MONEY GROWTH AND THE EMPLOYMENT ASPIRATIONS OF BLACK AMERICANS

Everson Hull

Over the past 20 years, considerable attention has been focused on the worsening problem of unemployment among non-white Americans, particularly that of youth. Among congressional actions to address this difficulty were the Economic Opportunity Act of 1964 that established the residential and training program known as Job Corps and the Comprehensive Employment and Training Act (CETA-1973) that was aimed at combating long-term, structural unemployment as well as unemployment caused by economic downturns.

Since its inception in 1974, growth in CETA expenditures skyrocketed at a compound annual rate of 44.7% from $1.5 billion in fiscal year 1974 to a peak of $9.5 billion in fiscal year 1978. During 1978 alone, expenditures surged by almost 70%. Since 1978, a number of changes in the eligibility criteria allowed a modest reduction in expenditures and by 1980, the last year of the Carter administration, CETA expenditures showed a slight decline to $8.9 billion.

The accelerated rate of spending for training and related services under CETA did not produce the expected reversal in unemployment patterns that many anticipated. Unemployment for non-whites was 13.2% in 1980, about the same rate that occurred in 1976, and the non-white-white unemployment rate differential widened to 6.8% compared to 6.1% during 1976. Further erosion in non-white employment gains in recent years placed that differential at a record high 9.7% during the first half of 1983.

Attempts to explain these high rates of unemployment among non-white Americans have given very little attention to the effects of (1) cyclic changes in aggregate demand and (2) their key determinants. Recently, a large number of alternative hypotheses have been advanced and
empirically tested. Most of the studies have focused on the micro aspects of youth unemployment where the largest share of non-white unemployment is concentrated. These studies do reasonably well in explaining trends in non-white employment during the 1960s, but are less reliable in explaining these trends for subsequent periods.

This study seeks to examine the interrelationship between significant changes in money supply growth and the divergence between non-white and white rates of unemployment. Particular attention is given to episodes of dramatic deceleration in money supply growth during the 1970s and early 1980s and the widening divergence in non-white–white unemployment rates.

We begin below with a review of alternative hypotheses that have been advanced for explaining the determinants of the rise in non-white–white unemployment rate differentials. Next is an examination of recent developments in monetary policy and the effects of these changes on economic activity in general, and employment of non-white Americans in particular. Following that is an examination of the statistical significance of the interrelationships between the “roller-coaster” monetary policy of the Federal Reserve and changes in non-white–white unemployment rate differentials. Finally, a few summary observations are presented.

REVIEW OF ALTERNATIVE THEORIES

Because the problem of non-white unemployment is so largely concentrated on non-white youth, a proliferation of studies appearing in the literature have focused on identifying the main factors precipitating the widening gap between non-white and white unemployment rates among youth. These studies concentrate on the black cohort group aged 16 to 19 whose unemployment rate in August 1983 was 53% compared to 17.4% for Blacks over 20 years of age. Very little attention is given to the separate and tragic problem of black male youth (aged 16 to 19) whose unemployment rate in August 1983 soared to 56.8% and whose employment-to-population ratio declined from 52% in 1954 to 29% in 1980. The data reveal that Blacks over 20 years of age suffer unemployment experiences that are more closely in line with similar cohort groups than do blacks under 20 years of age.

Before reviewing a number of competing theories that seek to explain changes in unemployment among non-white American youth and, ipso facto, changes in employment among non-whites, it is important to understand the meaning of these extraordinarily high rates. An attempt is