

THE IMPACT OF ECONOMIC RECOVERY ON UNEMPLOYED **NONWHITE**
AND WHITE AMERICANS: A PRELIMINARY ASSESSMENT

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P R E F A C E

This paper examines the unemployment experience of white and **nonwhite** Americans during recent years (particularly during the current **recession**), and discusses alternative economic **re-**covery strategies that might affect the unemployment rates of whites and **nonwhites**. The paper was prepared at the request of Representative **Parren J. Mitchell**, Chairman of the House Budget Committee Task Force on Human Resource Programs.

This is the first of three studies undertaken by the Congressional Budget Office (**CBO**) to examine the causes and possible remedies to the problem of economic inequality between nonwhite and white Americans. The second study in the series will examine the costs and probable effectiveness of alternative policies and programs for reducing the differential in employment status between white and nonwhite workers over the next five to ten years, and will be completed in early 1976. The third study will explore broader policy strategies to move toward overall economic equality within one or two generations, and will be conducted in two phases. First, it will define measures of equality, such as employment, income, wealth, educational achievement and housing. Second, it will suggest and analyze alternative policies **to bring** about equality in these dimensions, and the inner relation between them. The third study will be undertaken in 1976.

In keeping with **CBO's** mandate to provide **nonpartisan** analysis of policy options, the report contains no **recommendations**. This paper was prepared by Edwin A. **Deagle, Jr.**, John W. **Ellwood**, Karl D. **Gregory**, Robert H. **Meyer**, and David S. **Mundel**, with the assistance of Nancy S. **Barrett**, James A. **Bick** and **Tricia Knapick**.

Alice M. **Rivlin**
Director

December 5, 1975

I. SUMMARY

Historically, **nonwhite** Americans have suffered higher unemployment than white Americans. Since the mid-1950s, when these data were first available, the gap between nonwhite and white unemployment rates has fluctuated between **2.9** and **6.8** percentage points. **The** variations in this gap are due both to changes in the labor market and to changes in the condition of the economy. It is difficult to determine which factor is more responsible for the gap. But since the United States is emerging from the deepest recession since the 1930s, it is important to know whether the path chosen for recovery from the recession will help to close this gap or make it worse.

The principal conclusion of this study is that the pace and extent of economic recovery in the next few years will affect not only the rates of unemployment for nonwhites and whites, but probably will also affect the gap between those rates. A moderate recovery strategy that would result in 6.6 percent unemployment by the end of 1978 is estimated to reduce both white and nonwhite unemployment rates, but it would not necessarily close the gap between those rates. A **faster** recovery strategy that would result by 1978 in **4.5** percent unemployment would reduce nonwhite and white unemployment rates further; it is estimated to narrow the difference between them by as much as **0.5** to **2.5** percentage points by the end of 1978. The faster recovery ~~strategy~~ would increase the federal budget deficit for 3 years; it would also raise the rate of inflation by an estimated 1 percentage point in 1978.

The current recession has imposed a severe unemployment burden on all Americans, but as in the past, it has affected nonwhites more

severely than whites. While the average national unemployment rate was 8.4 percent in the third quarter of 1975, unemployment for nonwhite adult males was 11.5 percent; for nonwhite adult females, 11.8 percent; and for nonwhite teen-agers, 36 percent (see Table 1, below).

TABLE 1
UNEMPLOYMENT RATES BY RACE, SEX AND AGE
DURING THE CURRENT RECESSION*

DEMOGRAPHIC GROUP	Unemployment Rate (In percent)	
	1973:IV	1975:III
All	4.7	8.4
Adult Males	3.1	6.9
White	2.8	6.4
Nonwhite ^{1/}	11.5	11.5
Adult Females	4.7	7.7
White	4.2	7.0
Nonwhite ^{1/}	8.1	11.8
Teen-agers (16-19)	14.3	19.8
White	12.8	18.0
Nonwhite ^{1/}	28.3	36.0
All White	4.3	7.7
All Nonwhite	8.6	13.8

^{1/} Negro and other races of whom 89 percent are Negro. See Employment and Earnings: October 1975, U.S. Department of Labor, Bureau of Labor Statistics, p. 161.

*Seasonally adjusted quarterly rates: U.S. Department of Labor, Bureau of Labor Statistics, News, October 14, 1975.

Moreover, discouraged workers (those who leave the labor force because they believe jobs are unavailable, and who are therefore not counted among the unemployed) are disproportionately black. Thus, while the unemployment rates for whites and nonwhites in the fall of 1975 were 7.7 and 13.8 percent respectively (a gap of 6.1 percentage points), the percentages of unemployed adjusted to include discouraged workers were 8.7 and 16.4 percent (a gap of 7.7 percentage points). These figures exclude the effects of underemployment due to involuntary part-time work and employment below a worker's skill level.

Changes in the Gap Between Unemployment Rates over Time; A Cyclical Pattern for Adults and a Steady Increase for Teen-agers

The gap between unemployment rates for nonwhite and white males (age 20 and older) fluctuated cyclically from 1954 to 1962, with no conclusive long-term trend. From 1962 to 1970 the gap began to close, due to prolonged economic expansion and to other factors. Since 1970, the pattern for adult males appears to be cyclical, dominated by the effects of the current recession that reversed the gains of the 1960s.

For adult females (aged 20 and older) the pattern of the unemployment gap was also caused mainly by cyclical movements of the economy. This gap was smaller from 1954 to 1962 than the gap for adult males, began to close from 1962 to 1970 (though not as dramatically as for adult males), and began to widen again during the 1970s (though, again, not as much as the gap widened for adult males).

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 white and nonwhite

adult males or females and has widened steadily over time. **The** gap is approximately 18 percentage points today. **Cyclical** movements of the economy do not tend to moderate this very strong trend.

Changes in the Gap During Recessions
and Recoveries; A Consistent Pattern

Unemployment rates of **nonwhites** and whites in four recent recessions have behaved differently for adult **males**, adult females and teen-agers, but the pattern in every recession has been the same for each group. During the 1954, 1958, 1961 and 1971 recessions the gap between **nonwhite** and white unemployment widened rapidly during the economic downturn, and closed somewhat during recovery. **The** gap was almost always wider at the end of the recession than it was at the **beginning**.

The degree to which the gap closed **during** economic recovery varied for the three groups. For adult males, the recovery tended to narrow the gap substantially (although not as rapidly as the gap opened during the **recession**). For adult females, recovery contributed somewhat less to closing the gap caused by the downturn. For teen-agers, recovery did virtually nothing to reverse the persistent long-term widening of the gap.

The Current Recession; Consistent With Past Patterns

The gap between nonwhite and white unemployment has grown from 4.3 percentage points in the fourth quarter of 1973 to 6.1 percentage points in the third quarter of 1975, a change that is consistent with **develop-**ments in the four previous recessions. In that same **period**, the gap for adult males has grown from 2.6 to 5.1 percentage points; for adult **fe-**males, from 3.9 to 4.8 percentage points; and for **teen-agers**, from 15.5 to 18 percentage **points**.

Alternative Economic Recovery Paths Have Different Effects on
The Gap Between Nonwhite and White Unemployment Rates

Two alternative recovery paths are projected to show their effect on white and nonwhite unemployment rates. (See Table 2.) The moderate recovery path is based on a consensus of recent forecasts about what will happen to the economy in the near future. Extrapolations through 1978 are based on growth rates consistent with experience of the past 25 years. This path would reduce unemployment to 6.6 percent by the end of 1978 and to 5.9 percent by 1980. A faster recovery path reduces unemployment to 4.5 percent by the end of 1978, at an estimated cost of about 1 percentage point of additional inflation in 1978 and 1.5 percentage points in 1980.

TABLE 2

PROJECTED RANGE OF SELECTED UNEMPLOYMENT RATES
FOURTH QUARTER, 1978

	Alternative Macroeconomic policies	
	Faster Recovery Strategy 1978:IV	Moderate Recovery Strategy 1978:IV
Unemployment Rate (in percent)		
Total	4.5	6.6
Nonwhites ^{1/}	8.0-8.8	11.4-12.2
Whites	3.9-4.1	5.8-6.0
Difference between nonwhite and white unemployment rates (in percentage points)	3.9-4.9	5.4-6.4

^{1/} Negro and other races, 89 percent of whom are Negro. See Employment and Earnings: October 1975, U.S. Department of Labor, Bureau of Labor Statistics, p. 161.

SOURCE: The unemployment rates and differentials were estimated by CBO, assuming a continuation of recent historical patterns. The levels of the nonwhite and white unemployment rates relative to the national unemployment rates were reviewed and particularly for recent periods when the national rate approached those projected for both recovery paths. The estimates were also compared to the mid-points produced in two models using microsimulation modeling of the labor market at the unemployment rates of 4 and 5 percent at 1978:IV. The microsimulations were made available to CBO by The Urban Institute.

The faster recovery strategy is estimated to reduce unemployment rates for **nonwhites** and whites further, and narrow the gap between them more than will a moderate recovery strategy, as shown in Figure 1.*

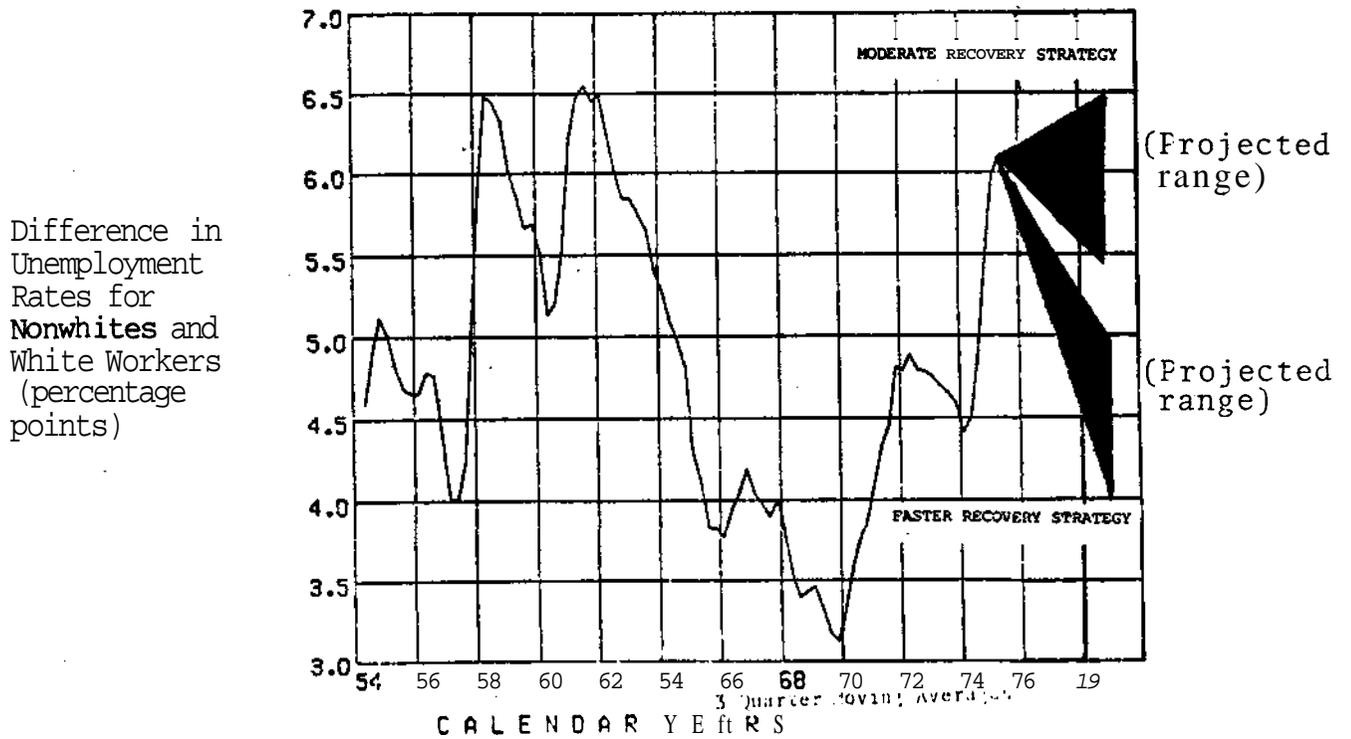
Regardless of which recovery path is followed, certain patterns are likely to emerge. First, the effects of the recovery probably will be stronger and probably will take place earlier for whites **than** for nonwhites. **Second**, recovery probably will benefit **teen-agers--particularly nonwhite teen-agers--least**, and it will not moderate the gradual widening of the gap for teen-agers. **Third**, recovery is not likely to narrow the gap between nonwhite and white adult females.

