

Poverty
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PRIDE OR POVERTY

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"Economics is the aesthetic of practical life, morality its logic."¹

Economic theory derived from either practical experience or purely theoretical hypotheses can be aesthetically interesting when abstracted from any moral or utilitarian values. But as such it can say nothing about the meaning or direction of practical life. Depressions are just as interesting to study as economic booms on a purely theoretical level, but as soon as theory is studied and formed to prevent depressions and create prosperity, certain moral judgements necessarily have to have been made. Any practical application of economic theory designed to prevent or create certain conditions inherently includes moral values or social logic in its application.

The "Employment Act" of 1946 is only one instance in a long history of policies or laws designed to give direction in the application of economic theory to the everyday practicalities of the economy. As such it displayed, in word if not in deed, concern for the prosperity of all citizens of the United States. It vested in the President the responsibility to achieve maximum employment consistent with stable prices and continued economic growth. The difficulty however is that "maximum employment" is a very vague goal, and the President was given no specific powers to achieve the maximum employment possible, full employment.

Because of the tremendous economic wealth, and even greater

potential economic wealth of the United States, it is possible not only to eliminate needless unemployment, but to simultaneously eliminate poverty and needless economic suffering. The people of the United States have always believed in equal opportunity for all citizens, not just before the law, but also equal opportunity for every person to better themselves economically and socially. Unemployment and poverty cause needless and morally wrong hunger, sickness, and less obvious, but more insidious, suffering. In many cases poverty prevents those who suffer from helping themselves. Poverty makes men sick and weak mentally, as well as physically. It degrades them. It robs them of their dignity as human beings in a society where they only hear of equality, and their poverty is passed ^{to} on their children who become the next generation of poor. Relatively simple economic theory can show that the United States need only be willing to hire everyone who wants to work, at a reasonable, minimal living wage, to eliminate ^{involuntary} unemployment and poverty. Such a program would eliminate the dependence of the poor on insufficient charity or welfare, allow them to feed and educate themselves, properly from their own meaningful work, and release their children from the accident of having had parents too poor to provide adequately for them. Only with such morally logical and just a program can unemployment and poverty with certainty be abolished, and truly equal opportunity for all citizens be achieved.

Since World War II the economy has never had full employment in the sense that unemployment was frictional only. Unem-

ployment has been well above the frictional unemployment level every year since 1959. The reasons why the private economy has not in recent years, and is not likely in the future to create full employment with the absence of poverty are many. Among the poverty stricken more than 12 million people work for less than \$1.50 hour which amounts to less than the poverty threshold of \$3000 per year, even if they can find full time employment. These workers are poverty stricken, even though employed, because many conditions have prevented them from organizing effectively, if at all, to guarantee themselves wages above the level of poverty. Most of the 12 million work in occupations not covered by national or state minimum wage laws, and are either transient workers or under strong social pressure which prevents effective organization. These people are trapped in poverty level employment because there are no other higher paying jobs available in the economy, or because their poverty has rendered them unqualified for better jobs. If these people were guaranteed jobs at \$1.50 per hour full time, they would better be able to help themselves and society, whether they worked for the government or remained at their old jobs with minimal adequate wages.

Labor mobility is very difficult to achieve for the poverty stricken. Assuming they had the required skills necessary to find jobs if they moved to a more prosperous region of the country, in most cases they are not financially able to afford the costs of moving. Even worse the poverty stricken generally have not learned the job skills necessary to find new

jobs. Often because they have had very little and poor quality education, they have never learned skills appropriate in a complex industrial society, or they have learned some particular skill which has become obsolete with automation. Not only can they not afford to move, they cannot even afford training to learn new skills. At best they find occasional menial employment at very low wages and barely subsist on welfare or unemployment insurance when no work of any kind is available.

