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DISPLACED WORKERS: A ROLE FOR THE FEDERAL GOVERNMENT?

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INTRODUCTION

National industrial policy enthusiasts continually raise the disquieting prospect that the U.S. is being transformed into a nation of hamburger cooks and computer jocks--that middle-skilled industrial workers will go the way of stagecoach drivers as their jobs are pulled from underneath them. Indeed, Bob Kuttner, a frequent economics writer for the Atlantic Monthly, warns that:

> [the] country's future as a middle class society is in jeopardy....As the economy shifts away from its traditional manufacturing base to high-technology and service industries, the share of jobs providing a middle-class standard of living is shrinking.[1]

Nothing could be further from the truth.

According to the scenario laid out by such economists, the growing "dualism in the labor force" (meaning many workers with very low or very high skills, and few workers with medium-grade skills) will result in traditionally well-paid production workers being forced to (1) accept low-skill and low-paying jobs, (2) become wards of the welfare state, or (3) retrain for high-skill jobs at great personal expense. As a result, continues this

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1 Bob Kuttner, "The Declining Middle," Atlantic Monthly, July 1983, p. 60.

scenario: U.S. competitive capitalism will lose the large middle class needed to consume its products; workers will be easily exploited by their employers, since many of the "new jobs" will be nonunion; the nation will gradually become peopled with the "permanently displaced"; and the employed citizenry will have to shoulder ever greater tax burdens to finance retraining programs.

Before accepting this element of the industrial policy argument and jumping onto the retraining bandwagon, Congress should reevaluate carefully the economics of federally funded retraining programs--not of programs for the hard-core unemployed, but those for the hardworking, reasonably well paid Americans who find themselves in what are thought to be declining industries. The central issue in such a reevaluation should be the wisdom of further federal intrusion into the retraining process of workers.

Both supporters and opponents of industrial policy are concerned about people who suffer during recessions and industrial transformation, especially when that suffering is the inescapable by-product of an anti-inflation policy--as during the recent recession. Where proponents and opponents of national industrial policy generally disagree is over the appropriate solution to this distress. Being long on emotion and short on appreciation of the market process, proponents tend to assert that social justice can be pursued directly through legislation and more federal spending. As a general proposition, opponents contend such a policy course will most likely achieve the opposite--more injustice and social mischief.

This second view stems, in part, from an analysis of the data on displaced workers, but even more from the conceptual arguments underpinning the current political drive for more federal taxes and dollars to retrain displaced workers. For the debate, at its core, is not about numbers. It concerns what to do about displaced workers, and probably would have been joined even if the number of displaced workers were half what it is, or if federal funding of retraining programs were doubled or quadrupled. The debate is fundamentally about the assignment of responsibility for relief of social ills, and the escalating tendency of people to seek public, rather than private, relief for observed social ills. In short, it is about how much can government really be expected to accomplish in relieving social problems.

The problem of displaced workers, of course, does not stand alone. The political agenda is crowded with competing claims on the limited revenues of government. Any argument for government action that does not recognize the competing claims, and the limited capacity of government to do good, is hardly worthy of sober consideration. Interest groups, nonetheless, continue to proliferate in Washington and to press the federal government to spend more money on their causes. By narrowly focusing their attention, these groups fail to acknowledge that merely citing a social ill is no justification for a claim on federal government revenue. The case for federal action ultimately must be made in the context of competing claims, and each interest group must demonstrate that its claim is more worthy than the claims of others.

THE EMPIRICAL CASE

The case for more federal government involvement in worker training and retraining programs can be attacked on both empirical and conceptual grounds.