Finally, recovery will have a stronger impact for all groups than is reflected in the reduction of unemployment rates. Recovery expands the size of the labor force. Some of the new jobs will be filled by discouraged workers who return to the labor force, a development of particular importance for **nonwhites**.

It must be emphasized that these conclusions are very tentative, since it is not clear whether recovery from this recession will follow the pattern of previous recessions. Changes in the composition and operation of the labor market and the unusual severity of this recession may make comparison with past patterns hazardous.

* The unemployment rate numbers quoted in the text do not match numbers plotted in the figures. In the text all numbers are actual rates for each quarter. In the figures, **however, a three-quarter** moving average of the unemployment rates is plotted to facilitate visual display. Numbers are computed for each quarter by averaging the quarterly unemployment rate for that period with the rates for the preceding and subsequent quarters.

FIGURE 1
 DIFFERENCES IN **NONWHITE AND WHITE UNEMPLOYMENT RATES**
 ACTUAL AND PROJECTED, 1954 - 1978



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

II. NONWHITE AND WHITE UNEMPLOYMENT

The unemployment rate is one indicator of work status

The unequal work status of nonwhite and white **Americans** continues to be a focus of national attention and debate. Measurement of work status inequality among **nonwhites** and whites involves a large number of indicators, **including:**

- o labor force participation ~~rate~~ **proportion** of the working age population that is either employed or looking for work.
- o unemployment rates -- the percentage of the labor force (those employed or looking for work) who remain out of work.
- o discouraged worker rates - the percentage of individuals who wish to work but have stopped looking for work, believing they will fail to find a job.
- o underemployment rates -- the percent of the labor force involuntarily working part-time or beneath their skill levels.
- o wages, **income**, and fringe benefits
- o working conditions

A comprehensive effort to measure the work status of population groups and the impact of policy alternatives on work status should include an examination of each of these indicators. This study, **however**, concentrated on the effects of alternative economic recovery patterns on one dimension of work **status--unemployment**. The second of this series of CBO studies of the levels and determinants of nonwhite and white work status will examine additional indicators and other kinds of programmatic responses.

The costs of unemployment are significant and a source of social concern. Workers discouraged by a lack of jobs **may** leave the work force for long periods of time. Others who might otherwise have entered the labor force may postpone entry. Output is lost to society as a whole. Not only are income tax revenues foregone, but also there are cost increases for income assistance programs that support unemployed workers and their families. **On-the-job** training and skill development stop for unemployed workers; existing skills may decline.

The unemployment rate is a complex **indicator**. Its components include the frequency of unemployment (spells of unemployment per work year); the duration of unemployment (length of time per **spell**); and the size of the work force. A change in any of these factors will influence the measured unemployment rate, so a constant rate may conceal counterbalancing shifts among the factors. The determinants of the unemployment rate vary among demographic groups and are influenced differently by **macroeconomic** policies and conditions.

The unemployment rates of **nonwhite** and **white** Americans are unequal and varying

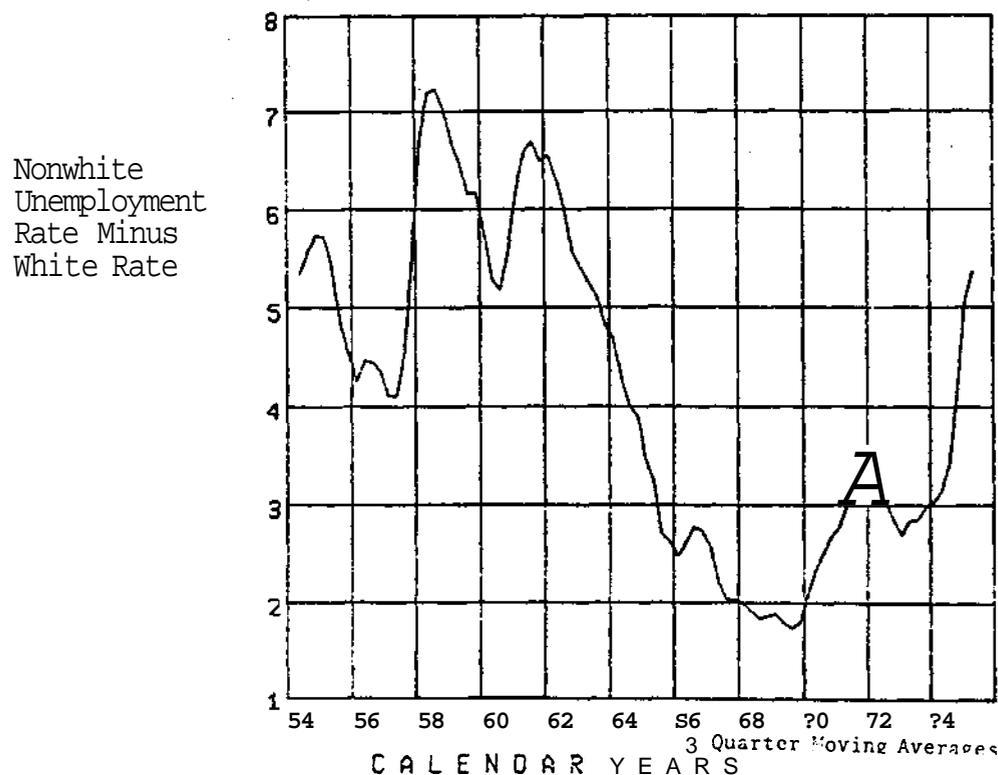
Over the last 20 years, the unemployment rates of most groups of whites and **nonwhites** have shifted considerably. For adult males, the white unemployment rate has varied between 6.6 and **1.8** percent; the nonwhite unemployment rate has varied between 13.9 and 3.6 percent; and the gap between the rates (that is, the difference, in percentage **points**, between nonwhite unemployment rates and white unemployment rates) has been between 7.8 and 1.6 **percent**.* The **nonwhite-white**

* Quarterly averages of seasonally adjusted monthly rates. Sources: 1973:3 to 1975:3--U.S. Dept. of Labor, Bureau of Labor Statistics, *News*, October 14, 1975. 1954:1 to 1973:2--Data Resources, Inc. data bank. See **Appendix** Figures A-1 and A-4 for detailed patterns of these unemployment rates and the ratio of nonwhite to white unemployment rates.

unemployment gap among adult males appears to have fluctuated from 1954 to 1962 in response primarily to cyclical changes in the economy, although the general trend during that period appears to have been slightly upward (as illustrated in Figure 2). From 1962 to 1970 the gap narrowed substantially. This may reflect the effect of the prolonged economic expansion of that period, improved access to the labor market for **nonwhite** males, the implementation of the Civil Rights Act of 1964, relative stability in the ratio of **nonwhites** to the total adult male labor force, and

FIGURE 2

NONWHITE-WHITE UNEMPLOYMENT GAP: ADULT MALES
(IN PERCENTAGE POINTS)



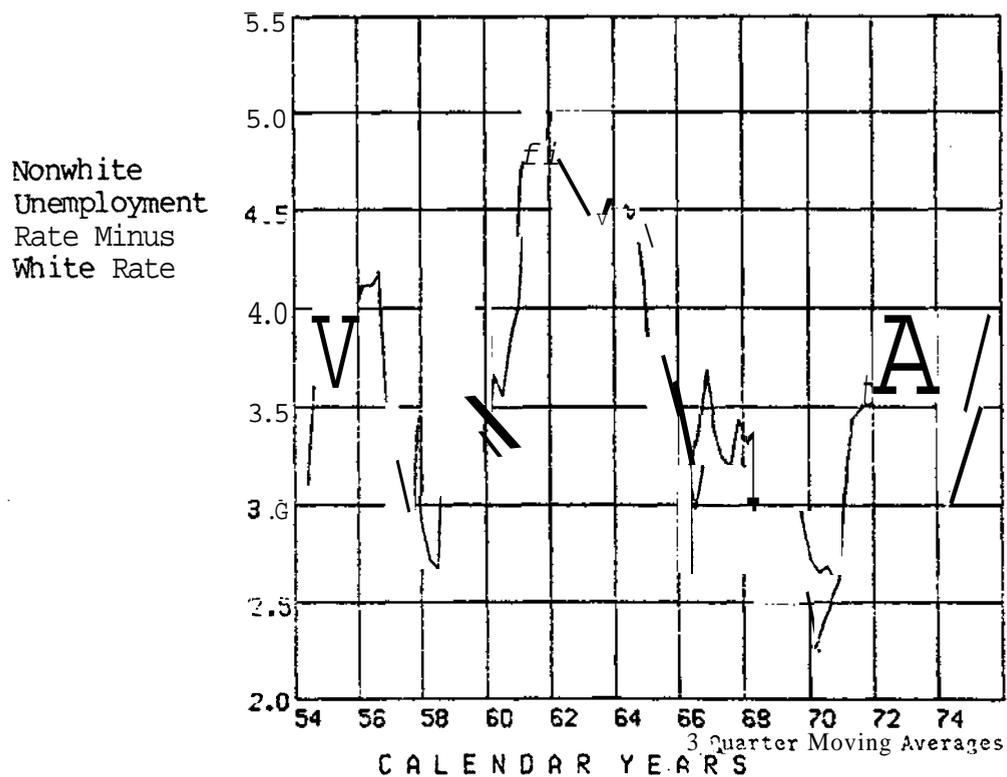
SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

other factors. The current recession has reversed these gains; the gap for adult males has returned to the levels of the mid-1950s. In addition, the recent decline in the labor force participation of nonwhite males may make the unemployment rate an understatement of the extent to which nonwhite males are without jobs. The gap between the unemployment rates of nonwhite and white adult males is illustrated in Figure 2.

