DOCUMENT RESUME

ED 031 538

UD 007 918

By-Gordon, Edmund W., Ed.

Poverty and Employment. IRCD Bulletin, Volume 5, Number 2.
Columbia Univ., New York, N.Y. ERIC Clearinghouse on the Urban Disadvantaged.
Pub Date Mar 69
Note-11p.
EDRS Price MF-$0.25 HC-$0.65
Descriptors-*Economic Disadvantagement, *Economic Factors, *Employment, Financial Support, Guaranteed Income, *Income, Labor Force, Labor Market, Manpower Needs, Minimum Wage, *Poverty Programs, Social Welfare, Unemployment, Wages

"Strategies for Closing the Poverty Gap" by Gertrude Goldberg and Carol Lopate, which makes up the contents of this issue of the IRCD Bulletin, critically reviews income maintenance schemes, social insurance and public assistance programs, family allowances, the negative income tax, and full employment proposals. Of these plans to end poverty the authors feel that full employment with an adequate minimum wage is the most desirable. (NH)

# IRCD BULLETIN

PUBLICATION OF THE ERIC INFORMATION RETRIEVAL CENTER ON THE DISADVANTAGED

Teacher College—Columbia University — 525 West 120 Street, N.Y., N.Y. 10027

Volume V, No. 2 March 1969

# Poverty and Employment

## Strategies for Closing the Poverty Gap

Gertrude S. Goldberg with Carol Lopate

The War on Poverty, like many other wars, was declared before either the enemy or the goals were clearly understood. Indeed, it has been largely during the recent skirmishes in our domestic war that we have begun to understand what poverty means in the mid-twentieth century and to develop some strategies for alleviating it in our country. While it might seem obvious that the most effective way to end poverty would be to provide the poor with more money, decision-makers have tended to ignore such a strategy. Recent anti-poverty measures have focused on improving the *future* earning power of the poor—frequently their children—through education and training programs.

Three basic strategies can be isolated in the numerous anti-poverty proposals which have arisen in government as well as academic circles: the direct transfer of funds to the poor; general fiscal measures to stimulate economic growth and thus create more jobs for the poor along with others; and education and training programs to equip the poor for better future earnings. Actually, the three strategies somewhat reinforce one another. Fiscal programs which stimulate growth, for example, lead to a larger gross national product (GNP) which enables the country to provide more generous income maintenance or training programs—if elected officials choose to spend the country's money in this way. On the other hand, successful opportunity programs not only make the poor more self-supporting, but also contribute toward economic growth through increasing workers' efficiency and decreasing shortages of skilled labor.

Although a combination of the three strategies might be useful in combating poverty, the limitation on resources even in our affluent country makes it essential to assign priorities. Leonard Lecht's study of the cost of achieving sixteen national

*(Continued on page 2)*

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*Strategies (Continued from page 1)*

goals important to economic and social welfare concludes that even with a healthy annual rate of growth our resources would fall short by $150 billion or 15% of the GNP in 1975.[1] Furthermore, the Task Force on the Post Vietnam Budget assembled by ex-Vice President Humphrey maintained that, even assuming a cease fire and reduction in U.S. forces beginning in early 1969, the 1970 budget would permit "limited budgetary elbow room," perhaps amounting to $4 billion for urgent social programs. Leaving aside the substantial possibility of sizeable increases in military weapons programs not connected with Vietnam, the advisors predicted a $28 billion surplus for discretionary action in fiscal year 1973, but concluded that "the claims on this $28 billion will be substantial and the choice will be hard."[2]

The strategies chosen will be greatly influenced by the country's definition of poverty. According to a distributional definition of what is poor, the lowest income quartile will always constitute the poverty group, no matter how high their real incomes are. On the other hand, if poverty is defined in relation to a standard of minimum adequacy, as is more often the case, it is theoretically possible for people to be in the lowest income group while still having sufficient resources to purchase the "necessities."

