	25	12 <u>a/</u>	28	13 <u>a/</u>	22
1965	15	31	14 ~	36	15	26
1970	23	39	23	44	23	35
1974	27	43	25	46	29	40

a/ Includes persons of "other" races.

Source: "Social and Economic Status of Black Population 1974," Census Bureau

Table 13--PERCENTAGE OF PERSONS AGE 25 TO 34 WHO
 HAVE COMPLETED FOUR YEARS OF HIGH SCHOOL OR
 MORE, BY RACE AND SEX: 1940 to 1974

Year	White		Black		Black-white differential	
	Males	Females	Males	Females	Males	Females
1974	82.3	81.0	67.0	63.9	15.3	17.1
1973	80.2	79.7	62.3	60.5	17.9	19.2
1972	79.7	78.3	59.1	61.6	20.6	16.7
1971	78.4	76.5	52.6	58.8	23.1	17.7
1970	77.0	75.3	49.4	57.0	27.6	18.3
1969	75.2	74.7	53.9	52.8	21.3	21.9
1968	73.4	73.6	52.0	50.0	21.4	23.6
1967	72.9	72.3	49.9	54.5	23.0	17.8
1966	72.5	71.6	44.3	46.4	28.2	25.2
1965	71.0	70.5	45.2	45.8	25.8	24.7
1960	59.3	62.8	30.1	35.8	29.2	27.0
1950	51.5	55.4	18.4	22.2	33.1	32.8
1940	36.1	40.9	8.9	12.3	27.2	28.6

Source: "Educational Attainment in the U.S. March 1973 and 1974,"
 Bureau of Labor Statistics.

these figures had grown to 82 percent for whites and 65 percent for nonwhites. The trend in the college completion rates of **nonwhites** has been moving upward more slowly and the gap between white and **nonwhite** completion rates has changed somewhat erratically. Between 1960 and 1974, the percentage of nonwhites age 25 to 34 who had completed college grew from 4.1 to 8.1 **percent**, while the number of whites in that age group grew from 11.9 to 21.0 **percent**.^{24/} Thus, the nonwhite completion rate grew slightly more rapidly but the gap between the rates also grew.

The quality of schooling received by blacks and other minority groups and their school achievement appear to be lower than those of whites. Thus, increases in the equality of **"years of schooling completed"** among the races probably overstates the equalization of skill levels of labor force entrants.

Federal education and training programs are aimed both at increasing enrollments (largely for **postsecondary** education) and increasing the quality of elementary, secondary, and postsecondary education and training. Data on the impact of these programs on nonwhites are limited, but extensive data exists on the income distribution of participants. Because nonwhites are more highly concentrated within the poverty population, programs that support education and training for economically disadvantaged population groups will disproportionately assist nonwhites in achieving greater educational equality.

Elementary, Secondary and Vocational Education Programs

During fiscal year 1976, total outlays for elementary, secondary, and vocational education programs were approximately \$4.6 billion.

These resources provide support through a variety of programs:

Title I, ESEA: Grants to school districts for supplementary services for disadvantaged students. The allocation formula is primarily based on concentrations of students from families with incomes below the poverty **level**.

Bilingual Education: Grants for demonstration projects and teacher training.

^{24/} U.S. Department of Commerce, The Social and Economic Status of the Black Population in the U.S., 1974, p. 97.

Education for the Handicapped:	Grants to states for special educational services , deaf-blind centers, and teacher training.
Indian Education:	Grants for special services for Indian children operated by the U.S. Office of Education (OE) and operation of schools on Indian reservations administered by the Bureau of Indian Affairs (BIA) .
Impact Aid:	Support for local education agencies to compensate for lost revenue due to federal activities.
Emergency School Assistance:	Grants to local education agencies under- going desegregation.
Vocational Education:	Categorical grants to states to support vocational education activities.

Because it is specifically targeted toward schools with students from lower-income families and educationally **disadvantaged** students, **ESEA-Title I** is the major federal elementary and secondary education program that assists **nonwhites**. Recent data from 26 state Title I reports to the U.S. Office of Education show that approximately 55 percent of the students who receive services supported by Title I funds are **nonwhite**. Significant proportions of bilingual education resources also assist the nonwhite population.

