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UNEMPLOYMENT

and the

AMERICAN ECONOMY

Proceedings of a conference held in connection with the Research and Evaluation Project on Unemployment and the American Economy, being conducted by the Institute of Industrial Relations and the Economics Department under a Ford Foundation grant.

April 18-20, 1963
The Claremont Hotel
Berkeley, California

INSTITUTE OF INDUSTRIAL RELATIONS (Berkeley)
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FOREWORD

The conference on Unemployment and the American Economy, which was held in Berkeley, April 18-20, 1963, was the first of four annual conferences to be held in connection with the Research and Evaluation Project on Unemployment and the American Economy, which is being conducted under a four-year grant from the Ford Foundation. The conference was sponsored by the Institute of Industrial Relations and the Economics Department, University of California, Berkeley. Participating in the three-day meeting were approximately 75 scholars, government officials, and representatives of management, labor, and community organizations from various parts of the country. The morning sessions, which were open to the general public, attracted audiences of several hundred persons as did the dinner meeting addressed by Governor Edmund G. Brown.

The four-year Research and Evaluation project, of which we are co-directors, includes approximately 20 research studies conducted by Berkeley faculty members, doctoral candidates, and several distinguished labor economists in eastern universities. As the work proceeds, plans are being developed for additional studies which will be designed to meet needs which have become apparent since plans for the project were originally formulated.

The conferences which will be held in future years will probably be focused on more specialized aspects of the unemployment problem than this first conference, which was designed to deal rather broadly with full employment and labor market policies. It may well be, also, that some of the future conferences will be held in the East or the Middle-West.

In the meantime, a limited supply of proceedings of the conference is being made available in this form to meet the most urgent requests for immediate distribution. Our plans call, however, for their publication in book form by John Wiley & Sons at the earliest possible date.

Arthur M. Ross
R. A. Gordon

Berkeley, California
May 20, 1963

CONFERENCE ON UNEMPLOYMENT AND THE AMERICAN ECONOMY

April 18-20, 1963

Claremont Hotel
Berkeley, California

MORNING PROGRAMS

Thursday, April 18. Subject: Retraining and Labor Market Policies

OPENING REMARKS: Arthur M. Ross
Director, Institute of Industrial Relations, and Professor of Industrial Relations, University of California, Berkeley

ADDRESSES: William Haber
Chairman, Department of Economics, University of Michigan

Seymour L. Wolfbein
Director, Office of Manpower, Automation and Training, U. S. Department of Labor

DISCUSSION: E. Wight Bakke
Director, Labor-Management Center, and Sterling Professor of Economics, Yale University

Nathaniel Goldfinger
Director, Department of Research, AFL-CIO

Gerald G. Somers
Professor of Economics, University of Wisconsin; former Director, Institute of Industrial Relations, West Virginia University

CHAIRMAN: Victor R. Fuchs
Program Consultant, Economic Development and Administration, The Ford Foundation

Friday, April 19. Subject: The Problem of Expanding Economic Activity

ADDRESSES: Walter W. Heller
Chairman, Council of Economic Advisers, former Chairman, Department of Economics, University of Minnesota

Otto Eckstein
Professor of Economics, and Managing Editor, Review of Economics and Statistics, Harvard University

DISCUSSION:

Albert Rees
Chairman, Department of Economics, University of Chicago

Paul W. McCracken
Professor of Business Administration, University of Michigan; former Member, Council of Economic Advisers

Don Vial
Administrative Assistant, California State Federation of Labor, AFL-CIO (substituting for Stanley H. Ruttenberg, Special Assistant to the Secretary of Labor)

CHAIRMAN:

John W. Cowee
Dean, Schools of Business Administration, University of California, Berkeley

Friday, April 19, 5:30 p.m.

An informal question and answer session, conducted by Dr. Walter W. Heller

Friday Evening, April 19

Special dinner meeting, addressed by Governor Edmund G. Brown of California

Saturday, April 20. Subject: What Can We Learn from European Experience?