The Structure of Employment

As proof of the decaying job structure in the U.S., statistics are usually cited on the hundreds of thousands of jobs expected for salesclerks, cashiers, janitors, typists, and stockhandlers during the 1980s. Kuttner, for instance, claims that:

> According to the most recent comprehensive forecasts of the Bureau of Labor Statistics, released in 1982, the economy will generate some 19 million new jobs between 1980 and 1990, about 3.5 million of which will be 'professional and technical.' Low-wage service and clerical work will account for almost 7 million new jobs.[2]

The presumed decay of the skilled sector is further illustrated, contends Kuttner, by the list of job openings in Table 1, reprinted from his article. Since so many menial jobs are being created, the reader is invited to conclude that America must be turning into a low-skilled workforce.

Boston College economics Professor Barry Bluestone, on whom Kuttner relies for scholarly support, compounds the confusion over the future job structure by asserting that:

> A dramatic transformation in the structure of the entire national job distribution is responsible for an extreme mismatch between the skills and income needs of displaced workers and the skill requirements and wage levels of the new jobs.[3]

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2 Ibid., p. 62.

3 Barry Bluestone, "Industrial Dislocation and the Implications for Public Policy," a paper prepared for the Third Annual Policy Forum on Employability, Development entitled, "The Displaced Workers Problem: Implications for Training and Educational Institutions," sponsored by the National Institute of Education and the National Center for Research in Vocational Education, Washington, D.C., September 12-13, 1983.

Table 1

Job Openings in 1980

Job Category	Openings, 1980
Retail Clerks	757,750
Managers and administrators (not elsewhere classified)	711,793
Cashiers	617,973
Secretaries (not elsewhere classified)	599,216
Waiters and waitresses	465,628
Cooks (except private household)	437,341
Stockhandlers	358,393
Janitors and sextons	333,309
Bookkeepers	304,789
Miscellaneous clerical workers	299,940
Nursing aids and orderlies	284,332
Child-care workers, private household	277,525
Building-interior cleaners	295,528
Typists	250,276
Truck drivers	245,377

Source: Bob Kuttner, "The Declining Middle," Atlantic Monthly, July 1983, p. 62.

Circumstances are so "extreme," according to Bluestone, that only government expenditures on worker training can pull the U.S. back from the brink of economic disaster.

This line of argument, however, is based on a warped perception of reality. Advocates of greater government expenditures, such as Kuttner and Bluestone, fail to point out that the hundreds of thousands of new jobs for clerks and janitors will be added to an already large workforce of clerks and janitors, meaning that the percentage change in these categories of workers will not be particularly significant--no more future Americans, in other words, will be forced to become clerks and janitors than are now. These writers also fail to point out that during the last two decades manufacturing employment in the U.S. has remained more or less level, after adjusting for the normal cyclical swings in the economy, at about 20 million. And they ignore the forecast, made by the Bureau of Labor Statistics, that manufacturing employment will grow--not decline--at an average annual rate of 0.8 percent.

Table 2 shows that the structure of the U.S. labor force in 1990 will likely be little different from what it was in 1980. Granted, nearly 3 million manufacturing jobs were "lost" during the recent recession. But as Brookings Institution Senior Fellow Robert Lawrence has argued, dips in manufacturing jobs historically

Table 2

The Distribution of the Work Force, 1979 and 1990

	Average annual Change 1979-1990 (%)	Actual Distribution 1979 (%)	Projected Distribution 1990 (%)
TOTAL EMPLOYMENT	1.4	100.0	100.0
GENERAL GOVERNMENT	0.6	15.9	14.8
Federal	0.3	4.1	3.6
Military	0.0	2.0	1.7
Civilian	0.7	2.0	1.9
State and Local	0.7	11.8	11.2
Education	-0.5	6.4	5.3
Noneducation	1.8	5.4	5.9
TOTAL PRIVATE	1.5	84.1	85.2
Agriculture	-2.3	2.7	1.9
Nonagriculture	1.6	81.4	83.2
Mining	1.5	0.7	0.8
Construction	0.5	5.8	5.7
Manufacturing	0.8	20.6	19.2
Durable Goods	1.0	12.5	11.9
Nondurable Goods	0.3	8.1	7.3
Transportation Communications Public Utilities	1.1	5.3	5.1
Wholesale and Retail Trade	1.7	21.5	22.2
Finance, Insurance and Real Estate	2.8	5.3	5.7
Other Services	2.7	19.4	21.8
Government Enterprise	1.8	1.4	1.4
Private Households	-0.1	1.7	1.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, Economic Projections to 1990, Bulletin 2121 (Washington, D.C.: U.S. Government Printing Office, 1982), p. 31.