For adult females, the pattern of unemployment rate changes has been somewhat different. The white unemployment rate has fluctuated between 8.0 and 3.2 percent, while the nonwhite rate has fluctuated between 11.8 and 5.4 percent.* The gap between the unemployment rates of nonwhite and white adult females has tended to be less than the gap between the unemployment rates of their male counterparts, except during the late 1960s. During this period, the difference between the nonwhite and white female unemployment rates followed essentially the same declining trend as did the difference between the male rates. No long-term trend is apparent. The gap between the unemployment rates of nonwhite and white adult females is illustrated in Figure 3.

* Quarterly averages of seasonally adjusted monthly rates. Sources: 1973:3 to 1975:3--U.S. Dept. of Labor, Bureau of Labor Statistics, *News*, October 14, 1975. 1954:1 to 1973:2--Data Resources, Inc. data bank. See Appendix Figures A-2 and A-5.

FIGURE 3

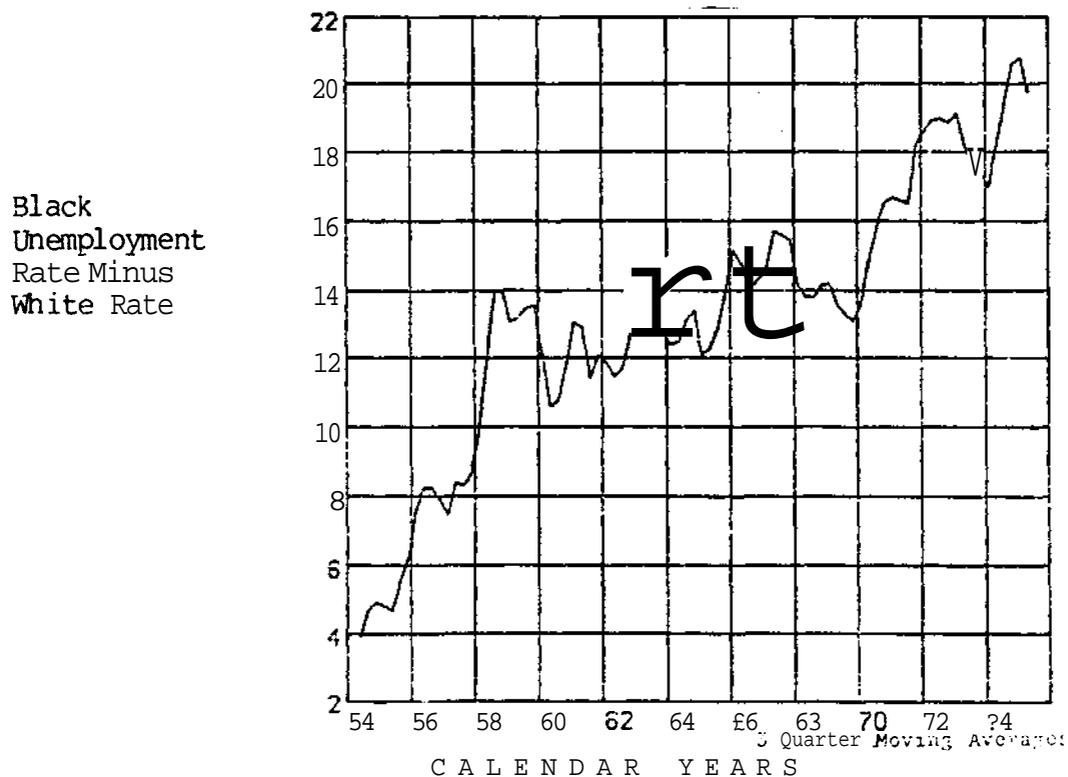
NONWHITE-WHITE UNEMPLOYMENT GAP: ADULT FEMALES
(IN PERCENTAGE POINTS)

SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

The teen-age unemployment rates for both nonwhites and whites have remained considerably above those of adults. The white teen-age unemployment rate has varied between 18.3 and 9.1 percent and the nonwhite rate has varied between 39.8 and 13.5 percent.* The gap between nonwhite and white teen-age unemployment rates has widened steadily over time, as shown in Figure 4.

FIGURE 4

NONWHITE-WHITE UNEMPLOYMENT GAP: TEENS
(IN PERCENTAGE POINTS)



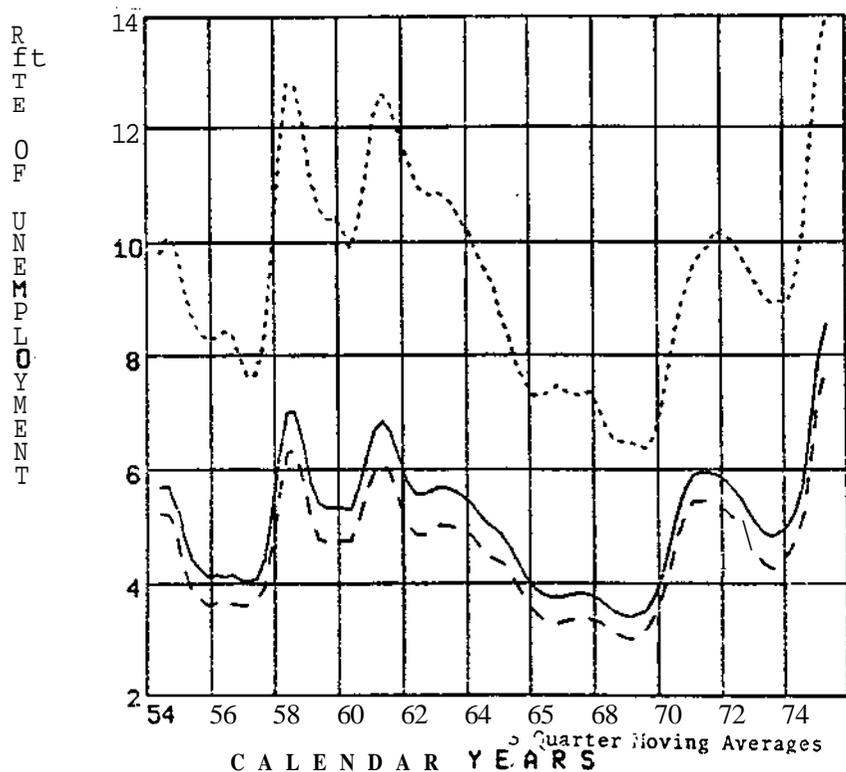
SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

* Quarterly averages of seasonally adjusted monthly rates. Sources: 1973:3 to 1975:3—U.S. Dept. of Labor, Bureau of Labor Statistics, *News*, October 14, 1975. 1954:1 to 1973:2—Data Resources, Inc. data bank. See Appendix Figures A-3 and A-6.

Because of changes in the age and sex distribution of the labor force over time, the aggregate unemployment rates of **nonwhites** and whites and the gap between these rates vary in a way somewhat differently from the patterns for each group. Figures 5 and 6 illustrate this behavior. The unemployment rate has fluctuated between 8.2 and 3.0 percent for whites and 14.3 and 6.3 percent for nonwhites, and the gap between the **nonwhite** and white rates has fluctuated between 6.8 and 2.9 percent.*

FIGURE 5

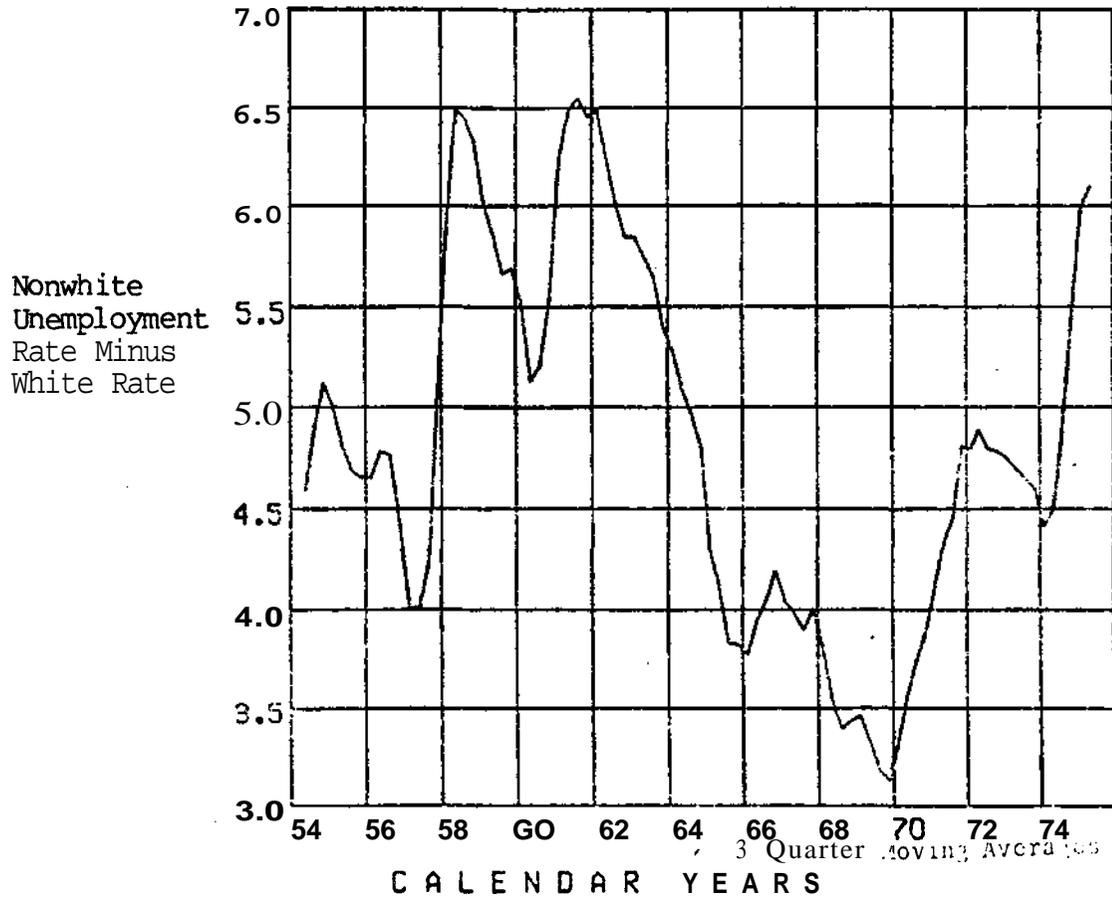
UNEMPLOYMENT RATES—TOTAL (SOLID), WHITE (DASHES), AND NONWHITE (DOIS)
(IN PERCENTAGE POINTS)



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

* Quarterly averages of seasonally adjusted monthly rates. Sources: 1973:3 to 1975:3--U.S. Dept. of Labor, Bureau of Labor Statistics, News, October 14, 1975. 1954:1 to 1973:2--Data Resources, Inc. data bank.