ADDRESSES:

Jack Downie
Chief Economist, Organization for Economic Cooperation and Development, Paris

Robert J. Myers
Deputy Commissioner, Bureau of Labor Statistics, U. S. Department of Labor; former Chief of Statistical Bureau, International Labour Office, Geneva

DISCUSSION: Robben W. Fleming
Professor of Law, University of Illinois, former Director, Institute of Labor and Industrial Relations, University of Illinois

William H. Miernyk
Director, Bureau of Economic Research, University of Colorado

Richard A. Lester
Chairman, Department of Economics, and Faculty Associate of the Industrial Relations Section, Princeton University

CHAIRMAN: R. A. Gordon
Chairman, Department of Economics, University of California, Berkeley; Chairman, President's Committee to Appraise Employment and Unemployment Statistics, 1961-62

I

RETRAINING AND LABOR MARKET POLICIES

Addresses:	William Haber
	Seymour L. Wolfbein
Discussion:	E. Wight Bakke
	Nathaniel Goldfinger
	Gerald G. Somers

WILLIAM HABER

One should not resist the observation that it is rather surprising for a Conference on Unemployment to begin with a discussion of labor market policies. We are all in agreement that the crisis is in job creation and that whatever contribution can be made by retraining and improved placement service, the major task facing us is more jobs and new jobs. To begin with the labor market is somewhat unorthodox. Historically, we assumed that the labor market was rather neutral; that demand creates its own supply, with labor as with any other commodity. Mobility has been assumed, and training tasks were simple or were job-related and performed on the job. Therefore, one would have expected that this program would start off with a topic which goes to the heart of the problem--the job issue. The fact that we begin with the labor market may suggest that perhaps manpower is beginning to receive the long-neglected priorities; that we are finally beginning to recognize its significance in our growth and in planning for growth, and that the neglect of our human resources is finally to be corrected.

I should like to think that this is the reason why the program begins with this topic and not the fact that Chairman Walter Heller could not appear until tomorrow!

The Centrality of Employment in a Job Economy

Unemployment has become a significant political topic on the American scene. It has probably always been so; but I doubt whether we as a nation have ever been as allergic to the employment levels and particularly the unemployment index as in recent years. The preoccupation we have shown with the problem is not limited to economists or practitioners involved in the administration of the pertinent state and federal programs. The political operators, in and out of office, are vitally concerned. Those on the outside know that the issue of jobs can win elections; and those in office recognize it to be a fact and are concerned lest the problem of joblessness becomes an important slogan of the opposition. This is not to suggest that the concern about the jobless is not serious or genuine; quite the contrary, political administrations are deeply distressed about the problem. In a society in which a job represents the only source of livelihood and is also a social measure of worth and status, 4 to 5 million people who need work and want work cannot find it. No one can callously disregard such a tragedy of human frustration and waste.

Apart from these natural impulses possessed by men of good will, political realities do not allow for continued neglect or casual concern about unemployment and the unemployed and their families. Our sensitiveness to this waste is deep-seated. It goes back a full generation. The depression of the 1930's brought home to millions of Americans the full extent to which unemployment as a pathological problem can undermine the basic institutions of our society.

Out of that experience developed the Wagner-Peyser Act which established our federal-state employment services, the Social Security Act which led to the adoption of unemployment insurance legislation in all states, and the provisions of the Railway Labor Act which seeks to protect the job rights of railroad employees affected by mergers and consolidations. Out of the experience, although delayed by the intervention of the war, came the Employment Act of 1946 which stressed the national interest in employment and the federal government's responsibility to take necessary measures to maintain high levels of employment. Having established national concern and responsibility, it was inevitable that the federal government would step in with appropriate legislation whenever the federal-state system of unemployment insurance would fail to accomplish its major mission, which is the payment of benefits to those involuntarily unemployed. Thus in 1958, during the Eisenhower Administration, Congress enacted a Temporary Unemployment Compensation Act for a two-year period to provide for those whose benefit rights were exhausted in the recession of that period.

And again in 1961, the Kennedy Administration enacted another Temporary Emergency Unemployment Compensation Act for another two-year period to provide for those whose benefit rights under the state unemployment insurance laws were ended during the recession of 1960.

Nor is the more recent legislation, the Area Redevelopment Act of 1961 and the Manpower Development and Training Act of 1962, as well as the manpower features of the Trade Expansion Act of the same year, unrelated to this historical flow of events.