If the income distribution definition makes it nearly impossible to eliminate "poverty," poverty defined through a budgetary standard has almost as severe limitations. The tendency to consider yesterday's luxuries today's necessities causes the level of adequacy to rise over and above changes in the value of the dollar. Moreover, income level largely determines choice, and choice determines alleged need: the budgeteers may calculate food costs from the fact that poor people customarily eat more hamburger and less steak, and this "choice" of hamburger over steak then determines what they will consider their needs to be.[3] Other variables also confuse the issue of "need" by widely influencing what a given income can purchase; price fluctuations, the consumer's ability as a shopper, the availability of free public goods and services, and the unpredictable cost of medical care.

Victor Fuchs has suggested a modification of the strict distributional approach; he would consider those people impoverished whose incomes are less than one-half the median family income. Although he feels that the figure of one-half is somewhat arbitrary, his proposal has the merit of ensuring an automatic adjustment to rises in median family income.[4] It also eliminates the treadmill of the strict distributional approach: that is, if incomes were to cluster close to the median, with few falling below one-half the median, it would be possible for no one to be defined as impoverished. However, judging from past U.S. Census figures, such an outcome is unlikely: despite anti-poverty and social welfare measures of the last twenty years, the upper limit of income received by families in the lowest income quintile of our population has remained constant at approximately half the median national income.[5] Interestingly, most minimum standard budgets are less than one-half the median: in 1966, the generally accepted standard for a four-person family was a little above $3,000, while the median income for such a family was $8,340.[6]

The most commonly accepted current definition of poverty was developed by Mollie Orshansky of the Office of Research and Statistics of the Social Security Administration.[7] Based on U.S. Department of Agriculture estimates of the cost of purchasing an adequate diet with limited funds, Orshansky's budgets recognize differing needs depending upon family composition and rural or urban residence. Her food budget (about 75¢ per person per day in an average four-person family), however, is about one-fourth below the estimate of a low-cost adequate diet used for many years by welfare agencies. Her 1966 minimum budget for an average four-person urban family allows a weekly income of $65.

Using this standard, Orshansky reported that in 1966, a record year for economic growth, prosperity, and low unemployment, 29.7 million persons in eleven million households had incomes below the poverty line. Two-thirds of all the poor were white. Nearly one-fifth of all poor people were aged. One-sixth of the Nation's children were impoverished (one-half of the poor were children). Although half were in families with at least five children, many of these families had insufficient income to support even two or three children.[8]

The relation between employment and poverty has a number of facets which are generally not clearly understood. Using official figures, Orshansky reports that among poor families headed by men under age 65, five out of six of the household heads worked some time in 1966. Even among female heads of impoverished households, nearly half were in the labor force. Five-and-one-half million poor children or 44% were in homes of a man or woman who held a job throughout 1966. While Orshansky's figures suggest that unemployment is not the most important cause of poverty, most official figures underestimate the magnitude of the problem. Leon Keyserling stresses that 60% of all poverty in the United States is attributable to either full unemployment, part-time unemployment, inadequate wages, or a combination of these factors.[9] For example, in 1966, when the official unemployment rate was 2.9 million or 3.8% of the work force, over 11 million American workers were jobless or looking for work at some point during the year.[10] For 55% of these workers, joblessness lasted five weeks or more,[11] pulling their yearly earnings below the poverty level, if they were not already inadequate. Furthermore, official rates record only persons who actively sought work and conceal the large numbers who might have applied for jobs if there were new openings or they could qualify for existing jobs. In September 1966, 5.3 million men and women, nearly twice the number officially out of work, wanted a job.[12] Also not counted among the unemployed are those who are involuntarily employed part-time: about two million persons in an average week in 1966 were able to get only 20 hours work.[13] Recently, the Department of Labor has developed a measure of subemployment which includes workers either unemployed fifteen or more weeks, or who make less than $3,000 for year-round full-time employment. Using this admittedly conservative measure, they found that in October 1966 one out of three residents in ten slum areas surveyed were subemployed.[14]