FIGURE 6

NONWHITE-WHITE UNEMPLOYMENT GAP
(IN PERCENTAGE POINTS)

SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

III. UNEMPLOYMENT OF NONWHITES AND WHITES
DURING SWINGS IN THE ECONOMY

Patterns of economic cycles in general

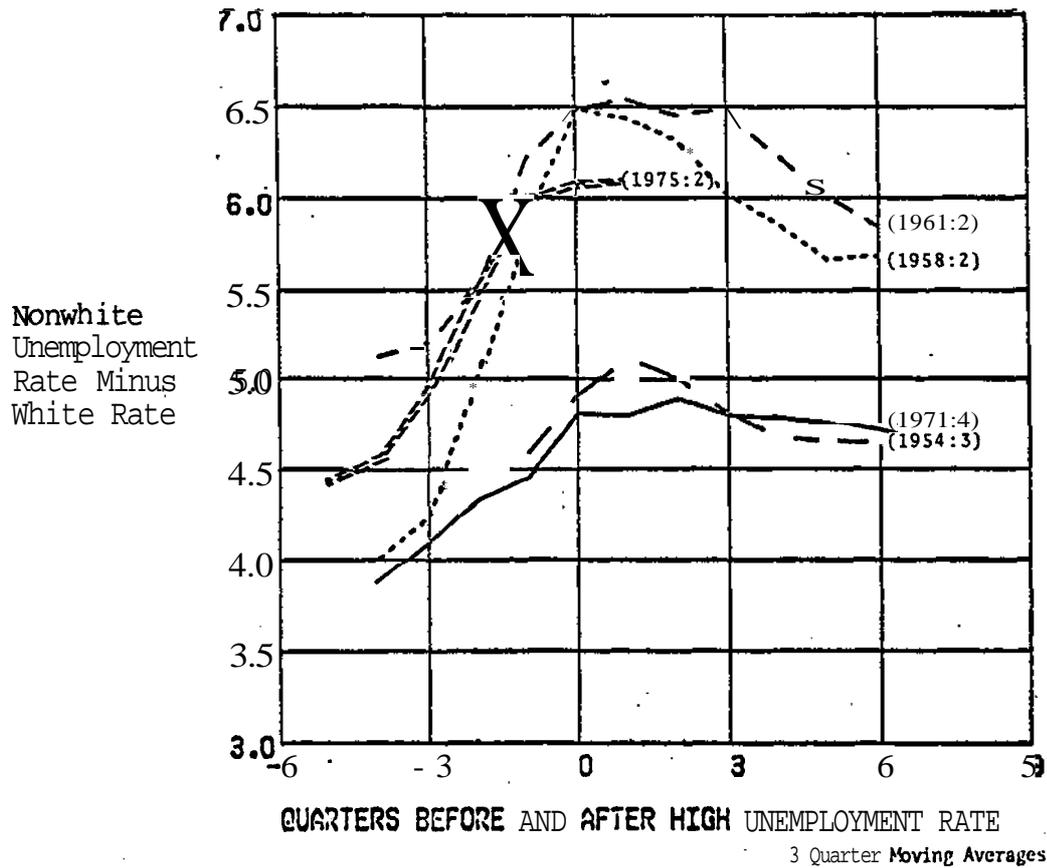
Recessions and recoveries affect **nonwhite** and white unemployment rates differently, in terms both of the timing and of the magnitude of unemployment rate changes. The effects on the unemployment rates of particular sex and age groups also differ.

In **general**, the gap between nonwhite and white unemployment rates has widened rapidly during recessions and narrowed slowly during recoveries. This pattern results from several factors. **Nonwhites** are more likely to be newcomers to the work force and, thus, more likely to be laid off if seniority rules dominate layoffs. Nonwhites are also located disproportionately in lower skill occupations; recessions reduce the employment of these workers more rapidly and dramatically than of others. The distribution of **nonwhites** among industrial sectors also makes them more likely to be affected by cyclical swings of the economy.

Every recession since 1954 has affected the gap between nonwhite and white unemployment rates in a similar fashion, as shown in Figure 7. ~~How-~~ever, the effect on the gaps for population subgroups has differed substantially. The gap between the unemployment rates of nonwhite and white adult males has fallen **significantly** during the **first** six recovery quarters in the 1954, 1958, and 1961 recessions. Most of the decrease occurred only one or two quarters after the recovery began. A similar pattern was evident in the most recent recovery (1971:IV), although the reduction in the unemployment gap was less pronounced than in previous recoveries. This may be attributed to the fact that the 1971-1972 recovery began from a

FIGURE 7

NONWHITE-WHITE UNEMPLOYMENT GAP FOR POSTWAR ECONOMIC RECOVERIES
(IN PERCENTAGE POINTS)

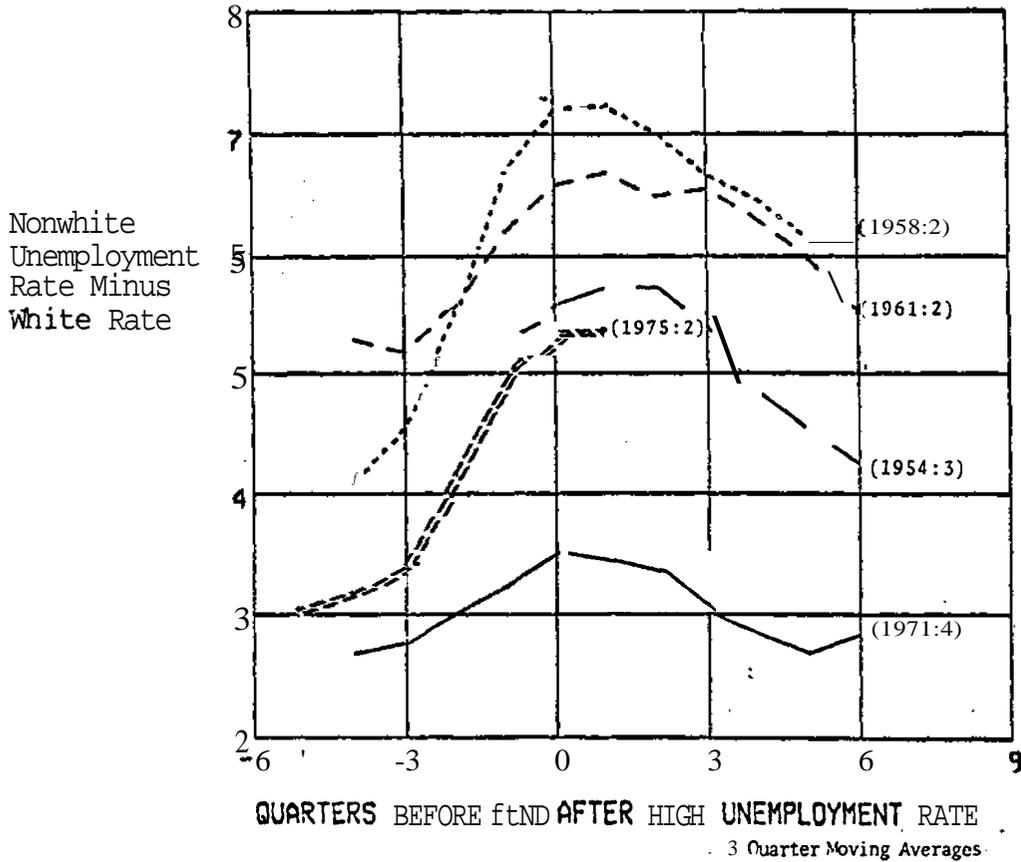


SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

total unemployment rate peak that was lower and that the recovery proceeded more slowly than previous recoveries. These patterns are illustrated in Figure 8.

FIGURE 8

NONWHITE-WHITE UNEMPLOYMENT GAP: MALES FOR POSTWAR ECONOMIC RECOVERIES
(IN PERCENTAGE POINTS)



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

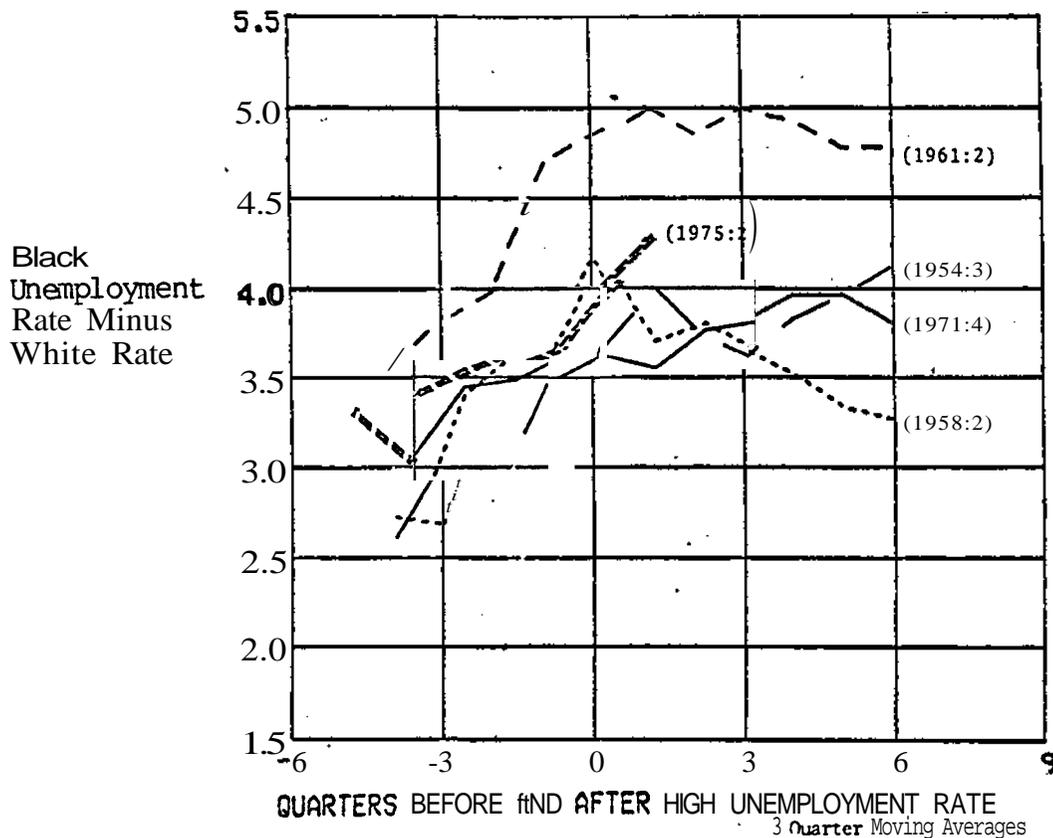
The cyclical effect on the unemployment gap for adult females was substantially different. In general, postwar recoveries reduced the nonwhite-white gap for adult females only slightly. Only in the recovery after the 1957-58 recession did the unemployment gap narrow significantly, and that narrowing amounted to less than a 1 percentage point.

In the other **recessions**, the gap between the **nonwhite** and white adult female unemployment rates remained more or less constant for the first six quarters of the recovery.