Employment and unemployment in the mind of the public and of political activists have become the most sensitive indices of the nation's economic health, and we can expect that whenever the volume of joblessness for the nation as a whole suggests pathological manifestations, a host of legislative proposals will result and some legislative action--wise or not so wise--may follow.

Neglected Research Areas

Consequently, it becomes all the more important that our research about unemployment should be expanded at all levels. If our concern in recent years is more with "class" rather than "mass" unemployment, research based upon highly aggregated data and national income does not expose the more refined problems affecting particular regions or localities and would certainly neglect the particular categories which appear to be especially affected by the unemployment of the postwar recessions. This sort of unemployment, affecting significant segments of the labor force, calls for the labor market equivalent of micro analysis with which the economist is familiar. Such studies should be related to the behavior of the local labor market. While much of this has been going on, I submit that except in the most general terms we do not know enough about local and regional labor markets, about labor mobility and the factors which aid or inhibit it, nor about the effects of minimum wage laws, collectively bargained pensions, seniority provisions and the whole complex of "job rights" now being negotiated, and the general behavior of local, regional and national labor markets. It is clear that we lack the methods of determining where job openings exist or are likely to develop. Surveys are time consuming; the results are often unsatisfactory, and even employers cannot or will not formulate or divulge hiring plans. A search for new techniques is sorely needed.

Labor turnover, for example, declined substantially in recent years. Jobs are becoming "stabilized" for those who have them. Seniority rules provide substantial protection, except when work force reductions are really serious. And fringe benefits, including pension plans and vacation rights, among others, often suggest that overtime at premium rates is financially more advantageous to the employer than the addition of new employees. The trend of building fences around the jobs for those who have them is bound to increase. Those who become redundant are to be transferred to a "labor pool"; no one is to be laid off, and it follows that except under conditions of considerable expansion, few are to be hired in the established industries. This represents a forward step in increasing the job security of the presently employed labor force. When extended to major plans and industries across the land, it "fences" in those who work and makes more difficult the admission into such plants and industries of new entrants to the labor force. This may be a natural development and perhaps a desirable development. It begins to approach a job guarantee. It does, nevertheless, raise serious questions concerning the new additions to the labor force. I do not wish to overstate the significance of such a development.

It suggests, however, the importance of much more research concerning the employment consequences of many otherwise desirable practices and developments in industrial relations and in local employment policies.

One might take the position that our unemployment problem would quickly melt under the warm sun of a more vigorous rate of economic growth. Such a growth rate, one which would increase the gross national product by $30 or $40 billion, would soak up the pockets of unemployment and depress the unemployment rate to the more desirable level of 3 or 4 per cent of the labor force. Certainly, any increase in general levels of employment would simplify the problem of re-employment. It is now still serious in declining or depressed areas and in many other sections for certain categories of the labor force. However, recent observations of what has happened under improved economic conditions in many areas appear to suggest that this is an overly optimistic view. A substantial amount of unemployment will continue even under a more vigorous prosperity than prevails at the present time. And to reduce it to acceptable levels requires more attention to the quality and direction of our manpower movement than we have normally provided.

Slow Development of Manpower Policy

That we shall need to know more and do more about our manpower is becoming increasingly clear. For a surprisingly large number of our important decisions have manpower implications--national, regional, state and local. Yet, we may not be quite ready for the development of a labor market manpower policy. A policy is based on a philosophy--an accepted point of view, an objective the majority seeks to obtain. I am not certain that we have a labor market philosophy, that we know quite clearly what it is that we expect our programs to accomplish. We are still discussing the objectives of unemployment insurance, for example, 25 years after we began the payment of benefits under that program. In the manpower area, the issues are more cloudy since they involve, for example, the relation of the government to the economy, to the employer and to the worker. Traditionally, the government sought to provide basic education and, except for special wartime programs, a rather limited effort under the Smith-Hughes Act, some encouragement of apprenticeship training, and similar rather limited or ephemeral efforts, it left occupational training either to the local schools, to private institutions and primarily to the workers and to the employer. "On-the-job" training has been the most common pattern except for highly technical and professional occupations.

A labor market policy, however, is evolving, but it will come slowly, for it does involve an acceptance by government at the national level as well as locally of a degree of interest and responsibility that does not now exist. And many will argue against diluting the employee's responsibility to find his own vocational niche.