have been more severe than the recessions they accompany.[4] There is every reason to believe that manufacturing employment will continue to rebound in the current recovery more rapidly than will general economic activity.

The Permanently Displaced Worker

Advocates of an expanded federal role in retraining claim that the problem of the permanently displaced worker with many years of service is threatening to stifle growth and prosperity. No one can deny the hardship experienced by the displaced worker. But the number of unemployed workers in declining industries who have considerable job experience represents a tiny proportion of the labor force. The Congressional Budget Office estimates that of the 8 million unemployed workers in January 1983, only 1.6 million (20 percent) were in declining industries, and that most of these were the victims of the recession, not structural change. Of the unemployed workers in the declining industries, only 240,000 had been out of work for 26 weeks or more, and only 60,000 of these, representing only five-hundredths of one percent of total unemployment, had ten or more years on the job.[5] Even if one defined a "dislocated worker" to include workers in "declining industries" who had been unemployed for eight or more weeks in 1980, the number of dislocated workers would still be raised only to 412,000. This would mean about 3 percent of the labor force in the declining industries, or less than 0.4 percent of the total labor force.[6] The displaced worker problem exists, but it is hardly overwhelming.

THE CONCEPTUAL CASE

The enthusiasm for expanding federal aid to displaced workers should be tempered for four important conceptual reasons, in addition to empirical evidence.

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[4] Robert Z. Lawrence, "Changes in U.S. Industrial Structure: The Roll of Global, Secular Trends and Transitory Cycles," a paper prepared for the symposium on Industrial Change and Public Policy, organized by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 25-26, 1983. See also Charles Shultz, "Industrial Policy: A Dissent," Brookings Review, October 1983.

[5] Congressional Budget Office as reported in A. F. Ehrban, "Grasping the New Unemployed," Fortune, May 16, 1983, p. 108.

[6] See Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" The Federal Interest in Employment and Training, seventh annual report (Washington, D.C.: National Commission on Employment Policy, 1981).

1. Money goes to firms, not workers.

Many backers of expanded retraining aid seem to harbor the notion that the workers would be the explicit targets and beneficiaries of aid, whereas much of the assistance actually would be pocketed by the firms that no longer had to cover the costs of training and retraining their own workers. Indeed, much industry support for federal retraining programs is founded upon the strictly business proposition that lobbying for training programs is likely to be profitable--that is, more profitable than alternative activities. These firms understand that, if more federal retraining monies are passed to the states and communities, the result will be enhanced competition among states and communities for industries--thanks to the federal government defraying training costs. More federal money thus would mean more competition among governments to subsidize industries.

2. Retraining expenditures lead to winners and losers.

Proponents of federal programs appear to believe that federal expenditures on retraining would result in an increase in the stock of retrained workers equal to the number of people who are retrained. But even if such programs were completely effective in retraining workers (and there are good reasons to assume otherwise), nothing could be further from the truth. Many of the workers retrained under the auspices of a government program would have been retrained anyway by their firms, at company expense, or would have sought retraining themselves, at their own expense.

In addition, many proponents of enhanced federal assistance clearly fail to comprehend the two-edged sword of government expenditure policies. They ignore the negative effects on employment of the federal taxes and deficits that are necessary to finance the expenditures. Yet experience shows that higher taxes destroy jobs far more effectively than expenditures create them, which means that tax money used for retraining workers in one sector of the economy is likely to create a need for more retraining in another.