## Income Maintenance Schemes

Although income through adequately remunerated employment is probably the best way to eradicate poverty, the above figures also suggest that some people will necessarily be either permanently or temporarily out of the labor market. In addition to men and women unable to find work, many of the aged, the disabled and the blind, and mothers rearing young children (unless proper child-care facilities are avail-

able and mothers want to work) will have to be assisted through direct transfers of income or income maintenance.[15]

In evaluating present programs and proposals for income maintenance, it is important to recognize their conflicting claims of adequacy, economy, and incentive. Unless the poverty gap is closed and everyone is brought up to a minimum standard, adequacy is compromised. However, an adequate scheme may become too costly, or at least the public may feel that they are paying too much. Finally, income maintenance schemes may decrease the incentive to work, thus raising the cost of the program—particularly through support of new groups, such as the working poor and those employed persons just above the poverty line.

**Social Insurance and Public Assistance Programs.** Social insurance programs are aimed at meeting income needs of former wage earners and their dependents when earnings cease or are interrupted. They have become popular largely because the public feels that benefits are the results of contributions by employees and employers, and are thus earned. In reality, however, social insurance provisions have expanded far beyond their initial state when benefits were closely related to contributions. In fact, such recent provisions as full benefit status for individuals with as little as six quarters of coverage, and for all persons 72 or over, regardless of their prior participation in the labor force, have led some to consider social security benefits for older persons as a demogrant for the aged.[16] Medicare represents another erosion of the strictly contributory principle.

Although public assistance is not financed directly through contributions of recipients, it is a mistake to describe welfare recipients as donees and social security recipients as insurees. In fact, there is considerable overlapping between the two groups. Public assistance is a common supplement for social security; in 1965, for instance, 1.2 million persons received public assistance because their social security benefits did not meet minimum state or local welfare standards.[17] Furthermore, while public assistance often goes to people who have been unemployed for long periods or are considered unemployable, many assistance recipients have been or will be employed for much of their working lives, contributing like everyone through sales and income taxes to the revenue from which assistance is drawn.

Unfortunately, neither public assistance nor social security programs give adequate coverage. Although 3.5 million households with other earnings were taken off the poverty roster through social security in 1965, half of the poor who received social security checks were still poor afterwards.[18] According to Orshansky, only one-fourth of the households whose income was below the poverty line in 1966 had received public assistance in 1965.[19] The Advisory Council on Public Welfare recently concluded that, "Public assistance payments are so low and so uneven that the Government is by its own standards and definition a major source of the poverty on which it has declared unconditional war."[20]

The issue of deterring work incentive is always raised in connection with public assistance, although it is relevant to our present social security programs as well. Traditionally, a distinction has been made between the able-bodied and the unemployable or, as they were once called, the "impotent" poor, with the former being impelled to work and the latter considered worthy of a modicum of community aid. Present public assistance programs maintain these ancient distinctions through their eligibility categories (the blind, the permanently and totally disabled, dependent children and the aged). And for those who qualify, but who could perhaps return to work if they became able and employment was available, the present structure tends to perpetuate dependency on assistance: public assistance programs have what amounts to a 100% tax on earnings, since for every dollar earned the grant is reduced by an equivalent amount. In the case of social security, many beneficiaries are discouraged from working until the age of 72 (when there is no limitation on earnings) by the low limits set on earnings.

Both public assistance and social security could obviously be greatly improved. For example, the Advisory Council on Public Welfare has proposed sweeping reforms of public assistance: a federal standard varied only for regional differences in living costs and achieved through federal subsidies to state aid; replacement of the individual means test by an impersonal financial statement; and a work incentive provision which would allow recipients to keep a portion of their earnings. Unfortunately, a number of reasons make such an extensive change of only questionable value. First, at the same time that an impersonal means test would decrease administrative costs, expanded coverage and benefit levels would vastly increase the total cost of the program. Second, unless special provisions were made, the working poor slightly above the public assistance level would have less total income than those on public assistance who were allowed to keep some of their income. Finally, a compelling reason not to focus on even a revised public assistance plan is that assistance has an unpopular image.