Nevertheless, it is becoming clear that the nation is increasingly involved in manpower policy. For much that we do in other areas has overwhelming manpower implications. We can cite, for example, the so-called "full employment policy" as expressed in the Employment Act of 1946 and in the work of the Council of Economic Advisers. The proposals of federal aid to education, at all levels including vocational education and especially in the area of higher education; the proposal for a Youth Employment Opportunities Act with its provision for a youth conservation corps and for local area youth employment; the complex and to some still controversial area of job discrimination and the several programs at the national and state levels to reduce and eliminate it; and our serious preoccupation and concern with the quantity and quality of our scientific manpower.

More recently we recognized the manpower implications of our international trade policy and provided unprecedented protection by way of allowances and relocation costs to those who in the future may be affected by trade agreements with other countries. These are not new problems; we are, however, beginning to recognize their relationships to the nation's manpower and its utilization. It is also significant to observe that most of these problems grow out of national policy decisions. Perhaps, without specifically intending to, we are beginning in a pragmatic way to create a national manpower program.

Human Consequences of "Creeping Unemployment"

Technological forces operating in our economy are bound to give increasing emphasis to these developments. Little is to be gained by joining the debate as to whether the rate of technological change in the postwar period is substantially higher than that which prevailed in earlier decades. The statistical data are scanty. It is sufficient to record, however, that the present changes in technology stimulated by a vital and growing "industry of discovery" (as the late Sumner Slichter called it) are taking place at a time when the national economy is growing only at a normal or perhaps less than normal rate and when the net increase in the labor force is considerably larger than in the preceding decade. These changes are also taking place at a time when several important basic industries are either declining or not increasing their employment. The impact of technological change in railroad transportation, bituminous coal mining, textiles, and agricultural employment is being constantly felt. The Secretary of Labor reports that the number of farm workers dropped from 7.4 million in 1950 to 4.9 million in 1962, a fantastic decline of 34 per cent in one decade. The displacement outlook in steel, rubber, autos, longshoring, and other industries, particularly in manufacturing, in the years ahead suggest that we are truly in a period of major job adjustment for millions of workers. The consequent "withering away" of occupations is bound to provide a major trial for millions of workers and a real test of educational, training, and placement services.

The recent and current excitement is not the result of these long-term developments which may in time lead to a national manpower policy and comprehensive local labor market programs. Our present concern grows out of a crisis of sorts, not very dramatic nor catastrophic except for those who are directly involved. It has been referred to as "creeping unemployment," or as "unemployment during prosperity." The evidence of the problem persists despite all the discussion as to whether it is caused by structural factors or is due to inadequate demand and growth. It is clear that unemployment rates in recent years have been considerably above those which have prevailed in the immediate postwar period. Thus, while between 1947 and 1957 unemployment averaged about 4 per cent per year, it has equalled or exceeded 5 per cent of the labor force continually since 1957. It remained that high at the peak of the cycle in 1960 and has been higher in 1962 and 1963. A brief examination of unemployment rates in earlier periods indicates that these relatively high rates are exceptional; and that only during the period 1907-1912 and during the Great Depression of the 1930's was such a large proportion of the labor force out of work.

Perhaps equally significant is what has been referred to as the "upward drift" of the unemployment rates. Again, it is not easy to determine whether this is due to a genuine weakening of demand or to structural factors. Whatever the cause may be, recovery from each of the last three recessions appears to have left us with a higher rate of unemployment than the preceding recovery. If this trend persists, the next recession, and no one has yet written a prescription that protects us against one, is likely to end with 6 or $6\frac{1}{2}$ per cent of the labor force out of work after recovery has been completed.

In addition, and of special significance, is the fact that these high rates of unemployment have been associated with a higher volume of "long-term" unemployment than at any time since the end of the war. In 1957, for example, 19 out of 100 jobless were out of work 15 weeks or more; in 1963, the figure was 28 out of 100. In January, 1963, 1,153,000 workers were unemployed for 15 weeks or more; one-half of these were idle for 27 weeks or more.