Automation, even if it does not reduce the number of useful jobs in the economy, increasingly requires new and more specialized job skills. The increasingly heterogeneous nature of the labor force is evident in the post World War II job category statistics. Teaching, research and development, and service job categories, all of which require a great deal of intellectual ability or specialized training, have been increasing fastest relative to the rest of the labor force, while unskilled and semi-skilled blue collar jobs have actually decreased in absolute numbers. Education and training is a lengthy and expensive process which the poor cannot afford, and private firms have not adequately provided by themselves to solve unemployment and eliminate poverty in the private sector. The poverty stricken may not be economically useful in the private economy, but are able to work at socially useful jobs, want to work, and should be given the opportunity as decent human beings to provide for themselves at a reasonable standard of living.

Due to the increasingly heterogeneous nature of the labor force, and the consequent structural nature of unemployment and

poverty, it would be very difficult at best to generate enough jobs in the private economy, even with massive government deficit spending. Government spending would primarily create demand for the job skills of the presently employed labor force, many of which now are in short supply. If instead the government were willing to institute a program whereby it would hire anyone who wanted to work, it could use these people for jobs which they were capable of doing for the public benefit. Such a program would be considerable less expensive than trying to create jobs in the private sector of the economy, and would benefit society by investing in sorely neglected public goods or projects. Such a program would also amply fulfill the main goals of the "Employment Act" of 1946. It would insure maximum employment at a minimal adequate standard of living for everyone who wanted to work, would have little effect on price stability because previously unused resources would be utilized, and would act as a stimulus to the growth of the private economy by creating a great deal more purchasing power among those who have the highest marginal propensity to consume. The costs of such a program can be demonstrated by using 1962 for the hypothetical adoption of the program. In 1962 there was 5.6 percent unemployment which is not at all atypical of the years since 1959, the year in which the authors of the "Triple Revolution" consider the "Cybernation Revolution" to have begun.

*Should also
obviate union
opposition
due to
unemployment
in private
sector*

The relevant multipliers to predict the economic costs of the program are taken from Suits' econometric forecasting model

in the March 1962 American Economic Review, a model which has had a great deal of success in yearly economic forecasting although more sophisticated models now exist.

Multiplicand	Multiplier for Impact on:				
	GNP	Employment		Tax Receipts	
		private	total	federal	state
Federal purchases from firms	1.304	.089	.089	.458	.030
Federal employment	1.692	.063	.263 ^a	.209	.016
			.396 ^b		

- a. administrative cost-\$1 billion gov. expenditures hires
.2 million workers
- b. wages for program hired-\$1 bil. gov. expenditures hires
.333 million workers

Cost of Program per Worker

\$3000 wages-the necessary yearly minimum above poverty
500 administration costs-very close to the same costs
for the present Job Corps per worker
2000 purchases per worker by the government from private
sector for the use of workers.

Unemployment and Poverty estimate for 1962

1.8 mil - estimate of the number which would lose their
jobs from the institution of \$1.50 per hour
(de-facto minimum wage (15% of 12 mil who now
work for less)^a

4.0 mil - 5.6% unemployment in 1962

5.8 mil

- 1.4 mil 2% estimate of frictional unemployment^b

4.4 mil

Total gross cost to the federal government \$16.12 bil
additional federal tax receipts \$5.2 bil
additional state and local tax receipts \$.2 bil
Total net cost to the federal government \$10.98 bil
Generates \$25.0 bil to GNP or additional 4.5% to GNP for 1962

Total employment

293 mil -hired in the program by the government
29 mil hired for administration by the government