**Extension of Social Security.** Because the social security programs have maintained a reputation for giving earned benefits, they make a more attractive base upon which to build comprehensive coverage of the poor. However, given both the irrelevance of need as a criterion for eligibility and the precedent of wage-related benefits, social security would be an insufficient anti-poverty program. Pressure to raise benefits across the board as in the past would also result in many of the non-poor receiving extra income so that the poor could be reached. Thus, Christopher Green estimates that, since only one-third of the social security benefits would reach the poor, it would take $11 billion (the approximate size of the total poverty gap for all ages) to get one-half of the aged poor out of poverty.[21]

Without modifying the basic principles of social security, including liberalization of benefits and coverage, it would be possible to add a new program for fatherless children, a particularly vulnerable category. Thus, Fatherless Child Insurance has been proposed as an anti-poverty measure for children living with only one parent. The poverty risk to children as a result of separation or divorce by their parents is comparable in many instances to that of paternal death, and remarriage of the mother does not necessarily alleviate poverty for the socially-orphaned child. Alvin Schorr estimates that if children whose parents are divorced or separated received benefits under the general conditions and scale of payments that apply to survivor's insurance, about 4.2 million children would be covered at a cost of about $4 billion.[22] Such a program would, however, have its drawbacks. Although it would serve almost as many children as are now covered by a combination of survivor's insurance and Aid to Families with Dependent Children (a division of Public

Assistance), it would only assist a little more than a fourth of all poor children. Furthermore, even for children covered, subsidies would be particularly inadequate for those in large low-income families while being most helpful to those in families with slightly higher incomes.

**Family Allowances.** The United States is the only major industrialized country which does not provide a demogrant to children. Such a program of categorical assistance would relieve some of the inequities caused by an industrial rather than a social wage by gearing family income more closely to its needs. Thus, a common proposal has been family allowances, or "systematic payments made to families with dependent children, either by employers or by government for the primary purpose of promoting the welfare of such children."[23]

One policy issue in the proposed family allowance plans revolves around whether, and if so how, payments should vary in relation to number, order, and ages of children. Schorr, for example, has suggested that funds be provided during the preschool period when parents are younger and when additional income might influence decisions to undergo education and training that would increase later income potential. Such funds would also enable the mother to stay at home, offering needed stability and security during the early childhood years.[24]

A recent proposal by Schorr would cost $12 billion annually to implement nationally and would provide $50 a month for each child under six and $10 a month for each older child. The cost would be borne out of the general revenues; present income tax exemptions would be eliminated, and benefits made taxable. All families with preschool children whose marginal tax rate is less than 50% and all low-income families with school-age children would register a net gain. Middle-income families whose children are all of school age would break about even.[25] Schorr estimates that with a preschool allowance alone, half of the poor children would no longer be poor, and if children of all ages received the allowance, three out of four children in poverty would no longer be poor.[26]

Family allowances have been attacked for a number of reasons. It has been argued that family allowances stimulate the birth rate, since they provide a bonus to larger families; and, in fact, the measure was instituted in France precisely to raise birth rates. However, Schorr concludes from examining evidence from various nations that, were the U.S. to adopt a children's allowance, the overall birth rate would not be markedly affected.[27] James Tobin, a proponent of the Negative Income Tax, has pointed out that family allowances are not a comprehensive anti-poverty measure since they do nothing for the aged or for childless individuals or couples. Tobin also objects to the costliness and inefficiency of a demogrant which goes to all children, not simply those in need.[28] But most who favor a family allowance view it as part of a total income maintenance program that would include higher benefits to the aged and more adequate public assistance programs.