In 1972-73, approximately 23.1 percent of all students enrolled in secondary vocational programs were nonwhite, though less than 9 percent of all **postsecondary** vocational students were nonwhite. At that same time, approximately 14.4 percent of the population age 14 to 20 were nonwhite.

The major federal vocational education grant program has been designed so that federal funds serve largely to encourage and subsidize expenditures by local agencies on vocational services of their own choosing. However, at least 15 percent of federal funds must be expended on special programs for the disadvantaged. While expenditure patterns vary from state to state, on average, federal dollars for specific programs for the disadvantaged are matched **two-to-one** by the states. For the remainder of vocational programs, states spend over \$9 for every federal dollar. The implication of this pattern is that, on an aggregate national basis, the federal vocational education dollar is a substantial stimulus to **pro-**grams for the disadvantaged but may have only marginal impact on vocational education offerings for other groups of students.

Higher Education Programs

Over the last **decade**, federal support for higher education has been increasingly for student assistance programs targeted toward lower- and **middle-income** students. In fiscal year **1977**, approximately 93 percent of the \$2.8 billion (in the current policy budget) in federal higher education assistance will be for student **aid.**^{25/}

The federally supported student assistance programs include:

Basic Educational Opportunity Grants:	Direct aid to students on the basis of their family's capacity to pay and college costs.
Guaranteed Student Loans:	Subsidies for student loans from commercial lenders and participating colleges and universities.
Supplemental Educational Opportunity Grants:	Support for institutionally administered need-based grants.
College Work-Study:	Support for institutionally administered student employment programs.
National Direct Student Loans:	Capital contributions to institutions for low-interest student loans.
State Student Incentive Grants:	Matching grants (50/50) to states for scholarship programs.

The distribution of federal higher education resources among income groups varies significantly by program (see Table 14). The Basic Grant Program is the most **targeted--in** terms of average awards and distribution of **funds--toward** lower and moderate income students. In this program, 43 percent of the recipients are estimated to come from families whose annual incomes are below \$6,000. These students receive approximately 52 percent of the **program's funds.**^{26/} In the Supplemental Educational Opportunity Grant program, 46 percent of the

^{25/} This analysis is limited to CBO estimates for **subfunction** 502 programs. Significant support for higher education is also provided by the social security system, veterans readjustment benefits, and other federal programs.

^{26/} Source: Basic Grants distributions from HEW estimates.

Table 14--**DISTRIBUTION OF FEDERAL STUDENT ASSISTANCE FUNDS**
(percent in academic year 1973-74 except **BEOGs** in 1975-76)

Kind of Students:	Dependent Students Family Income				Independent Students
	\$0-6000	?6-9000	\$9-12,000	\$12,000+	
Basic Grants <u>a/</u>					
Students	43%	26	18	14	
\$	52%	26	15	7	
Supplemental Grants					
Students	46%	21	7	3	23
\$	46%	23	7	3	22
College Work Study <u>b/</u>					
Students	35%	18	12	10	17
\$	36%	19	12	9	19
Direct Loans <u>b/</u>					
Students	27%	17	14	15	21
\$	24%	16	14	14	21
Guaranteed Loans <u>a/</u>					
Students <u>c/</u>	23%	—	29	—	36
\$	24%	—	33	—	43

Source: Unpublished operation data from Office of **Education, DHEW.**

- a. Distributions include independent as well as dependent students.
- b. Distributions do not include graduate students
- c. Distribution does not contain **nonrespondents.**

recipient students were **from** this income group and they received 46 percent of the **program's** resources. The proportions of the dollars and recipients within this income category for the College Work Study program and the two federally subsidized student loan programs were substantially **lower.**27/

In addition to the **low-** and **middle-income** oriented student assistance programs, the federal government also supports the Developing Institutions Program that assists colleges and universities to enter the mainstream of higher education. Most of the schools receiving support from this program (approximately \$110 million in fiscal year 1976) are black colleges. These schools account for a large proportion of the black student enrollment in this country. The **com-**parative effect of these institutional aid resources and increases in student assistance program support of black enrollment, educational attainment, and college graduation has not been evaluated.