1.8 mil additional employment generated in private sector

4.40

- a. The effects of a \$1.40 hourly minimum wage on those who now work for less is clearly uncertain. I have arbitrarily selected 15% level of resulting unemployment for demonstration purposes only. M.Douty found that 15% was the highest amount of resulting unemployment in any industry when the \$1.00 minimum wage was passed as stated in his article in the May 1960 issue of Economics. Douty's findings of unemployment varied among industries, from 3.2% to 15% unemployment, resulting from the minimum wage law. This program also would affect prices in a limited number of industries such as laundries, but the overall effect on prices in the economy would probably be very slight.
- b. While the 2% frictional unemployment figure is unsatisfactory, I have given what I would consider to be the minimum amount of frictional unemployment to maximize, for demonstration purposes, the costs to the government of instituting the suggested program. Unemployment has been considerably higher than 2% every year since World War II, ^{some of} which were considered full employment years. Arthur Okun (reference #5 in the Bibliograpgy) has used the 4% level for a full employment economy. Various other estimates have also been made of frictional unemployment, I assume the remaining figure for unemployment is high enough to include potential workers in the unemployment statistics. The bureau of the census estimates about 560,000 workers would enter the labor force

if jobs were easily available, but I doubt that many would be willing to work for only \$1.50 an hour.

As can be seen in the above statistics, the suggested program would cost the government about \$11 billion, and the program would generate an additional \$25 billion to GNP. Estimates of capacity GNP, assuming full use of presently unemployed or idle resources, are around \$30 billion greater in recent years than GNP was in fact in those years. If the estimates of capacity GNP are correct, then the program would have little if any effect on price stability. It seems very reasonable to expect that price stability would be maintained because many firms now are operating at much less than their potential capacity, and more important because the jobs created would be made especially for the presently unemployed, not for job skills of which there is presently a shortage of trained labor.

For some time people have been explaining the persistent high rates of unemployment and the prevalence of poverty on insufficient demand. If enough demand for goods could be created, then they assume full employment would exist. Liberal thinkers assume that the private sector of the economy will not by itself generate sufficient new jobs, and that therefore the government should create enough demand to cause full employment by deficit spending. If the same job creation multiplier from government purchases applies as the economy approaches full employment then it would cost the government about \$29 billion to have achieved full employment in 1962. The structural nature of the labor market however would suggest that the presently unemployed and

poverty stricken would not have the necessary skills to fill the newly created jobs with above poverty wage rates. Even if full employment were achieved at a cost of \$29 billion to the government (almost twice the cost of the suggested program), there would remain a large number of people living in poverty because of inadequate wages. In all likelihood it would cost the government much more. The minimum expected expenditure of \$29 billion would generate an increase in GNP of almost \$38 billion which probably would cause some degree of inflation, especially since most of the labor market demand would be for scarce trained workers, not for the plentiful unemployed and unskilled workers.

The moral implications of massive government expenditures are the same as the suggested program, but it would be much more costly and consequently less practicable. In both cases the end result would be more public goods. The difference is that government purchases of goods from the private sector indirectly refuses to admit the need for more public goods, and helps those least who most need to be helped. The suggested program of government employment on the other hand would allow those who have been left out of the affluent society to help in building a cleaner and more decent world for themselves and the rest of society to live in.

Milton Freedman's solution to the problem of unemployment and poverty is the negative income tax. According to Freedman all restrictions to free competition in the labor market should be eliminated, thus allowing wages to be competitively determined, thus insuring that each worker is paid the value of his

marginal product and that full employment exists. For those whose value of their marginal productivity is below some accepted minimum standard of living he would subsidize with a negative tax. The negative tax would be pro-rated so that the more the person earned, the greater his personal income. The justification is that poverty is morally wrong and that private charity is the best way to eliminate poverty. But since any one individual might not privately give unless everyone else did, government taxation of all the rich to subsidize the poor is the most efficient solution. Freedman argues that by pro-rating the amount of the negative tax, so that a person who earns more at his job will benefit by it, worker incentive to better himself will be maintained. The question is exactly what Freedman proposes to do. If he proposes to guarantee everyone a minimal decent standard of living regardless of their earnings, then there is no reason for a negative tax which by necessity, on a pro-rated basis would have to allow workers who earn anything to receive more than the minimal decent standard of living. In other words if the largest possible negative tax subsidy is the accepted minimal decent standard of living then any earnings above zero but below the pro-rated cut off point would add to the minimal standard of living. Such a scheme need not necessarily maintain worker incentive because under free competition, especially during recessions, wages in the lowest skill job categories may be so low that workers would rather do nothing and still be assured of their minimum standard of living. It is not certain, with many major industries being oligopolistic,