**Negative Income Tax.** Of all proposed attacks on poverty, Negative Income Tax (NIT) schemes have been the most popular and carefully studied. The Negative Income Tax is based on the present or a revised version of the income tax system, but would transfer income—give a negative tax—to *all* persons with incomes below an agreed-upon minimum (either the sum of exemptions and standard deductions per person, or a guaranteed minimum based on need). NIT plans are efficient and dignified since they use the competent and impersonal system of income checking employed by the Internal Revenue Service, rather than the humiliating and costly individually-administered means test of public assistance. Cause of poverty is irrevelant to eligibility. NIT plans also assist the working or able-bodied poor whose incomes fall below the poverty line, but who have been neglected in nearly all traditional assistance programs. To deal with the problem of work incentive, most plans propose to pay a portion of the guarantee while still allowing recipients to keep a percentage of their earnings up to or above the amount of the guarantee.

Some additional pros and cons of the Negative Income Tax are best illustrated by two proposals. A plan by Milton Friedman would allow any individual with less taxable income than $600 to receive a negative income tax. Friedman suggests a 50% rate of subsidy, so that someone with no income at all would get $300 a year—over $1,200 below the SSA standard for an individual living alone. A family of four with no other income would receive $1,200,[29] over $2,000 below the SSA line. Although the plan is equitable and economical, its low benefits with no opportunity for supplementary relief would leave many worse off than they are under present programs.

Joseph Pechman, Peter Mieszkowski, and James Tobin suggest four plans, each providing a basic allowance scaled to the number of persons in a family and requiring an offsetting tax on other income. Their two High (H) schedules guarantee amounts approaching the SSA poverty from $800 a year for one person (about half of the SSA standard) to $3,800 for an eight-person family. A working family of eight would be paid some allowance until its total income reached $7,600. These plans would, however, be relatively costly to the federal government: assuming some savings on present government assistance programs, the net cost would be about $40 billion with an offsetting tax of 33⅓% and $20 billion with a 50% offsetting tax. The two Low (L) schedules would be rather inexpensive, but would guarantee a fraction of the minimum standard for adequacy. The L schedule with a 33⅓% offsetting tax would cost the federal government $14.3 billion, and would only provide $400 to a single individual with no other income but up to $8,100 combined earnings and NIT to a family of eight.[30]

Such figures illustrate the disparity between what NIT does for large families of the working poor as opposed to single individuals with no other income. Indeed, one of the main objections to the NIT plans has been the unevenness with which they assist various groups of poor persons. Schorr points out that the Pechman-Mieszkowski-Tobin H 50% schedule would provide allowances to a married couple with three children until its income reached $6,000, a figure very near the median national income of such families. At the same time, half of the poor couples with three children or more would have pre-transfer incomes of less than $2,500 a year and would remain poor even with NIT assistance. According to Schorr, four out of five poor female-headed families with three children would remain poor under the plan. Thus, families at the bottom could be raised from poverty only at the cost of pushing the whole scale further up and providing NIT benefits to persons with incomes considerably above the median.[31]

A possible problem created by the NIT is implicit in its important asset of aiding the working poor. Since NIT would in effect subsidize low wages, it has been questioned whether workers whose incomes are supplemented by a NIT benefit would be motivated to press for higher wages. A number of planners have also criticized NIT proposals for maintaining the division between two groups of citizens: those who receive allowances and those who do not. Considering the above objections, it is difficult to determine how advantageous—other than the important improvement in reputation—any NIT plan would be compared to a radically modified public assistance program. Indeed, nearly all of the proposals would pay lower benefits to some individuals.

**Social Dividends.** A type of income-maintenance plan sometimes associated with the Negative Income Tax and the guaranteed income is the social dividend or universal demogrant. Proposed initially as a means of simplifying the British welfare system, it is based upon a contract between the individual and the state.[32] The state pays an allowance to everyone, regardless of income, in return for the obligation to work—providing the person is of age and able, and employment is available. Although the more affluent would pay back their dividend in taxes, the system tends to blur the cleavage between the haves and have nots. Its greatest asset, however, is also its detraction in terms of public acceptance, since most people are still against the payment of income to all as a matter of right rather than need.