Detailed racial data are only available for the campus-based student assistance **programs--i.e.,** supplemental grants, college work-study, and direct loans. Sixty-eight percent of the supplemental grant program recipients were **nonwhite** in academic year 1972-1973 and those students received approximately 58 percent of the grant funds. Forty-one percent of the college work study awardees were nonwhite and they received 46 percent of the available subsidized wages. In comparison, 39 percent of the National Direct Student **Loan (NDSL)** borrowers were nonwhite and they borrowed 38 percent of the total loan amounts during this same academic **year.**28/

Evidence on the effect of these programs on college enrollment and completion rates is limited. Several research studies have found that lower tuition levels induce greater **enrollment,** but no studies have yet assessed the effect of lower net costs (tuition minus student **assistance**). The few studies that have examined the **effect** of college price on students from different family income levels have found that price levels and price reductions have a greater effect on lower-income **students.**29/ Consequently, we would expect that student assistance

27/ Source: U.S. Office of Education, Fiscal Operations Reports: **Fiscal** year 1974 (unpublished **data**).

28/ U.S. Office of Education, Fiscal Operations Reports for fiscal year 1973.

29/ Jackson and Weathersby, Individual Demand for Higher Education; A Review and Analysis of Recent Empirical Studies, Journal of Higher Education, Vol. XLVI, Nov./Dec. 1975.

awards and the resulting lower net prices would have greater effects on the enrollment decisions of **nonwhite** students who tend to be from lower and moderate income families.

Training Programs

Training programs such as those supported by the Comprehensive Employment and Training Act of 1973 (**CETA**) also affect whites and nonwhites differently. Training **programs** include two kinds of activities:

- o Skill Development--to enhance skills and productivity through a **period** (about six months) of classroom or **on-the-job** training (**OJT**).
- o Employability Development--to develop personal attitudes and attributes necessary for entry-level employment.

These activities are supported by several currently operating programs **including:30/**

- o Skill Development Programs

CETA Title I--Title I places authority for planning and operating training programs in the hands of prime sponsors **which**, for the most part, are states and units of general purpose local governments with populations of 100,000 or more. Funds are allocated on the basis of prior years, allotments of funds, unemployment rates, and percentages of **low-income** families in these jurisdictions.

- o Employability Development

1. CETA Title IV (Job Corps)--The Job Corps was originally authorized under the Economic Opportunity Act of 1964 and continued as Title IV of CETA. It

30/ Activities are not mutually exclusive by program. Most programs have funds allocated to more than one activity. Programs have been generally classified by these two major categories according to the activity that tends to dominate the percentage distributions of costs and years of service.

is administered directly by the Department of Labor through Job Corps Centers across the country. The program is designed to provide **education, vocational training, and counseling for low-income disadvantaged youth (14-22)**.

2. The Work Incentive Program (WIN)--WIN was established to help **AFDC** recipients achieve self-support through a program of training, work experience, and employment. Every employable AFDC recipient must register for the program and employers of WIN participants can claim limited tax credits.

As shown in Table 15, the percentage of program slots filled by nonwhite minorities was higher in the **employability** development programs and lower in the skill development activities.

There is limited evidence on the effects of participation in the two major categories of training activities. A primary benefit is the expected increase in annual earnings of participants above that which they would have earned in the absence of participation. The available evidence suggests that skill training yields higher increases in annual earnings after training. The following ranges have been provided by one recent comprehensive review of the literature on these **programs:31/**

Postparticipation Earnings Effects of Training Activities

<u>Activity</u>	<u>Range of Annual Earnings Increases (\$)</u>
Skill Development	\$ 400-800
Employability Development	\$ 200-400

There is little evidence of the perpetuation of these annual earnings gains. The results of one recent study of skill development programs suggest that, on average, program **participants'** earnings exceeded those of comparable **nonparticipants** by about \$380 per year

31/ Perry, Charles R., et. a., The Impact of Government Manpower Programs, (Philadelphia: The **Wharton School, 1976**), p. 76.