The size of this gap has been quite similar in three of the last four recoveries. Only in the recovery that followed 1961-62 was the size different, and then it was much wider, as shown in Figure 9.

FIGURE 9

NONWHITE-WHITE UNEMPLOYMENT GAP: FEMALES FOR POSTWAR ECONOMIC RECOVERIES
(IN PERCENTAGE POINTS)

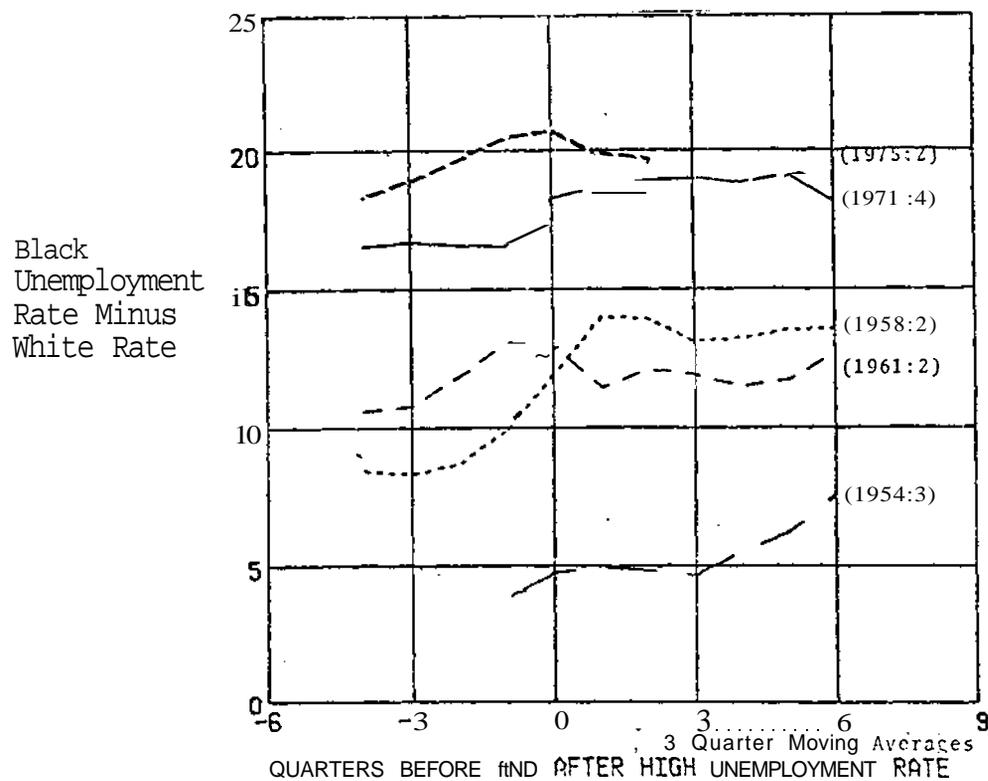


SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

Of all of the cyclical patterns, those for **teen-agers** portray the most startling and unambiguous findings. Figure 10 shows the **nonwhite-white** unemployment gap in each of four recoveries. **The** recovery that commenced in **1954:III** (the earliest one) has the smallest **gap**, ranging from 3 to slightly over 7 percentage points. The next two cycles (1958 and 1961) fall in between, and the largest gap was in the 1971 recovery, when the gap between **nonwhite** and white **teen-agers** ranged between 16 and 19 percentage points. This illustrates the long-term trend toward larger

FIGURE 10

NONWHITE-WHITE UNEMPLOYMENT GAP: TEENS FOR POSTWAR ECONOMIC RECOVERIES
(IN PERCENTAGE POINTS)



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

gaps between the **unemployment** rates of **nonwhite** and white teen-agers. The gap widened throughout each cycle, although it seemed to stabilize at a high level during the second through the sixth quarters after the recovery began. **The** 1975 gap is also very wide, although the pattern appears somewhat different.

Nonwhite-white unemployment during
the current recession

As shown in Figures 7-10, the current recession has increased the gap between nonwhite and white unemployment rates in a manner similar to that observed in earlier recessions. **While** the total unemployment rate has increased from 4.7 percent to **8.4** percent between the fourth quarter of 1973 (**1973:IV**) and the third quarter of 1975 (**1975:III**), the unemployment rates of whites and **nonwhites** have increased from 4.3 to 7.7 percent and 8.6 to 13.8 percent **respectively**.* **When** discouraged workers are **con-**sidered, the effect is even more dramatic. **The** jobless rates for whites and nonwhites in **1975:III** were 8.7 and 16.4 percent, respectively, as shown in Table 3.

* Source: Bureau of Labor Statistics, News, October 14, 1975.

TABLE 3
 UNEMPLOYMENT RATES BY RACE, SEX AND AGE
 DURING THE CURRENT RECESSION

DEMOGRAPHIC GROUP	Unemployment Rate* (in percent)		Jobless Rate** (in percent)
	1973:IV	1975:III	1975:III
All	4.7	8.4	9.5
Adult Males	3.1	6.9	NC***
White	2.8	6.4	
Nonwhite <u>1/</u>	5.4	11.5	
Adult Females	4.7	7.7	NC
White	4.2	7.0	
Nonwhite <u>1/</u>	8.1	11.8	
Teen-agers (16 - 19)	14.3	19.8	NC
White	12.8	18.0	
Nonwhite <u>1/</u>	28.3	36.0	
All Whites	4.3	7.7	8.7
All Nonwhites	8.6	13.8	16.4

1/

Negro and other races of whom 89 percent are Negro. See Employment and Earnings: October 1975, U.S. Department of Labor, Bureau of Labor Statistics, p. 161.

* Computed from seasonally adjusted Bureau of Labor Statistics News data, op. cit.

** Defined for each demographic grouping as the unemployed plus discouraged workers divided by the labor force plus discouraged workers.

*** Not computed.

IV. ALTERNATIVE PATHS TO ECONOMIC RECOVERY

Unemployment is currently well above 8 percent of the labor force; inflation, as measured by the Consumer Price Index, is in the range of 7 to 8 percent. Because the recession has been unusually deep, a return to full employment in 1978 could be achieved only by adoption of a highly expansionary fiscal and/or monetary policy. To bring the unemployment rate down to 4.5 percent by the end of 1978 would require an average annual growth rate of real Gross National Product in the neighborhood of 7.5 percent. A more moderate recovery strategy, on the other hand, with real growth averaging about 5.5 percent would leave the unemployment rate in the 5 to 7 percent range until 1980.

Because the high rates of inflation that have persisted through the recession were triggered largely by higher food and fuel prices, it is unlikely that even a sustained period of high unemployment will restore complete price stability within a few years. Even on a slow recovery path, inflation rates may run as high as 5 percent into 1980.

It is difficult to predict the inflationary consequences of a more rapid return to full employment. On the one hand, if the full-employment target is not overshoot, a case could be made that added inflationary pressures would be moderate as long as there is unemployment and unused capacity. Unemployment rates even below 4.5 percent have been consistent with low inflation rates in the past. On the other hand, the psychological consequences of adopting a new, highly expansionary fiscal strategy are uncertain, and one cannot rule out the possibility of a new round of price increases that could be set off by inflationary expectations.

TWO recovery options are shown in Table 4. In the faster recovery strategy, unemployment for calendar year 1978 averages 4.8 percent with unemployment falling to 4.5 percent by the fourth quarter of 1978 and remaining there through 1980. **This** could add 1 percentage point to the inflation rate by 1978 and about 1.5 percentage points by 1980. As ~~men-~~tioned **earlier**, the effects of rapid growth on the unemployment rate are easier to gauge than the effect on prices. In the moderate recovery strategy, the full employment goal is not reached by 1980, although inflation is still estimated to be in the 5 to 7 percent range.

Various fiscal policy alternatives, shown in Table 4, were simulated to achieve 4.5 percent unemployment by the end of 1978 and to remain there through 1980.* Policy alternatives include personal tax cuts, increases in government purchases, and a combination of the two. The required amount of additional fiscal stimulus in 1976 is relatively **small**, since projected growth on the basis of current fiscal policy is fairly high. **However**, current policy projections show reduced growth in 1977, suggesting the need for a much larger additional stimulus at the beginning of 1977 to keep moving toward full employment. In 1978, slight reductions in outlays or increases in taxes are needed to slow the rate of growth and prevent excessive fiscal stimulus at full employment.

The rapid recovery strategy would require larger budget deficits. The size of the additional deficit would depend on the **expenditure/tax** package selected, since tax cuts stimulate the economy less on a dollar-for-dollar basis than do additional government outlays. In the combined

* The substance of this report focuses on **fiscal** rather than monetary policy, since the budget process involves decisions about fiscal policy. This is not meant to suggest that monetary policy is not important or that fiscal and monetary policy are not interrelated.

TABLE 4
UNEMPLOYMENT, INFLATION, AND GROWTH FOR ALTERNATIVE RECOVERY PATHS

		1976	1977	1978	1979	1980
UNEMPLOYMENT RATE (Percent)	Faster Recovery	7.0	5.5	4.8	4.5	4.5
	Moderate Recovery	7.5	7.1	6.7	6.3	5.9
REAL GNP (Annual rate of change) (Percent)	Faster Recovery	8.4	8.4	5.8	4.1	4.0
	Moderate Recovery	6.8	5.0	5.0	5.0	5.0
CONSUMER PRICE INDEX (Annual rate of change) (Percent)	Faster Recovery	7.2	6.6	7.1	6.8	6.5
	Moderate Recovery	7.0	5.9	6.0	5.5	5.0
POLICY ALTERNATIVES FOR FASTER RECOVERY*		1976: I	1977: I	1978: I	1979: I	1980
I.	TAX CUT ONLY Change in Taxes (\$ billions)	-35	-60	0	0	0
II.	INCREASED GOVERNMENT PURCHASES ONLY Change in Government Purchases (\$ billions)	+20	+45	+12	- 5	0
III.	COMBINED FISCAL STRATEGY Change in Taxes (\$ billions)	-10	-10	0	0	0
	Change in Government Purchases (\$ billions)	+14	+38	+10	- 3	0

* These policies are in addition to those implied by the First Concurrent Resolution on the Budget. This means extension of the Tax Reduction Act of 1975 (except for the rebates) and an extrapolation of recent trends in outlays. Monetary policy is assumed to be less than fully accommodative for the expansionary strategy. Tax changes were simulated through rate changes even though dollar amounts are shown.

strategy, for instance, discretionary increases in the deficit would amount to \$24 billion in 1976, \$48 billion in 1977 and \$10 billion in 1978. It must be **noted, however**, that faster recovery will have an off-setting effect on the **deficit** through higher tax receipts and lower payments for unemployment compensation and other transfers. **These** budget savings are likely to offset about half the discretionary increases in the deficit. Further, a more accommodating monetary policy would also reduce the effect on the **deficit** of a faster recovery option because less spending would need to be generated.