Clearly, the task of alleviating poverty is far more complicated than distributing among the needy the approximately $11 billion gap between their incomes and the poverty line. The temptation is great to look for a single scheme which would replace the present multiplicity of measures for raising incomes and living standards and greatly reduce administrative costs. Yet, no one scheme, except for the radical one of social dividends, comes close to meeting the various criteria we have considered, and the more politically feasible programs, if adopted in lieu of existing programs, would leave all or some of the poor worse off. Schorr has recommended the continuation of a pluralistic approach noting that a patchwork quilt may not be neat or aesthetic, but that it can offer warmth.[33] However, in view of the less than perfect pluralism with which we are confronted, it seems particularly important to examine possible alternatives to income maintenance.

## Income Through Employment

A number of important reasons lead us to prefer employment as an anti-poverty measure for those capable of entering the labor market. First, most of our countrymen want themselves and others to work for their living. Second, although full unemployment has recently been projected as a future Utopia,[34] forced freedom from work is hardly a blessing for those who are not prepared for creative leisure or an absorbing avocation. Given our present social attitudes toward work and the general lack of education that would prepare us for the use of free time, it seems particularly crucial for the self-respect of the poor that they be able to earn their income.

It is also important to realize that the manpower of *all* our citizens is needed in order to meet such important social goals as the renewal of our cities, adequate medical care for all, and improved education. Leonard Lecht estimates that to achieve sixteen designated national goals would require an employed labor force of more than 100 million in 1975—some 10 million more persons than are expected to be in the labor force in that year.[35] The goals we choose to emphasize also affect the types of workers required: high priorities on urban development and transportation, for example, increase the demand for blue collar workers, be they unskilled, semiskilled or skilled.

**Wage Levels and Unemployment Insurance.** The employment route to ending poverty involves increasing employment opportunities, employment benefits, wage levels, and income maintenance during the frictional or temporary unemployment inevitable in a dynamic economy.

Low wages are a major cause of poverty. As of February 1968, the minimum federal wage became $1.60 an hour, a rate which would provide income 2.2% above the SSA poverty level for a family of four, *if* the wage earner worked 40 hours a week, 50 weeks per year. However, half a million nonsupervisory employees are not covered by either Federal or State minimum wage legislation. Furthermore, assuming seven and a half weeks of unemployment (considered a "modest assumption" for those working at this income level), the annual income yield at $1.60 an hour is about 13.1% below the poverty level.[36]

The effect on our economy of instituting adequate, across-the-board, minimum wages is often questioned. Unfortunately, even after fifty years experience with minimum-wage legislation, our present knowledge of its economic results is extremely limited. John Peterson points out that, although government agencies have collected much data on wages, the wage effects of minimum wages have not always been clearly measured or distinguished from other wage influences. Nor have their effects on employment been systematically studied. Furthermore, only slight attention has been paid to the influence of minimum wage on supply, output, product prices, profit, the number of firms, and, indirectly, on aggregate spending in the economy.[37]

Effective unemployment insurance might be one means of alleviating poverty. Unfortunately, our present system of unemployment insurance is insufficient even for full employment, and almost totally ineffective in an economy with 11 million unemployed during a prosperous year. According to Commissioner of Social Security, Robert Ball, "Probably not more than 20% of all wage loss from total unemployment, and about one third of all wage loss from unemployment in covered work, is replaced by unemployment insurance."[38] State benefit formulas generally replace about half of average weekly earnings for lower paid workers, a more generous portion than that of high income workers, but nonetheless considerably below minimum standards.

**Full Employment and Inflation.** Full employment,* as attractive as it sounds, is a controversial means of ending poverty because of its alleged effect on inflation. In the con-

* Full employment is really "near-full employment," as Joan Robinson refers to a rate below two to three percent in Britain.[39] Three or four percent unemployment (measured by Labor-Department Standards and thus including only those actively seeking work) is what Americans usually associate with full employment. The authors of the Freedom Budget aspire to 2½ or 2 percent full-time unemployment. During World War II unemployment was slightly above one percent.