Table 15--CHARACTERISTICS OF PARTICIPANTS IN TRAINING PROGRAMS
(Fiscal Year 1975)

Training Programs	Total Served FY 75	% Male	Race and Ethnic Origin			Age			Education		Economic Status
			% White	% Black	Spanish Speaking	Under 22	22-44	45 & Over	Under 12 Yrs. Education	12 Yrs. & Over	Economically Disadvantaged
Work Incentive Program	839,408	25.0	53.0	45.0	9.0	19.0	73.0	8.0	59.0	41.0	N.A.
Employment and Training Assistance											
CETA: Title I	1,034,481	54.4	55.7	38.5	12.5	61.7	32.1	6.1	60.2	39.8	77.3
Title IV Job Corps	45,799	75.1	40.4	55.2	8.1	100.0	--	--	88.8	11.2	N.A.

Source: U.S. Department of Labor unpublished data.

(over a **five-year period**).^{32/} Given the pretraining earnings reported in these **studies**, this represents at least a 10 percent gain in the **participants'** average annual earnings. These increases, however, tended to be larger in the first year after training and to decline slowly over the five-year period. The study also found that annual earnings increases varied by sex and race. Females appeared to gain the **most** from skill development and **nonwhite** males tended to gain more than white males. These earnings gains may have resulted from changes in hourly wages; changes in hours worked; changes in labor force participation; and changes in the overall unemployment of the program participants.

Post Training Increases in Annual Earnings

	Sex	
Race _____	Males _____	Females _____
Nonwhite	\$350	\$550
White	\$250	\$550

^{32/} Orley Ashenfelter, Program Report on the Development of Continuous Performance Information on the Impact of the Manpower Development Act, Technical Analysis Paper No. 12A (Office of the Assistant Secretary for Policy Evaluation and Research, U.S. Department of Labor, October 1973, processed), p.14.

PART II - V

FEDERAL ANTIDISCRIMINATION POLICY

Discrimination plays a substantial role in determining the difference between the unemployment experiences of **nonwhites** and whites. Federal policy can reduce discrimination and, thus, the differential between **nonwhite** and white unemployment rates in several ways. On the labor supply side, antidiscrimination policy affects the level and location of school enrollment; the quality of schooling; and residential location of nonwhites which, in turn, influences the **employability** of the nonwhite labor force. On the labor demand side, antidiscrimination policies influence the fairness of hiring and layoff practices and resulting employment opportunities. Unlike other causes of the racial unemployment differential, it is virtually impossible to measure discrimination directly. While one can measure educational attainment, the demand for labor, the location of jobs, or the experience levels of applicants, one cannot accurately quantify the level of discrimination or its impact on unemployment rates. Analysts often attribute the residual of the unemployment **differential--after** controlling for other differences between nonwhites and **whites--to** discrimination. This attribution may be incorrect because other **nonmeasurables** may also affect the differential and because several **factors--e.g., education--may** also have been affected by discrimination. Consequently, it is very difficult to measure the effects of antidiscrimination and affirmative action policies and programs.

There are two types of effects of these programs. The first is the direct effect which occurs when discriminating **institutions--e.g., employers--are** challenged in the courts and forced to change their selection practices. The second effect, however, is a more subtle one. It involves institutions responding to regulations, even though they may be skeptical about ever being challenged by either regulations or individuals who have been discriminated against. This watchdog, or deterrent effect, is again a difficult one to measure and, as such, makes an evaluation of the effectiveness of antidiscrimination regulations extremely difficult.

Federal Equal Employment Laws and Regulations

Title VII of the Civil Rights Act of 1964, as amended by the Equal Employment Opportunity Act of 1972, prohibits discrimination by any "person" in employment because of an **individual's** race, color, sex,

religion, or national origin. It applies to the activities of **employers**, employment agencies, state and local governments, secular educational institutions, and labor organizations. The original title authorized the establishment of a federal agency, the Equal Employment Opportunity Commission (**EEOC**), and delegated to it the primary responsibility for preventing and eliminating unlawful employment practices as defined in the title. In 1972, the Equal Employment Opportunity Coordinating Council (**EEOCC**) was established and given the responsibility for "developing and and implementing agreements, policies, and practices designed to maximize effort, promote efficiency, and eliminate conflict, competition, duplication, and inconsistency among the operations, functions, and jurisdictions of the various departments, agencies, and branches of the federal government responsible for the implementation and enforcement of equal employment opportunity, legislation, order and **policies.**"33/

Executive Order 11246, issued by President Johnson in 1965, **prohibits** discriminatory employment practices by any agency of the federal government and by any contractor or subcontractor of the federal government. The Office of Federal Contract Compliance in the Department of Labor is responsible for enforcement of those policies. As of June 1975, fifteen companies had been banned from federal contract participation. In addition, over 700 complaints per year have been referred to the EEOC or the Department of Justice under this executive order.