In some of the major cities these long-term unemployed have become hardened into a class occupying the central city areas--an increasing number of persons who, as a recent issue of Business Week describes them, "sift to the bottom of the economic heap during recessions and remain out of work during prosperous times." In large cities like Detroit a "hard core" not only exists but persists, as a "highly singular class of unemployed and unemployable socially and economically isolated from the rest of the economy." A California study suggests that unemployment has become almost a way of life for some groups--"forgotten segments of society, circles of depressed city dwellers caught by little education, low economic status, low employment opportunities and limited social contacts."

A Chicago report deplores any progress through the Manpower Development and Training Act or other devices unless drastic measures are taken to remove artificial social and economic barriers. Discrimination in housing concentrates all the unemployed in certain areas. Discrimination in hiring keeps whole neighborhoods on a poverty level. Such an environment fosters personality disturbances and anti-social behavior, repels the best equipped teachers from its schools and produces the growing number of functional illiterates which characterize so many of our unemployed. Moreover, the parents of these children transmit their own sense of hopelessness and defeat to them, perpetuating from this generation to the next conditions which make adaptation to jobs extremely difficult. So long as social and economic discrimination which breeds these conditions persists, programs like the MDTA can only be of limited value.

Persistent hard-core unemployment caused by these and similar factors could easily be converted, as it no doubt already has been in many areas, into a high degree of unemployability immune either to training, retraining or jobs created by an economic boom.

A National Training Program--ARA and MDTA

These factors coupled with a serious concern about the increasing difficulties in finding jobs for the unskilled and the less educated led to the adoption for the first time by the national government of a federally inspired and financed retraining program. The Area Redevelopment Administration, among its other authorizations for redevelopment grants and loans, was provided with a small sum for retraining in depressed areas. The program was distinctly limited. Those to be trained had to be selected locally; the numbers were limited by the small appropriation; the period of training was confined to 16 weeks, but it was a beginning. Federal funds were provided to defray the cost of training and pay allowances to the trainees. In a sense it was a fortunate beginning for it provided some experience as a guide to the more ambitious MDTA which was adopted two years later.

In view of our limited experience in occupational training, MDTA could perhaps be referred to as a "crash program." It was assigned an ambitious undertaking for a two-year term with an appropriation of $265 million for the period. An additional authorization of $165 million was provided for the third year to be expended on a matching basis with the states. Thus, if the states collaborated in full during the third year, there would be available a total of nearly $600 million for a three-year period. This is not a fabulous sum judged by Congressional appropriations for high priority programs. Considering, however, the newness of the undertaking and the serious qualms entertained by many, it represents an expression of faith in an idea that can be justified only by the sense of frustration with the problem of persistent hard-core unemployment.

The Manpower Development and Training Act is to meet the cost of training and provide training allowances related to the amount of average unemployment insurance benefits, as well as subsistence allowances limited to $35 per week for those who must live away from home during the training period. The sums were to be apportioned among the states in relation to several factors, including the labor force, unemployment and unemployment insurance coverage, and certain other considerations. It was estimated that about 560,000 persons might be trained during the three-year period; 100,000 the first year; 160,000 the second, and 300,000 the third year. Provision was made for the training of youth; allowances for youth were limited, however, to those between 19 and 22 years of age and to $20 per week, with a further restriction that no more than 5 per cent of the total appropriation could be used for this purpose.

No one should underestimate the difficult task facing those responsible for administering a training program of this magnitude. There are job shortages now in many occupational groups, particularly in expanding areas. It is a challenging assignment to convert the unemployed, the short-term and the long-term, many displaced by technological changes in coal mines or industrial plants, most of them unskilled; many young workers with only brief attachment to the labor force; others in the upper-age brackets, thus difficult to retrain. Many of the unemployed have no occupational skills and others have neither skills nor aptitudes that can readily be redesigned for the jobs which may be available. This is especially true when we are dealing with the older people.

The very characteristics of "class unemployment" suggest the complexities of any large-scale program for occupational retraining. The non-whites, for example, represent 22 per cent of the unemployed and 24 per cent of those out of work for a six months or more period. The unskilled and semi-skilled represent 45 per cent of those out of work for more than six months.

The educational level of the group as a whole represents a most serious limitation and a striking warning as to what we should be doing about basic education if we are not to compound our problem in the future. The significance of these references to the characteristics of the unemployed is suggested by the fact that a large proportion of those who were tested by the employment service before being referred for training failed to pass. The "hard core" may need more than a retraining program before they can be fully returned to productive employment. Individual, rather than mass, treatment by job placement services will be required for many.