It should be emphasized that the estimates in Table 4 are based on assumptions about past statistical relationships that may not hold in this particular recovery. Further, outside events could occur that are not accounted for here. At best, the fast recovery alternative is an indication of a set of economic growth rates that would bring the economy to full employment by the end of 1978. (Other time paths are also feasible.) The fiscal policy alternatives presented are very rough estimates of the timing and orders of magnitude of tax and outlay changes that would be required to produce the growth pattern shown.

V. EFFECTS OF ALTERNATIVE RECOVERY PATHS
ON NONWHITE AND WHITE UNEMPLOYMENT

The principal differences between the unemployment effects of a moderate recovery strategy and a faster recovery strategy are the speed with which the aggregate unemployment rate declines and the level of the unemployment rate reached. As noted **earlier**, estimates of the level of the unemployment rate year by year from 1976 to 1980 are subject to a considerable range of error. It is also difficult to predict how each recovery path will affect unemployment rates for particular age/sex groups, because of changes in the composition and dynamics of the labor force and the unusual severity of the current recession. Nonetheless, the pattern of the unemployment rate during past recoveries (modified in light of changing labor force participation and recent developments in discouraged worker rates) may generally apply to the recovery from the current recession.

Shifting from a moderate recovery strategy to the faster recovery strategy may result in a reduction in the unemployment rate of about 2 percentage points by the end of 1977, 2 percentage points by the end of 1978, and perhaps 1.5 percentage points by 1980. These figures mean that shifting to the faster recovery strategy will create about 3 million more jobs each year until full employment is reached. The unemployment rates of both **nonwhites** and whites would fall. Discouraged workers would also become employed, or would rejoin the labor force and be counted as part of the officially unemployed. Since **nonwhite** adult males and females are disproportionately represented among discouraged workers, their reentry into the work force would slow the

decline in unemployment rates for those groups as recovery **proceeds**. However, the gains from recovery for both groups would still be real, and the effect of the discouraged **workers'** reentry **would** be to understate the magnitude of recovery, just as it understates the magnitude of losses in recession.

Table 5 summarizes the predicted effects of the alternative recovery paths on **nonwhite** and white unemployment rates in the fourth quarter of 1978. Aggregate unemployment would fall to **4.5** percent under the faster recovery strategy, while the moderate recovery strategy would leave the rate at 6.6 percent. Nonwhite unemployment would be approximately **8.4** percent under the faster recovery path and 11.8 percent under the moderate recovery path. White unemployment would be **4.0** percent in **1978:IV** under the faster recovery strategy and 5.9 percent if the moderate recovery option were followed. Most importantly, it is estimated that the gap in nonwhite and white unemployment rates would be reduced to a range of 3.9 to 4.9 percentage points under the faster recovery strategy and 5.4 to 6.4 percentage points under the moderate recovery strategy (as compared with the **1975:III** gap of 6.1 percentage **points**).

These estimates are derived from examining the patterns of unemployment that occurred during previous periods when aggregate unemployment was **4.5** percent and **6.6** percent. If the unemployment rates of population subgroups follow the paths found in previous recoveries, the gap between the rates of nonwhite and white adult males will narrow more slowly than it widened during the recession. Similarly, the gap between the females rates will narrow only marginally and the gap for teen-agers will remain roughly the same.

TABLE 5

PROJECTED RANGE OF SELECTED UNEMPLOYMENT RATES
FOURTH QUARTER, 1978

	Alternative Macroeconomic Policies	
	Faster Recovery Strategy 1978:IV	Moderate Recovery Strategy 1978:IV
Unemployment Rate (in percent)		
Total	4.5	6.6
Nonwhites ^{1/}	8.0 - 8.8	11.4 - 12.2
Whites	3.9 - 4.1	5.8 - 6.0
Difference between nonwhite and white unemployment rates (in percentage points)	3.9 - 4.9	5.4 - 6.4

^{1/} Negro and other races, 89 percent of whom are Negro. See Employment and Earnings; October 1975, U.S. Department of **Labor**, Bureau of Labor Statistics, p. 161.

SOURCE: The unemployment rates and differentials were estimated by CBO, assuming a continuation of recent historical patterns. The levels of the nonwhite and white unemployment rates relative to the national unemployment rates were reviewed and particularly for recent periods when the national rate approached those projected for both recovery paths. The estimates were also compared to the mid-points produced in two models using **microsimulation** modeling of the labor market at the unemployment rates of 4 and 5 percent at 1978:IV. The **microsimulations** were made available to CBO by The Urban Institute.

APPENDIX A

Selected Unemployment Rates, 1954-74

(Figures A-1 to A-3)

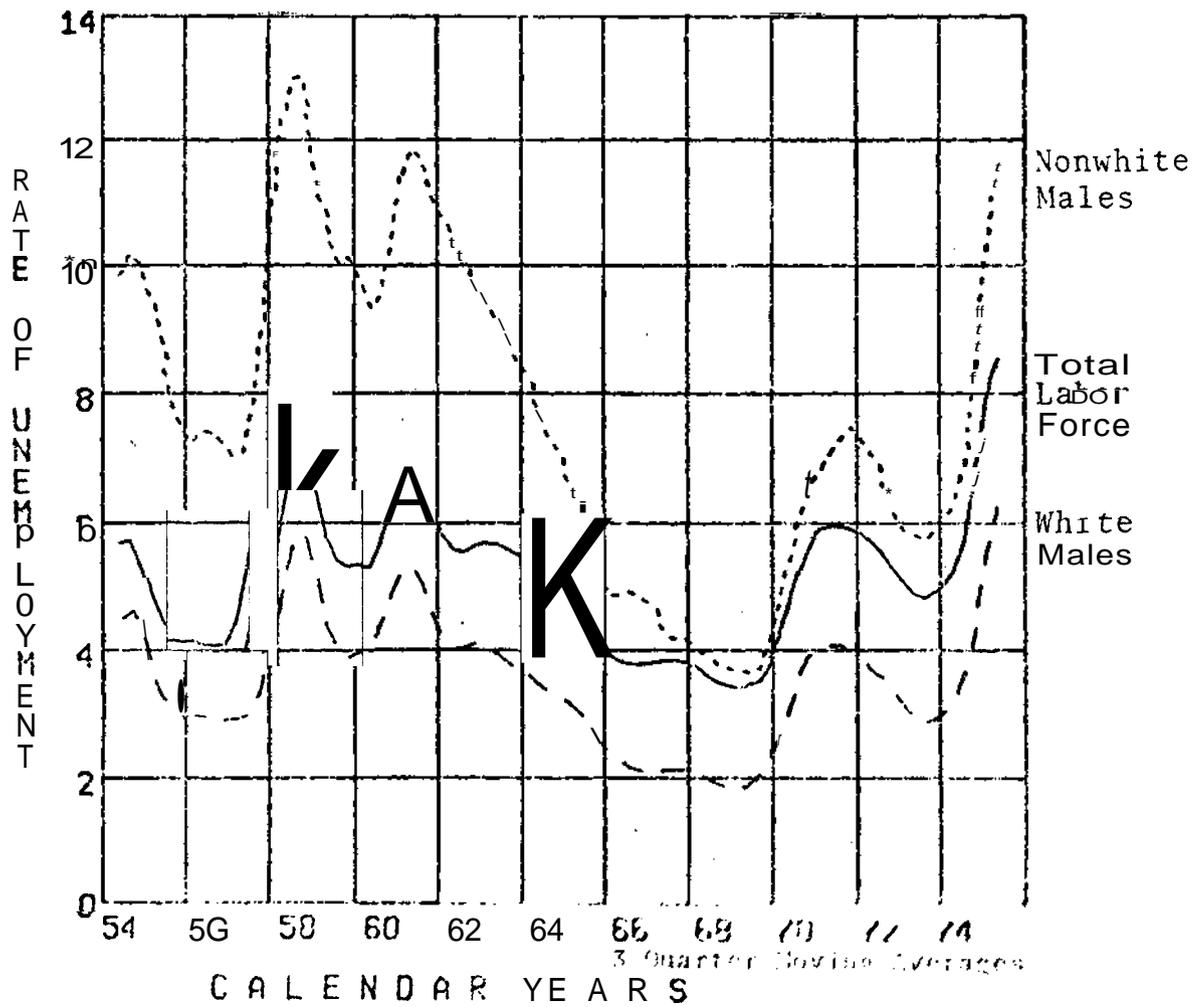
Selected Ratios of **Nonwhite** to White
Unemployment Rates, 1954-1974

(Figures A-4 to A-7)

FIGURE A-1

NONWHITE-WHITE UNEMPLOYMENT RATES
FOR POSTWAR ECONOMIC RECOVERIES

ADULT MALES



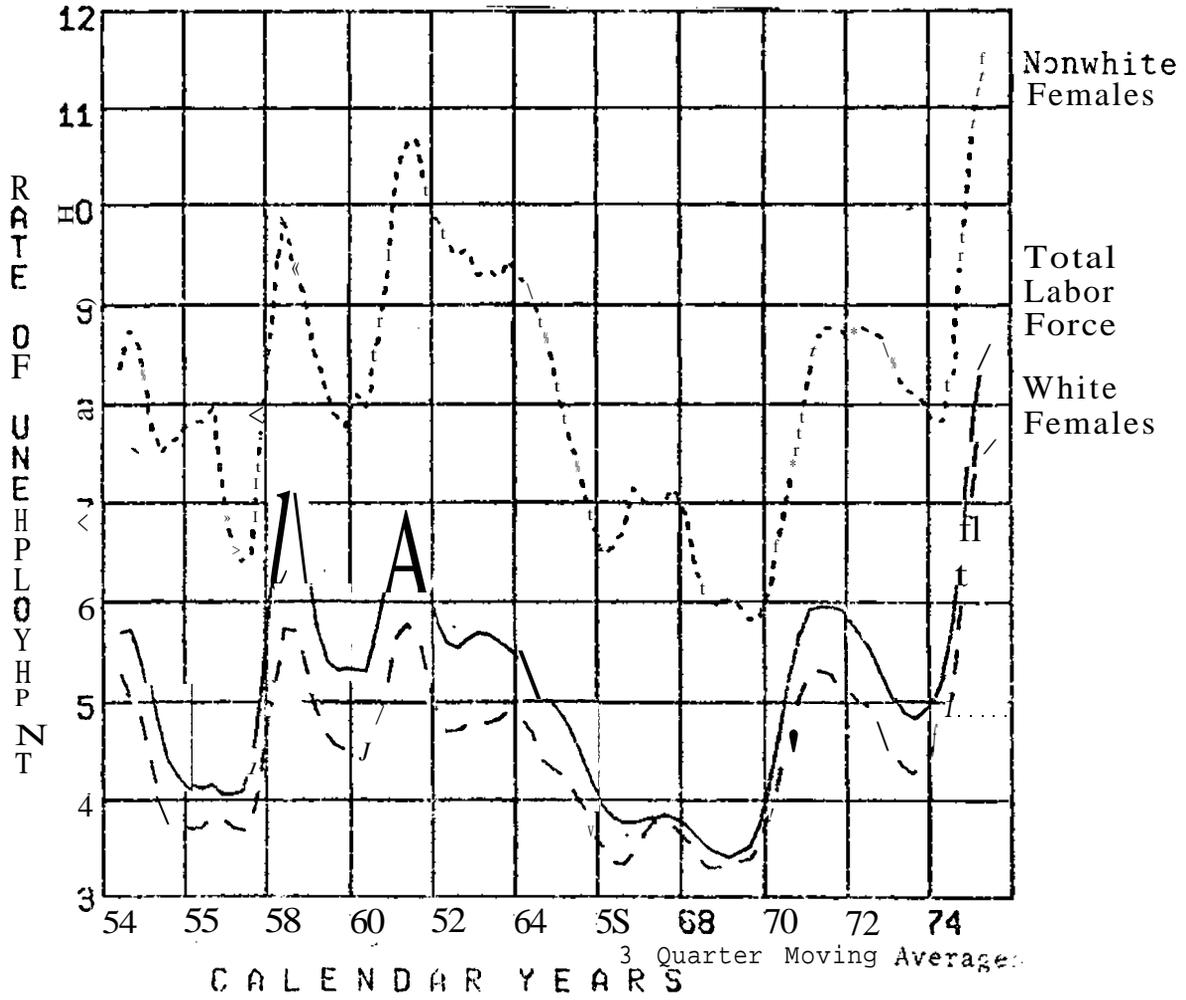
SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