Moreover, federal deficits "crowd out" private investors from the bond markets. Therefore, if money for retraining displaced workers were to be raised by federal borrowing rather than new taxes, the result would be more displaced workers in industries crowded out of the bond market by government credit demands. And additional deficit spending to fund expansive new government training programs would, through greater pressure on international exchange rates, destroy more jobs and exacerbate the country's retraining needs. While the costs for a new federal retraining program might be a "drop in the bucket," according to its advocates, the road to $200 billion deficits has been paved with similar arguments made by virtually all interest groups.

In order that Congress might weigh the balance of effects of a retraining program, its proponents should be required to support their recommendations with "economic impact statements." These would do three things: (a) provide estimates of the jobs saved and/or created in identified industries by the policy change; (b) provide estimates for the jobs destroyed and/or jeopardized in other identified industries; and (c) provide compelling reasons why the jobs of the workers in the identified "losing industries" should be jeopardized for the benefit of the targeted workers.[7]

3. Federal retraining assistance fosters inequities.

Proponents of federal retraining of displaced workers argue that widely accepted ethical and social priorities dictate that more federal funds should be allocated to retraining workers in sectors where jobs supposedly are being destroyed by new technology or foreign competition or by the economy's presumed transformation from manufacturing to service industries.

This appeal to justice and fairness is questionable, because many of the workers in such industries have enjoyed above average wages and fringe benefits. Indeed, the market wages of many of these workers mounted in part because of the growing risk that their jobs would be eliminated and that they would have to retrain themselves. By covering the retraining costs for these workers with federal funds, the general public would be paying double for retraining--once through higher prices for products, reflecting the higher wages, and again through higher taxes. One must question the reasoning of those who contend that workers who have earned far less over the years than the beneficiaries targeted for retraining and paid for their own retraining needs should be asked to help pay for the retraining of these higher paid workers.

Increased federal retraining assistance would tend to discourage workers from remaining abreast of the opportunities available for self-improvement. The workers' incentive instead would be to negotiate noncompetitive wages--in the knowledge that, if their firms were forced out of business, they could fall back on government subsidized retraining. In short, federal retraining subsidies could give rise to worker displacement. Similarly, additional federal subsidies for retraining would, on the margin, temper employers' interest in keeping their workers' skills current, since the responsibility and cost of retraining workers would be shifted to taxpayers.

4. Externalities do not justify retraining.

Much is made of how the marketplace supposedly "fails" in the area of worker training. The argument put forward is that

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[7] For details of the proposal, see Richard B. McKenzie, "Name Winners, Losers of Industrial Policy," New York Times, October 31, 1983, p. 25.

labor markets fail because of the "externalities" to education. That is to say, proponents of government retraining programs contend that people other than the employer and employee benefit from retraining, and these benefits are not captured by the pricing system.

Few human activities, of course, are totally devoid of such "externalities." By the same token, training for the displaced worker is designed mainly to produce jobs and income for workers. The National Commission on Employment Policy, for instance, stated clearly that "[e]mployment and training programs are intended to raise the earnings of those who participate."[8] So the alleged "market failure" argument should be treated with some suspicion. The alleged barriers that prevent most benefits of retraining programs from being captured through the pricing system are by no means obvious, and such barriers must be present to make the externality case for retraining programs.

Even if externalities could be shown to exist, federally financed retraining would still not necessarily be justified. The externalities must be shown to be widespread and sufficient to justify the cost of government action. And negative as well as positive externalities exist. Some workers, for instance, might be harmed by the retraining of others, since the retrained workers might compete for their jobs; others might feel that the retrained workers were the beneficiaries of welfare, which was simply unfair. Consistency implies that the people harmed by the retraining of others should be compensated. And such compensation would greatly increase the cost of retraining.