ventional view, full employment implies worker shortages, higher wages, and higher prices as a result of higher costs. On these assumptions, the Council of Economic advisors concluded in 1966 that the 4% unemployment rate could not be decreased without bringing an unacceptable rate of price increase.[40] However, a number of economists contested the decision to curtail full employment efforts for social as well as economic reasons. Testifying in 1967, for example, James Tobin maintained that the Council's position in effect sacrificed the interests of disadvantaged workers. Moreover, Tobin pointed out that the Council itself had shown in its report that the 1966 inflation was due less to the low level of unemployment than to the rapidity with which it had been reached.[41]

Despite the lack of agreement about the causes of inflation, few would disagree with the ill effects of an inflationary economy on those whose incomes are fixed. Inflation is particularly hard on the aged since savings from their productive years barely support their retirement. Social security benefits, public assistance levels, and other income transfers seldom keep pace with the declining dollar values, thus leaving beneficiaries relatively worse off during times of inflation.

Another important reason why economists have feared inflation is that it is thought to have an adverse effect on our balance of payments. The argument is that inflation encourages the export of American investment abroad and the import of foreign goods, both of which constitute a dollar drain. Some economists believe a deficit in the balance of payments is to be avoided at all costs and that we therefore cannot pursue any policy which might increase inflation. However, a minority of economists take the opposite position that, unlike some countries which desperately need a favorable balance for their survival, the United States can rely on volume of growth in its economy. As Gunnar Myrdal has written, "The size of the United States and the fact that exports and imports constitute a relatively low percentage of its national product should allow it to plan its economic policy at home with less immediate consideration of the resulting effect on the exchange situation."[42] Keyserling goes so far as to maintain that we should run an even more unfavorable balance of payments with ever-increasing stresses on investment in underdeveloped countries.[43]

On the other hand, some economists who feel that the balance of payments problem is quite serious nonetheless believe that it is *not* amenable to measures that would decrease inflation through raising unemployment. For example, Robert Lekachman urges that we concentrate on doing something directly to affect the balance of payments in the way of specific controls, rather than allowing domestic policy to be seriously affected.[44] Or, as Gerard Colm of the National Planning Association has stated, "It doesn't make sense to me that we should have mass unemployment in order to solve our balance-of-payments problems . . . I cannot believe that the only solution consists in depressing our economy, thereby depressing imports and giving allegedly an incentive to exports."[45]

Regardless of the economist's position on how much inflation can be tolerated, or why it should be controlled, most would agree that at some point measures must be taken to control it. Once the economy reaches capacity, voluntary wage-price controls are no longer effective and there are two unpleasant alternatives: either involuntary wage and price controls must be established, or demand must be reduced by curtailment of public spending and/or increasing taxes. The more popular choice, and the one we have recently taken, is that of breaking the economy through a tax increase. However, Carl Kaysen has argued for the price-control alternative on the grounds that it would do more to reproduce the economic and social benefits for the Negro of World War II than any special-purpose programs directed only to the Negro community. According to Kaysen:

> The [price controls] are admittedly cumbersome administratively, and difficult to enforce, especially if price controls should extend to the retail level. Yet, the social gravity of the problems of Negro unemployment and poverty is clearly such as to justify examination of such a program, with re-evaluation of the goals of economic policy it implies.[46]

Interestingly, a report by President Johnson's Cabinet on Price Stability, issued in January 1969, maintains that a decrease in manufacturer's profits may be the most effective means of decelerating the rate of price increases without creating a growing army of the jobless. For example, the report asserts that the unemployment rate could be held steady at 3% and inflation cut from 3 to 1% by reducing the profit rate from 11.7 to 7.2%.[47] The fact that prices are already so high makes it possible for costs to go up without a concomitant increase in prices—if, in fact, manufacturers are willing to accept profit cuts.

**Productivity and Adequate Wages.** Even assuming that full employment—including the reduction of involuntary part-time employment and protracted layoffs—could be reached without inflation, it would be only minimally effective without an adequate wage for all workers. Full employment would hardly be beneficial if it meant substandard wages for those workers previously unemployed or considered "unemployable."