Prior to 1965, discrimination was understood as an individual act based on a purpose or motive to subordinate all members of a class, defined by race, color, sex, **religion**, or national origin. This "test of discrimination" commonly referred to as the "evil motive" test, made proof of discrimination virtually impossible, during the early periods of the administration of Title VII.

Subsequently, a second **test--the** "equal treatment" **test--came** into use. This test dealt with preferences. If a white or male was **preferred** by an employer when similarly qualified **nonwhites** and women applied for a job, then such preference was evidence of discrimination. **However**, in the use of this test, an employer was able to impose an education level requirement, an examination requirement, a "no arrest" requirement, or a work experience requirement, even if these **supplemental** qualifications were not job related. Nonwhites generally fared less well than whites meeting each of these requirements. Consequently, the "equal treatment **test**" permitted the employer to rely on the subordination of minorities in other areas of life as a reason for denying them employment opportunities.

33/ Public Law 92-261 (March 24, 1972).

The 1964 **act**, along with the **amendments** to the 1972 **act**, paved the way for the recruiting and hiring, training, and promoting of **nonwhites** in significant numbers, since discriminatory procedures and practices had been obstacles theretofore. But the legislation left unanswered one major legal question. As employers consider cutting output and labor costs in response to recessions, what priority should these **em-**ployers use to reduce their labor force? Should they use the seniority system ("**last-in, first-out**") and thereby undermine the gains in employment made by minorities? **Or**, should they subordinate senior whites to junior minorities and adhere to affirmative action plans? This issue became particularly important during the recent recession.

Proponents of seniority claim that job protection against layoffs has traditionally been a central objective of American unionism. They argue that the principle of seniority helps to humanize the work place, and allows the worker, to a limited extent, to capitalize his labor to obtain something more than the **day's** wages in exchange for his limited capacity to **produce**.^{34/} Thus, "last in-first out" is a reflection of the fundamental equities of workers who devote their life energies to an employer.

Affirmative action proponents argue that with a seniority system, minorities might be used as a reserve labor **pool**, called upon only to fill the slack during an emergency or **prosperity**.^{35/} This pattern would produce a special kind of bitterness among those who had only recently achieved the social and economic advantages of new work opportunities, only to be thrown back to unemployment and often onto welfare.

Employers have been caught in the middle, potentially liable under equal opportunity laws if they follow the "last in-first **out**," principle and liable under collective contracts if they do not. They have opted, for the most part, to follow the "last in-first out" principle, since they face a much more immediate liability in their dealings with the representatives of their workers than in their dealings with antidiscrimination regulations.

In March 1976, the Supreme Court issued a decision that affects this problem directly. In Frank v. Bowman, the court ruled that **retro-**active seniority may be necessary to redress the rights of black discriminated against in employment since the 1964 passage of Title VII of

^{34/} **Blumrosen, Alfred W. & Ruth G.**, "Layoff Or Work Sharing: The Civil Rights Act of 1964 in the Recession of **1975**," Civil Rights Digest, Volume 7, Number 3, Spring 1975. pp. 35-36.

^{35/} Ibid.

the Civil Rights Act. If it can be proven in court that an individual was denied a job because of discrimination, he can be awarded seniority and attendant rights and benefits retroactive to the date of the discriminatory action. The court noted that "whites must share with blacks '**the burden of the past discrimination**' in **employment.**"

A number of questions were left unresolved by this **decision, however**. There is still no clear method for proving discrimination, although guidelines are being devised and discussed in various government agencies. It is also not clear whether cases can be brought under a "pattern approach" which involves class action or whether it must be on a **case-by-case** basis. The court was unclear on whether the ruling applies to situations which occurred before enactment of Title VII, or whether discriminatory layoffs will be treated the same as discriminatory hiring.