FIGURE A-2

NONWHITE-WHITE UNEMPLOYMENT RATES

FOR POSTWAR ECONOMIC RECOVERIES

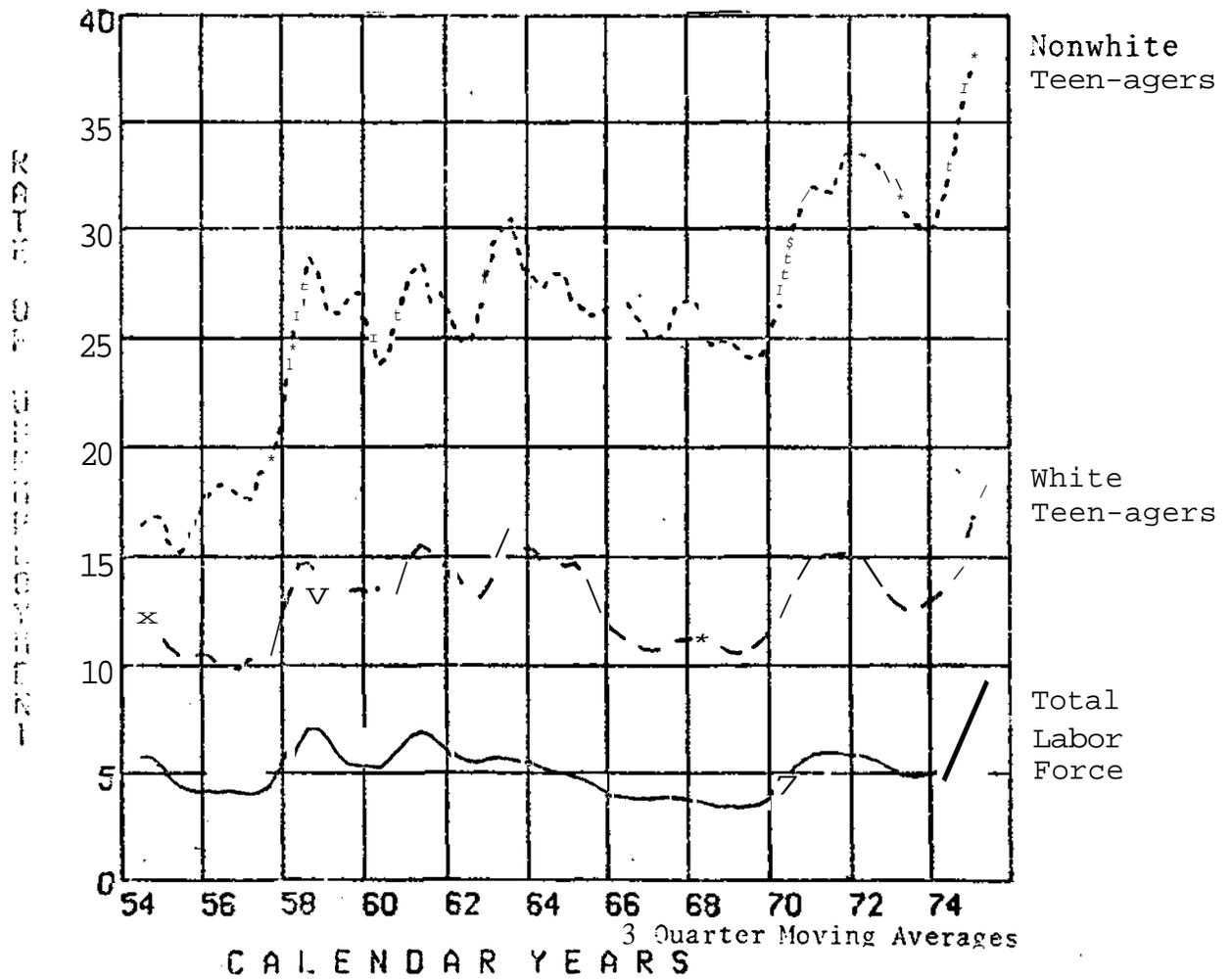
ADULT FEMALES



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

FIGURE A-3

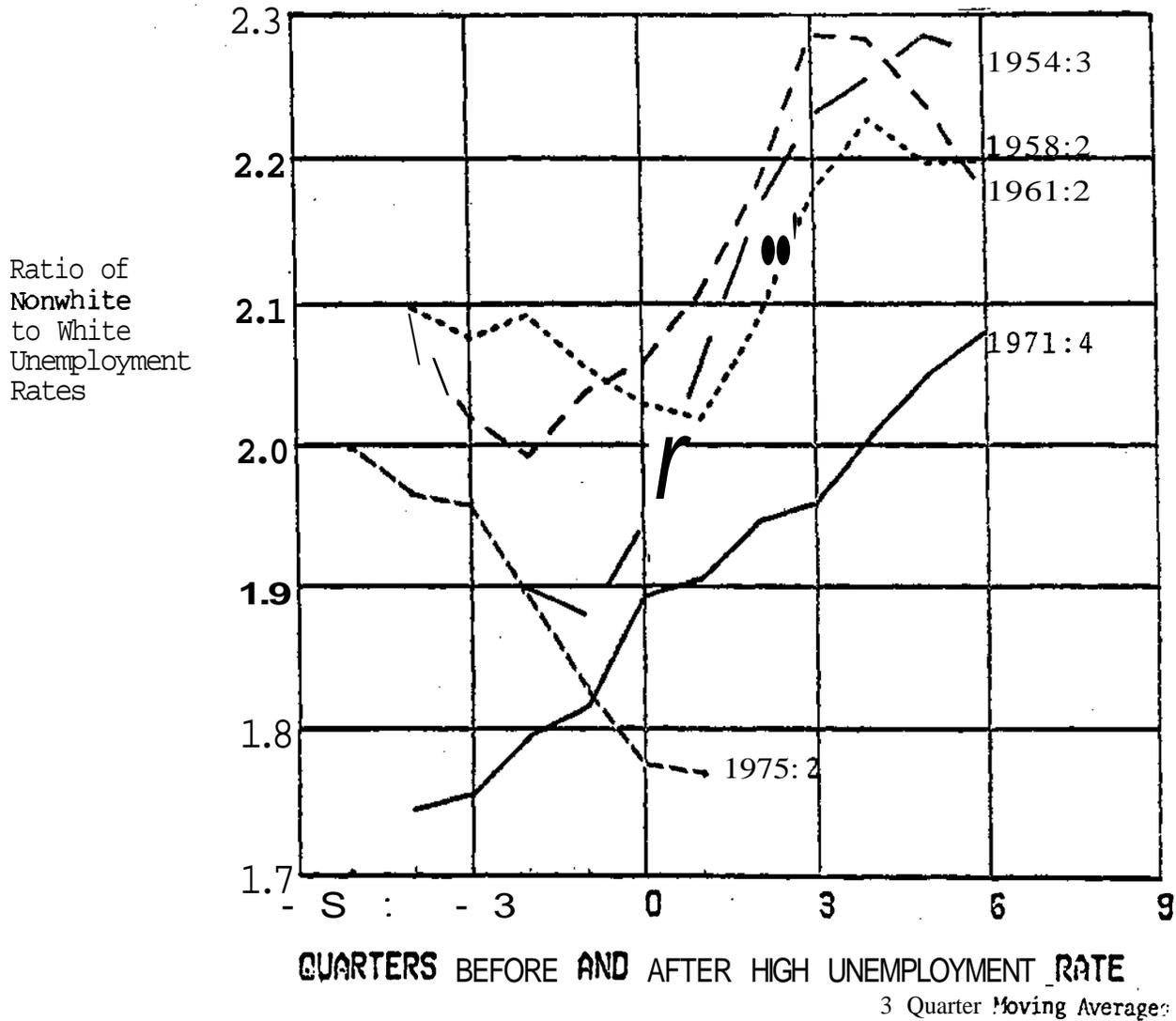
NONWHITE-WHITE UNEMPLOYMENT RATES
FOR POSTWAR ECONOMIC RECOVERIES
TEEN-AGERS (16-19)



SOURCE: CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data.