One important issue lurking behind any discussion of wage increases as an anti-poverty measure is the economic worth of a man's contribution to the economy, usually called his "productivity." In a very tight labor market when the employer cannot raise his prices he is likely to dip into what is usually considered a less productive pool of laborers. It should be noted, however, that since the female labor force is extremely elastic, the entrance of women into the market when it is tight can reduce what would otherwise be a greatly increased participation of less productive males. For example, in 1966, when increases in military manpower reached 500,000, growth in nonagricultural employment consisted of .7 million men and 1.5 million women.[48]

To understand productivity, in general, and minimum wage levels, in particular, it is useful to compare varying views of economists on this issue. The marginalist's position is that a man's income is based on his productivity, which, in turn, is measured by what he is paid. The assumption that a worker receives the value of his marginal productivity under competition (that is, that his wage is equivalent to the value that he adds to the product) has led marginalists to consider two effects of a minimum wage: either workers whose services are worth less than the minimum wage must be displaced, or the productivity of economically inefficient workers must be increased. The opposite position taken by the institu-

tionalists is that earnings are not necessarily an indication of productivity, since markets are imperfectly competitive and wage rates vulnerable to manipulation by market powers.[49] Richard Lester, for example, maintains that expectation of sales is a more powerful determinant of employment than labor costs.[50] This suggests that a high-demand economy would be conducive to a living wage for all.

Additional illumination on the subject of productivity has been offered by economists concerned with the relationship between it and educational achievement. Recent studies have thrown into question the assumption that a worker's contribution to the economy is related to educational attainment. Ivar Berg has pointed out that, although requirements for many jobs have been upgraded because of technological and other changes, in many cases educational requirements have been raised less because of the demands of the jobs than because of a desire to tighten controls on the labor supply. Berg maintains that as a result, many workers are overqualified for their jobs and that, in general, they do not compete well with those having less formal education. For example, in a comparison of white-collar workers in an insurance company, productivity as measured by the value of policies sold varied inversely with years of formal education.[51] Similarly, in a study of eight Mississippi plants belonging to a large textile company, formal educational achievement correlated negatively with productivity among several hundred female operators.[52]

What these conclusions suggest is that educational requirements for many jobs are a function of a loose labor market. Demanding educational credentials, particularly for lower-level jobs, is often a facile way of screening a large number of candidates. Thus, experts like Ivar Berg have been led to recommend intervention to increase the overall level of employment, rather than the prevailing policy of manipulating the "quality" of the work force.[53] It has often been noted that World War II brought forth evidence of the employability of many thought to be unproductive when demand was slack. According to Leon Keyserling, "unemployment was reduced to slightly above one percent during World War II, almost all of the 'vulnerables' were implored to take jobs, and most of them performed well."[54]

## Conclusion

Nearly one hundred years ago, Henry George urged that if, in seeking an end to poverty "the conclusions that we reach run counter to our prejudices, let us not flinch; if they challenge institutions that have long been deemed wise and natural, let us not turn back."[55] A comparison of our country's resources with those of other nations makes one a little uneasy about our agonizing searches for means to fill the poverty gap. Although no proposals appear to have entirely satisfactory consequences for all concerned, our lack of enthusiasm for the alternatives should not affect our commitment to ending poverty. The patchwork quilt which would be needed for an adequate income maintenance approach is hardly inspiring, but nevertheless deserves our support. If we choose to control inflation by means of a policy that would in effect keep the poor unemployed, we should recognize that full employment is being sacrificed to the undemonstrated correlate of national economic stability. At the very least, then, the poor would deserve generous income maintenance for the patriotism foisted upon them. It should also be remembered that measures which would reduce employment are not the only way to control inflation, and that such policies sacrifice not only the poor but the attainment of important national goals as well. The far preferable major attack on poverty would be full employment with an adequate minimum wage. If necessary, we should be willing to make anti-inflationary adjustments that for once place whatever small burdens that ensue on groups more able to sustain them than the poor.

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**G.S.G., C.L.**

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