The Antidiscrimination Budget

The size of the federal civil rights enforcement programs budget is small in comparison with the other federal **antiunemployment activities--e.g,** employment and training programs. However, this correspondence between the level of the budget for these programs and their effects is also more uncertain because of the combined direct and deterrent impacts. As shown below in Table 16 the federal government spent \$346 million for civil rights enforcement activities in fiscal year 1975. Outlays for these activities have tripled since fiscal year 1971. The **EEOC** received \$56 million of that total.

Table 16—**FEDERAL** OUTLAYS FOR CIVIL RIGHTS ENFORCEMENT
(fiscal year 1975 actual)

	(Millions \$)
Civil Rights Enforcement by Program Category:	
Federal service equal employment opportunities	\$ 145.6
Military services equal opportunities	37.5
Private sector equal employment opportunities	94.1
Equal education opportunities	16.7
Fair housing	16.8
Enforcement and investigation	22.3
Research and information dissemination	9.1
Civil rights conciliation and prevention of disputes	<u>3.6</u>
TOTAL	\$ 345.7

The Effectiveness of Equal Employment Opportunity Efforts

An evaluation of the effectiveness of equal employment opportunity efforts in reducing black-white employment or income differentials is a difficult task. There have been very few studies of the efficacy of such policies, and the available studies show contradictory results. The evaluation of the impact of antidiscrimination programs is limited by both data problems and the complexity of the effort to separate the effect of complex and interacting processes.

One study of the effect of affirmative action policies on relative unemployment incidence, concludes that the apparent stability of the racial unemployment differential (defined as the ratio of **nonwhite** unemployment rate to the white rate) actually masks shifts which have occurred among the ratios for various age **groups**.^{36/} Flanagan found that among groups with high rates of labor force participation (**prime-age** males, for **example**), there has been a reduction of the racial unemployment differential for experienced workers. He suggests that this could be due to increased incentives to remain in a job because **affirmative action policies—both** induced by government regulation and changes in corporate **attitudes—have** increased the likelihood of non-white job advancement.

Since 1966, private employers with 100 employees during 20 or more weeks in a year, as well as all firms having federal contracts, have reported on the composition of their work force by sex and minority group membership. Using these reports, a recent study by Andrew Brimmer on the effectiveness of **EEOC** efforts concludes that reporting firms experienced a rapid increase in minority employment (21 percent) between 1966 and 1973. Comparing this to the total increase in **nonfarm** minority employment (15 **percent**), Brimmer concludes that **EEOC** enforcement led to an employment increase of about 1 percent per year more than would have occurred **otherwise**.^{37/}

In what have become the classic studies in the field, **Ashenfelter** and **Ashenfelter-Heckman** used these same reports to assess, in part, the impact of enforcement activities and other factors on the relative employment patterns of minorities. Their results indicate that in a

^{36/} Robert J. Flanagan, The Stability of the Racial Unemployment Differential.

^{37/} Andrew F. Brimmer, "Widening Horizons: Prospects for Black Employment," The Review of Black Political Economy, (Summer 1974), pp. 91-116.

group of over 40,000 **establishments**, relative employment of black male workers during the 1966-1970 period increased by 3.3 percent more in firms with government contracts than in firms without such **contracts.**38/

Richard B. Freeman, in a study of changes in black-white relative incomes between 1948 and 1967, concludes that the convergence which occurred during the 1950s and 1960s was partly a result of "government and private antidiscrimination activity following that 1964 Civil Rights Act." Freeman concludes that **EEOC** activity was responsible for increases in the **black:white** income ratio of 9 percentage points for males and 16 percentage points for females between 1965 and **1971.**39/

The generally positive results of this study are contradicted in a recent report by Smith and Welch that indicates that between 1960 and 1970, government presence (in the form of direct or indirect employment via contract) accounted for little of the increase in blacks, income relative to **whites.**40/ A study by Wayne **Vroman** concludes that the significant post-1964 quickening in the rate of convergence of black and white earnings, if sustained, "would still leave black men a considerable distance from earnings equality twenty years from **now.**"41/

The positive findings of the research studies are also not corroborated by several institutional reviews of federal enforcement activities. The U.S. Civil Rights Commission concluded that:

During the last decade some progress has been made toward achieving the **Nation's** objective of equal employment opportunity. The laws and executive orders cited in this report have contributed to this end. Nevertheless, the rate of progress has been inadequate and major problems of systematic discrimination continue to affect adversely minorities and women.