Some Observations About Retraining: Prospects and Limitations

It is not only risky but somewhat inappropriate to appraise the effectiveness of the new retraining programs at this early date. The ARA has been in operation somewhat more than a year. The MDTA did not receive its appropriation until August, 1962. The newness of the operation, coupled with competing administrative responsibilities both in Washington and in the states and localities, produced additional delays. Consequently, it is still less than a full year that the program has been in effect. I doubt whether one can or should generalize about so limited an experience. It is possible, however, to make some general observations about training and retraining without necessarily reflecting upon the operations of the MDTA. Several such observations suggest themselves.

Reason and reflection, rather than experience, suggest that we should deflate the exaggerated expectations of the retraining programs. That they are highly worthwhile is clear. And that training and retraining form an important part of any program to alleviate unemployment is equally clear. But it would, in my judgment, be a great error to regard these programs as a panacea, as a "solution," or even an important weapon against unemployment. Training and retraining are not a cure for unemployment; not even for the hard-core unemployed.

The numbers of people who can be retrained is also overstated. It is clear that the first year's results are likely to be considerably below the estimated number of 100,000. That is to be expected in view of the delay in the appropriation of funds and other delays, not all of them inevitable.

We have unquestionably created a rather complicated administrative structure to deal with the problem. Several agencies are involved in the states and in Washington, and there are several even in the Department of Labor. When a training proposal is finally approved, after having gone through myriad hands, and having been the subject of hours or days of conferences, it is, as one observer put it, "like cracking peanuts with an anvil." I am not too disturbed about these administrative problems. Time and experience will resolve them. Administrative difficulties are never by themselves a serious bar to the accomplishment of an important mission, once the significance of the mission is recognized. It does represent, however, distinct initial disadvantages and may explain in part, although by no means in large part, why the number who can be retrained in the early period will fall considerably below the forecast.

The program began with a great advantage. It started with the most obvious shortage occupations and with the most qualified workers among the unemployed. The ARA selection procedure appeared to favor younger workers; only 9 per cent of the males were over 44 years of age, although over 21 per cent of the unemployed are in that age bracket. The initial experience, therefore, may not be representative of the long-run problem.

The problem of the marginal worker has not yet been faced. During the second year the program will have to deal with those harder to train, less educated, older workers, those who will barely pass the qualifying tests. There may, in fact, be considerable difficulty finding trainees with the qualifications that the schools estimate as a prerequisite for the training program. The truly hard core are likely to be bypassed.

Both the ARA and the MDTA programs have built-in limitations. ARA is clearly more limited since only redevelopment areas are eligible, and the maximum length of the training period is only 16 weeks. MDTA has other limitations, however. All training must be strictly job-oriented. This could be defined rigidly and when so defined, a training course in reading and writing would be excluded. Such an interpretation would introduce a serious shortcoming since many of the unemployed cannot be placed on a job unless they have at least enough education to be functionally literate. When liberally interpreted, however, one may hazard the inclusion of such basic education by the clearly plausible reasoning that many, if not most, jobs require such literacy. Unless such a flexible interpretation is allowed, this could be a substantial bar against the inclusion in retraining programs of those who need it the most.

I would be inclined to list as an additional shortcoming the maximum limitation of training to 52 weeks. It is clearly insufficient to permit training of technicians. This may require considerably longer and in some instances even two years of college level education. Apart from technician training, however, there are many demanding occupations in which there are severe shortages and whiah require more than the 52 weeks period of training.

Youth Unemployment a More Serious Problem

I consider the limitation on youth employment a serious error. Young people represent a disproportionate number among the unemployed. Their age, relatively low educational qualifications, and their inadequate job experience are likely to keep them unemployed a long time or to direct them to jobs without any hope of advancement. Many of them passed up the opportunity for basic education.

Already as of April 3, the 5 per cent limitation has led the Department of Labor to cut back sharply on the training allowances it has been paying the 19 to 21 year old youth who do not qualify for regular federal training stipends. Youth payments were running nearly 9 per cent of the total amount for training allowances, and in view of the Congressional restriction limiting these to 5 per cent, the cutback was inevitable. Such restriction does not apply to youth who are heads of families or have had three years' employment experience. The passage of the Youth Employment Opportunities Act would provide additional help in this significant and restricted area. Otherwise, the limitations in the training act may bar many from an opportunity to learn now and thus complicate their occupational careers later.