and highly automated that even during periods of normal prosperity full employment could be achieved. If the labor market is to be perfectly competitive without unions or minimum wage legislation, then so must industry be perfectly competitive, a feat much harder to achieve with large complex economies of scale than in the labor market. If Freedman instead advocates that the pro-rated negative tax cutoff is such that none would receive subsidization if they earned exactly the minimal accepted decent standard of living or more, then it follows that certain poor are not entitled to a decent standard of living. If a person were poorly educated and untrained because of the circumstances of poverty, then there would still be no way for him to escape poverty either for himself or his children who would become the next generation of poor.

Aside from the apparent inconsistency of Freedman's argument in favor of the negative tax, there are several moral or social criticisms which must be made. What Freedman advocates is essentially giving people something for nothing. Freedman refuses to accept the need of people to occupy themselves in a worthwhile manner. Charity, even when given by the government, robs a person of his dignity as a worthwhile human being, and of any incentive to better himself. A man who cannot adequately provide for his family and feels himself useless does not have hope. Hope for the future is the essence of incentive. Even if a worker's value of his marginal product were not what the government paid him under the suggested program, the monetary cost to the rest of society would ^{probably} be less than giving him a les-

ser amount of charity or welfare. Assuming that every worker has some positive value of his marginal product, what he produced while working for the government would very likely on the average be worth more than the difference between the guaranteed \$1.50 an hour and whatever he would otherwise have been given to exist. Even janitors earn about \$2.50 per hour. Freedman totally neglects the value of public goods to society which could be produced by the previously unemployed when hired by the government.

The opportunities of large scale permanent public employment are essentially unlimited. If people are guaranteed a job regardless of any circumstances, except possibly gross deviant behavior, then people have more time to become aware of their environment and their life. Consumer demands for public goods now expressed, but not widely shared, could conceivably be realized through the government employed workers. Everything from providing decent, clean housing in Harlem to irrigating the Nevada desert is within the realm of possibility. Even child care to help working mothers, or off season employment for part time workers such as those in agriculture could be provided. Capital intensive techniques need not be used, even for the largest projects, primarily because most of the workers would have very few job skills. The administration of the created jobs could be handled through state or local authorities which would allow communities to work for their own special needs. One of the major social problems of modern society is the lack of community and the alienation of the individual from the rest of

society. The lack of concern for other individuals in society is one of the major reasons why the poor have been totally neglected or treated in a most insufficient manner. If consumer demand can be changed to expect adequate worthwhile public goods for the enjoyment of everyone, then perhaps a feeling of community can be developed on a neighborhood, city, or even state level. Postage stamp parks or inadequate garbage collection, among the many correctable abuses in city life are not conducive to pride in, and a feeling of community.

As long as people believe ^{completely} in harsh competition and individual initiative or self help, then the individual is forced to defeat himself as a worthwhile human being in the struggle against his neighbor. No one has to compete for adequately provided public goods which serve to make everyone's life more beautiful. While skeptics are loathe to accept the economic predictions of "The Triple Revolution", they are even more loathe to accept the moral conclusions which the authors of "The Triple Revolution" propose. If skeptics cannot accept the moral implications of "The Triple Revolution", then it becomes very difficult for them to admit the correctness of the economic predictions which cannot yet be proved conclusively. If the social or moral logic behind the "Employment Act" is not to become meaningless platitudes, then the United States will have to make the moral and economic "Employment Act" a reality. If the authors of "The Triple Revolution" are even partially correct in their economic predictions then some sort of constructive government ^{economic} action similar to the program presented in this paper, in all good moral conscience, will have to become an accepted reality.

Footnote

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