38/ Orley Ashenfelter, *Minority Employment Patterns*, 1966, EEOC and the Department of Labor, 1968; and Ashenfelter, Orley and James Heckman, *Measuring the Effect of an Antidiscrimination Program*, Industrial Relations Section, Princeton University, Working Paper No. 52.

39/ Richard B. Freeman, "Changes in the Labor Market for Black Americans, 1948-72." *Brookings Papers on Economic Activity*, Volume 1, 1973.

40/ James P. Smith and Finis R. Welch, *Black/White Male Earnings and Employment, 1960-1970*, (Santa Monica: **RAND**), **R-1666-DOL**, June 1975.

41/ Wayne Vroman, "Changes in Black **Workers'** Relative Earnings: Evidence from the 1960s," Washington: **OEO**, April 1973, p. 45.

The federal effort to end this discrimination has not been equal to the task. It has been seriously hampered by lack of overall leadership and direction, deficiencies in existing laws, and the assignment of authority to a number of agencies which have issued inconsistent policies, and developed independent and uncoordinated compliance **pro-**grams. Attempts by the Congress and agency officials to rectify the problems which beset this enforcement program and prevent it from effectively assisting the classes adversely affected by discrimination have been largely **unsuccessful.**^{42/}

The federal government also affects minority employment status through its own recruitment and advancement policies. In recent years the proportion of federal employment accounted for by **nonwhites** has grown from 15.5 (in 1972) to 17.0 percent (in **1974**). Over the same time, the proportion of **supergrade** positions (GS 16, 17, and 18) occupied by nonwhites has grown from **3.4** to **4.0** percent. The average grade level of nonwhite employees has remained essentially constant. Given the diversity of methods, data, and definitions of variables used, it is extremely difficult to assess the role played by equal employment opportunity activities in bettering the economic and occupational position of nonwhites relative to that of whites. The best estimates indicate that federal compliance features, regulations, and the changes in attitudes resulting in part from presence of the laws has resulted in significant improvements in the relative employment experience of nonwhites.

However, the past effects of equal opportunity efforts may not be indicative of future effects. In February the **EEOC** had a backlog of approximately 100,000 discrimination charges. New court decisions at various levels are appearing every month. The cumulative impact of these developments could provide a significant stimulus toward equality of work status. If this backlog is allowed to lengthen and the deterrent effect of government enforcement activities is allowed to decline, increases in the inequality of work status may occur.

^{42/} U.S. Civil Rights Commission, The Federal Civil Rights Enforcement Effort, 1974, "To Eliminate Employment **Discrimination**," Vol. 5, July 1975, p. 617.

APPENDIX A

In order to estimate the first year effects of a billion dollars in fiscal year 1977 which will be spent in each of the programs the following formulas were used:

1. Direct Jobs;

[1 billion ÷ avg. cost per job] x [1 - rate of fiscal substitution]

2. Indirect Jobs;

(1.6 billion ÷ salary costs of direct employment) x (31.5)

effective indirect tax cut

Intermediary
employment effect
1000s jobs per
1 billion (between
initial and 12
months) for tax cut

3. White and Nonwhite Jobs;

Direct jobs; as described in text.

Indirect jobs; derived from Ralph **Smith**, "Some Implications for Whites and **Nonwhites** of Not Attaining Full **Employment**," March 1976.

Whites = 83 percent
Nonwhites = 17 percent) of jobs created

TABLE A-1: ASSUMPTIONS

Program	Rate of Fiscal Substitution	Average Cost per Job	% of Nonwhite Direct Jobs	Source of Nonwhite %
PSE-- CETA II and VI	50%	\$ 8,250	32%	Operations data
Poverty Eligibility	25	8,250	32	Poverty Population
0 Duration of Unemployment	50	8,250	19	Unemployed for more than 8 weeks
Summer Youth	10	548	43	Operations Data
Accelerated Public Works	0	42,084	12	Unemployed Construction Workers
Countercyclical Revenue Sharing	73	13,000	28	State and Local Government Employees