FIGURE A-4

NONWHITE-WHITE UNEMPLOYMENT RATIOS
FOR POSTWAR ECONOMIC RECOVERIES



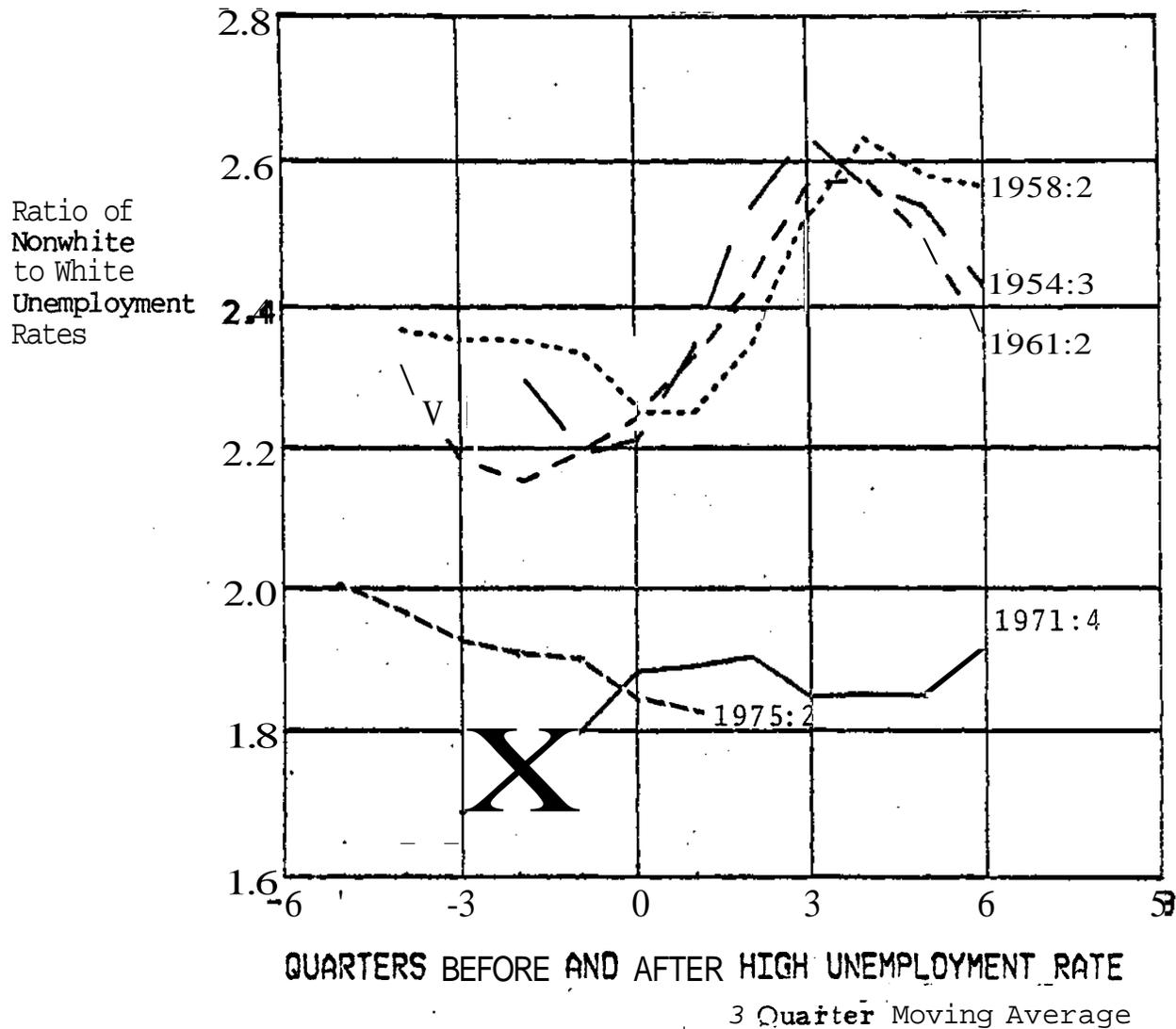
SOURCE: Dates refer to quarter of peak unemployment rate. CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data. 1975 figures are CBO calculations from Bureau of Labor Statistics data.

FIGURE A-5

NONWHITE-WHITE UNEMPLOYMENT RATIOS

FOR POSTWAR ECONOMIC RECOVERIES

ADULT MALES



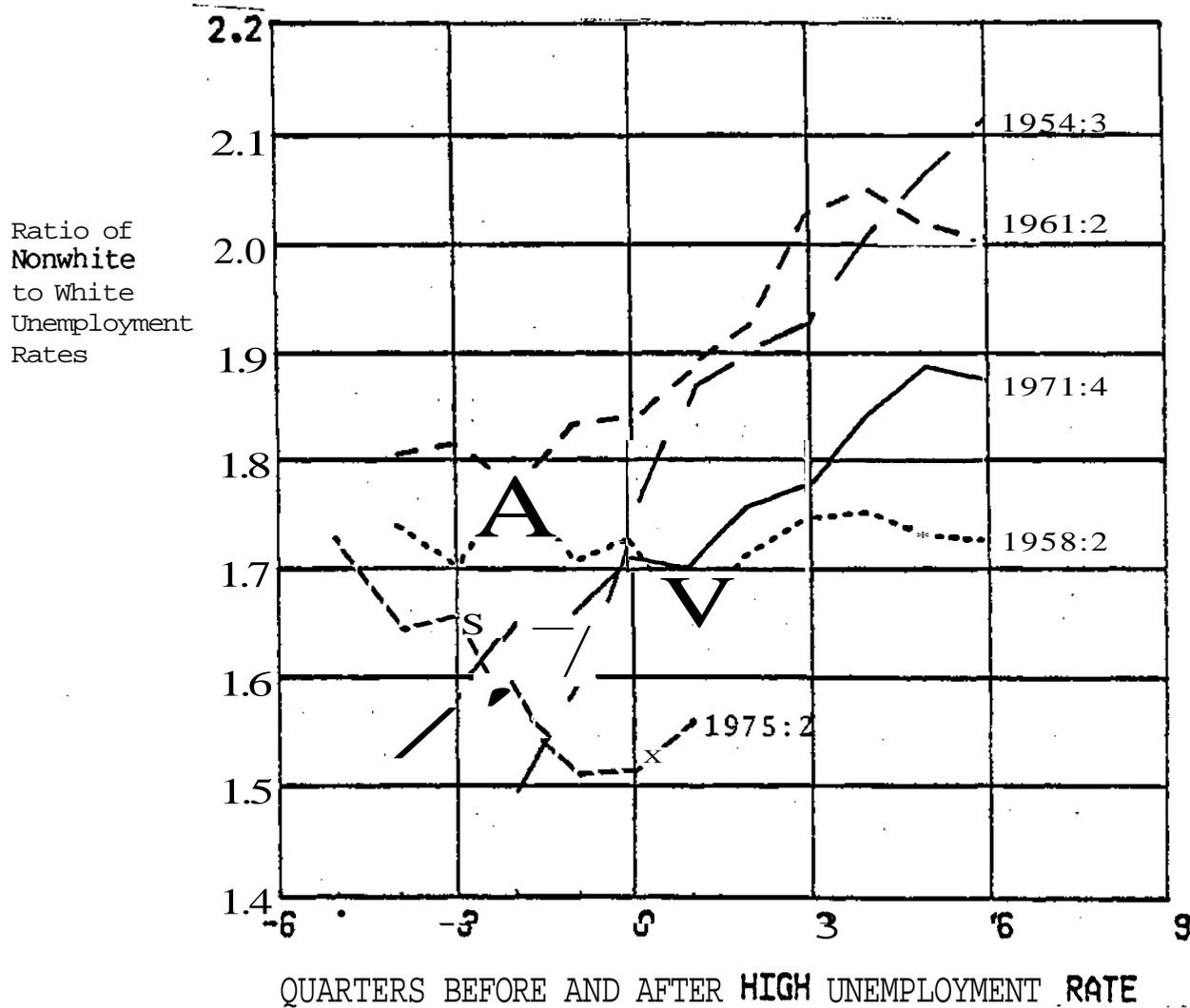
SOURCE: Dates refer to quarter of peak unemployment rate. CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data. 1975 figures are CBO calculations from Bureau of Labor Statistics data.

FIGURE A-6

NONWHITE-WHITE UNEMPLOYMENT RATIOS

FOR POSTWAR ECONOMIC RECOVERIES

ADULT FEMALES



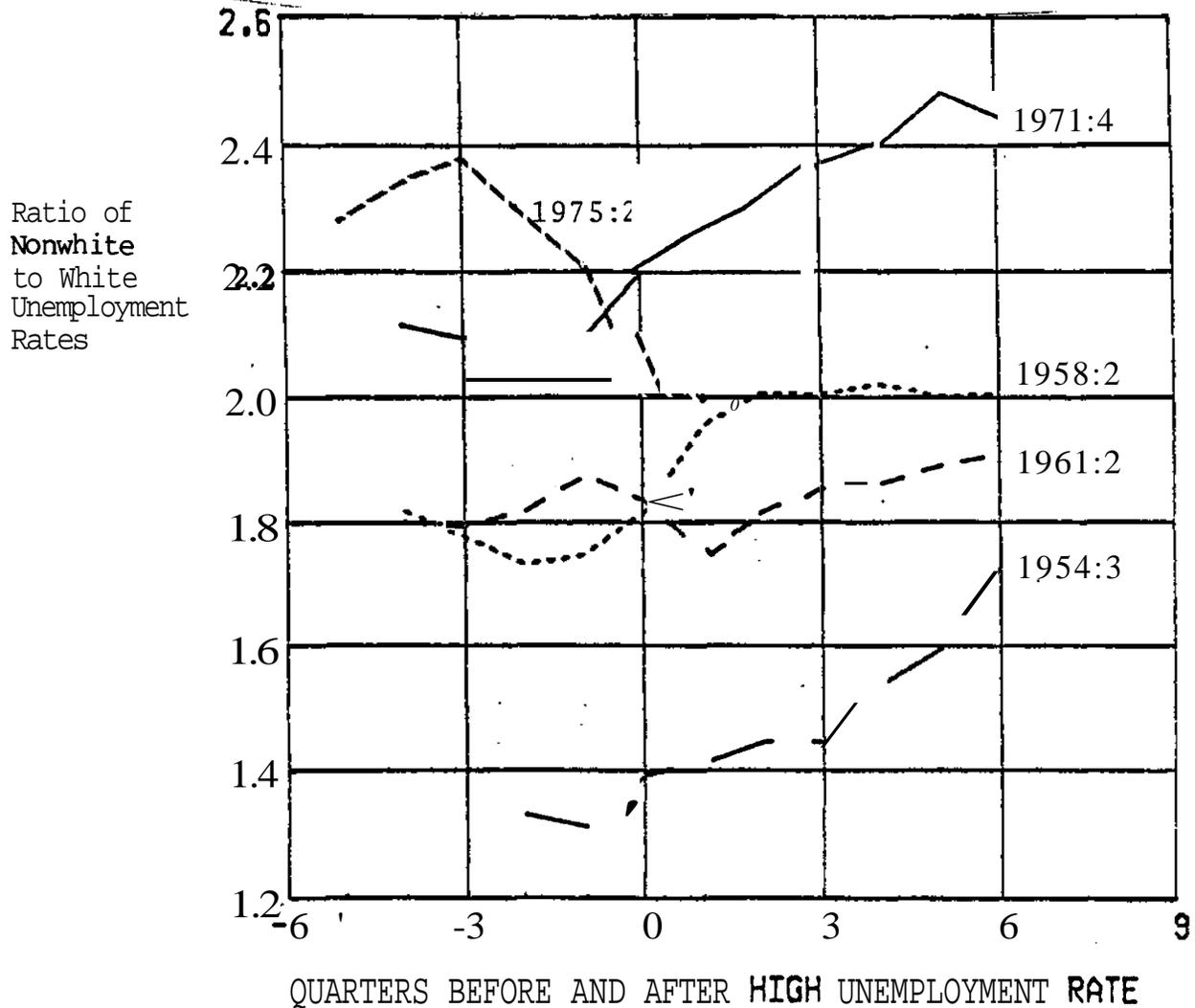
SOURCE: Dates refer to quarter of peak unemployment rate. CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data. 1975 figures are CBO calculations from Bureau of Labor Statistics data.

FIGURE A-7

NONWHITE-WHITE UNEMPLOYMENT RATIOS

FOR POSTWAR ECONOMIC RECOVERIES

TEEN-AGERS (16-19)



3 Quarter Moving Averages

SOURCE: Dates refer to quarter of peak unemployment rate. CBO calculations from Data Resources, Inc. data bank, based on Bureau of Labor Statistics data. 1975 figures are CBO calculations from Bureau of Labor Statistics data.