The Need for Relocation Allowances

It is difficult to determine to what extent the failure of Congress to include relocation allowances may in fact be a serious limitation. We know, of course, that such allowances are provided in several foreign plans, particularly in Sweden where grants and allowances to the individual and his family are made to as many as 10,000 cases per year. The Labor Market Board thus encourages mobility from surplus areas to areas of labor shortage.

Would such travel allowances and perhaps additional grants be of substantial help in encouraging mobility in the United States? It is easy to come to an affirmative answer. The factors which discourage mobility are many and they are weighty. By foreign comparisons we have an exceptionally large number of wage earners who are also home owners. Even when not coupled with collectively bargained seniority rights and retirement pensions, home ownership may be a serious bar to mobility, especially when it involves the entire family. And when proper weight is given to accrued "economic rights," pensions, seniority and other accumulated rights in a particular plant, resistance to moving may be all the greater. Desirable and essential mobility is affected by a reluctance to leave home because of personal ties, because other members of the family may be working, by the cost of moving, and possible home losses on local property and the insecurity in the new locality.

At the same time we should recognize that there still is much of the nomad in the American character. The record suggests that as many as 400,000 people may be working next month in some state other than the one they are in now.

I am not suggesting further research as a way of evading the proposal that relocation allowances should be provided. I recognize that new industries are developing and old ones are vanishing at a greater speed than we realize.

My object is to urge that such allowances, when adopted, should be adequately circumscribed. I assume that relating such allowances to a specific job with a definite employer and with some assurance of continuity would represent too severe a restriction. Some action is highly desirable and, in my judgment, necessary. I am not certain how restrictive such allowances should be.

One thing is clear, a program for relocation allowances will call for a vastly improved system of interstate job clearance and far greater reliance on the job information program of the public employment services than prevails today.

Vocational Education: Modernization and Improvement Imperative

The vocational education "image" in the American community has, except in a relatively few progressive states, not been particularly attractive. I am told by several state administrators involved in the MDTA operation that training continues in many moribund trades. One recent writer refers to these as "incredibly irrelevant to the facts of work in the 1960's." Training is often conducted in classrooms or shops with equipment hardly modern, to say the least, and often with teachers who are not intimately in touch with the skill requirements in their own community.

Responsibility for these shortcomings is diffused. The fact is that most Americans have given little status to vocational education. The vocational high school has often been looked upon as "the dumping ground" for those who cannot carry on in the academic courses.

Since it is, unfortunately, a fact that a substantial proportion of our young people do not continue beyond high school, the failure of our vocational training system results in inadequate preparation for "the working world."

The report of the Panel of Consultants on Vocational Education appointed by President Kennedy points out that vocational education now serves only 13 per cent of the 15 to 19 year age group of the nation. Even in large cities, which often have vocational high schools (and in some communities, the most modern schools of the highest quality), only 18 per cent of those in the grades 10 through 12 are "exposed" to vocational training. Since about 20 per cent continue their education in colleges or universities, it appears that 2 out of 3 youths receive no real preparation for work before entering the labor force.

Perhaps two additional observations about vocational training are in order. The first is that the general criticisms of vocational training as it has operated thus far clearly do not apply everywhere. There are striking exceptions to the general weaknesses referred to in these remarks. These are illustrated by excellent vocational training institutions in communities like Milwaukee and Cincinnati, among others, for example.

The second has to do with the widely-held view that vocational training itself is undesirable and unnecessary; that acquiring skills in the early ages is impossible; that occupations change too quickly; that those trained and retrained will have to be trained and retrained once more. In brief, that the occupational revolution is proceeding too rapidly for anyone to be taught skills as if these were static.

What is called for, it is suggested, is broad general training not occupationally oriented. The latter is too ephemeral and not worth the investment of time and resources. Everyone committed to the "liberal arts" must concede the soundness of this point of view. It is, unfortunately, however, not universally applicable to the entire population, and our concern with vocational training is not for those who can absorb the basic elements of an academic education and who will do so. For these, vocational education would be wasted. It is, however, a serious problem for those who "cannot make the grade"; and "learning to work" at some skill or segment thereof is far superior to no preparation at all.