The collectivization of retraining, therefore, does not necessarily imply that there would be more training undertaken than if the service were provided privately.[9] Proponents of federal retraining programs invoke the idea of externalities, yet they do not wish to give everyone's preferences equal treatment in their conceptual framework. Their argument, in other words, becomes largely a set of assertions, not logically deduced conclusions. If both negative and positive externalities were considered, it could well be that the current level of federal funding may have already surpassed the amounts required to achieve the elusive goal of economic efficiency.

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8 Steven G. Cecchetti, Daniel H. Saks, and Ronald B. Warren, Jr., "Employment and Training Policy and the National Economy," The Federal Interest in Employment and Training, seventh annual report (Washington, D.C.: National Commission on Employment Policy, 1981), p. 12.

9 For further details on this argument, see Richard B. McKenzie, "The Construction of the Demand for Public Goods and the Theory of Income Redistribution," Public Choice, 1981, pp. 337-344.

THE EXTERNALITY ARGUMENT EVALUATED

Those using the externality argument to support federal programs should also realize that pressing for additional federal funding can be self-defeating. This is because the subsidies and incentive effects of federal retraining programs can create externalities of their own. By failing to retrain themselves, for instance, workers can impose a heavier tax burden on the rest of the taxpaying population. From the perspective of market failure economics, there is no guarantee that, on balance, social efficiency will be enhanced by retraining programs.

The case for reliance on markets in establishing the retraining needs is, in fact, also a case for minimizing externalities. By holding workers and firms responsible for their own retraining needs, the market imposes the costs on those who benefit from the retraining. When the responsibility for keeping workers' skills current is transferred from the worker to the community, however, the potential for externalizing the costs of retraining is expanded. So government funding is likely to increase--not reduce--externalities.

The externality argument has been taken to remarkable lengths by proponents of retraining. These advocates contend that if retraining is not provided for unemployed workers, they will be forced onto the welfare roles. Hence, the argument goes, a federal retraining program would reduce the externality of taxes collected to pay for welfare expenditures.

The argument has an appealing ring, especially in the absence of empirical evidence. It should be understood, however, that it turns not on some presumed market failure, but on a failure of government policy--and on an admission of the tremendous disincentive effects of welfare.

There are other reasons why this broad externality argument is suspect. First, it implies that the cost of welfare programs should be viewed much more broadly than as just the funds that are spent specifically on welfare. The total cost should include expenditures on a host of other programs designed to prevent people from going on welfare. So retraining costs should be included in the calculation. By the logic of the externality argument, therefore, expenditures of retraining do not "save" on welfare costs.

Those who use this revised externality argument are clearly not willing to generalize it in this way. To that extent, they are not articulating a broad and logical principle for policy formulation, but rather a highly selective rationalization for the scale of importance they choose to apply to externalities.

A second reason for suspicion regarding the externality argument is the assumption that any additional federal expenditures on retraining will supplement, not reduce, the welfare budget. Part of the cost of training may, in fact, come from money that would otherwise be spent on welfare services so there might be transfers from lower-income people, who would have received the welfare benefits, to higher-income people who would receive retraining benefits.

CONCLUSION

The arguments that expanded federal spending to retrain displaced workers would net overall social benefits are unconvincing. The efficiency of such a proposal is doubtful because it appears that the market is already well equipped to handle the nation's retraining needs. Wages do adjust upward to reflect the training costs incurred by workers. To say that retraining costs are "high" is not to say that the market cannot adjust, especially in the case of non-poor workers.

The ethics of many of the current proposals should also be questioned. The retraining proposals before Congress have every characteristic of a political con game. In the name of the unfortunate poor (who probably will obtain little benefit from the programs), political support is being generated for a program that will effectively transfer income, through the guise of the educational system, from lower-income to higher-income workers--from workers who have kept their wages competitive to workers who have not. Legislators must resist the pressure on them to make the taxpayer pick up the tab for yet another program that sounds very worthy in principle, but would turn out to be very different in practice.

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