Since the training courses under the MDTA are to be carried on under the direction of the vocational education systems, in its classes and with its teachers, these shortcomings in vocational education represent both a danger and an opportunity. The danger arises from the fact that the limitations of our vocational education program may well be a serious obstacle to the effectiveness of new training undertaking. "Bottlenecks" have already appeared. And if this situation can arise when less than 40,000 trainees are involved, it can become quite serious when the numbers increase, even if the estimates turn out to be too optimistic.

At the same time the very existence of MDTA may revitalize the entire vocational training system, modernize it, infuse some status into it, and provide funds for many new teachers, up-to-date equipment and more financial support on a continuing basis. All are important. The Panel of Consultants referred to above recommends many changes in line with developing occupational requirements and the infusion of additional funds, a total of $400 million of annual federal grants for vocational education. It will take time to bring about the drastic changes necessary in vocational education. The system has already had a long history and strong "self-interest groups," many of whom fear change.

Training Allowances: The Place of Unemployment Insurance

Payment of allowances to those in training represents a great forward step. Without such payment the training program would never have gotten underway on a mass basis. How to assure the continuance of such payments when the legislation expires is worth exploring. It would be highly desirable, if as a consequence of the MDTA, the state unemployment insurance laws would be changed so as to permit wage earners entitled to insurance benefits to receive them while in attendance at approved courses. Until recently in only two jurisdictions was it possible to pay such benefits to employees enrolled in training programs. Even in these jurisdictions, the provisions were largely neglected. In Michigan, for example, over $300 million was paid in unemployment insurance benefits in 1958. But a very small number--less than 100--were actually paid while enrolled in a training program. The requirement that the unemployed worker should be "available for work" and should be "actively seeking work" and is to be disqualified when he fails to accept a suitable job or respond to a recall notice from his last employer--all these conspire to deny him a weekly benefit when his unavailability was due to participating in a retraining course. Such legislation was penny-wise, and, in my judgment, represents a strong indictment and one of the serious shortcomings of the state unemployment insurance systems. Such restrictions were partly inspired by the experience-rating provisions in our state legislation, but also by the failure to see unemployment insurance as part of a comprehensive labor market program. The employer to be "charged" with the benefit did not wish to have the cost of allowance charged to his account, since the employee was in fact not available for work.

Hopefully, this situation is changing rapidly. Twenty states have now revised their state legislation to make it possible for unemployed wage earners in attendance at approved training courses to receive the unemployment insurance benefit to which they are entitled. Many of these laws are still quite restrictive. Hopefully, more states will enact such authorization. There is a strong case for a federal standard in this area, and such a requirement under which the state cannot deny weekly benefits to an otherwise eligible claimant who is undergoing retraining would provide allowances on a continuing basis should the federal legislation fail to be renewed when it expires. It is clear, of course, that during the life of the MDTA the trainee is not eligible to receive both the federal allowance and the state unemployment insurance benefits.

I see no reason why state unemployment insurance funds should not also be used to pay tuition and other costs of occupational training when and if the federal legislation expires. It could easily be arranged that such costs should not be charged to the last employer but should be borne by all employers covered by the unemployment insurance plan.

Early Placement Record Encouraging

Whatever shortcomings one may now cite of the retraining programs and others that can be anticipated, there should be no doubt that the development is highly desirable. There are few areas of government expenditures where the returns are likely to be higher than in the field of retraining. The very presence of the program has provided real hope to thousands of people; and next year perhaps to more than a hundred thousand. Many "graduates" have gotten jobs without the intervention of the employment services; others were recruited by employers before the completion of their courses. Gerald Somers' studies are fully supported by the state directors whom I have consulted. They show that many workers who have months and even years of unemployment prior to retraining were placed on jobs shortly after completing their course. The Director in Michigan advises me that 80 per cent of the people who have completed their courses under ARA or MDTA and who have been placed "would not have had jobs if it had not been for the training received." The placement record is not perfect; many have not been placed. I am not prepared to say, however, that the investment was not worthwhile even when a placement failed to materialize. I doubt in fact whether placement alone should be the criterion for judging the value of the training program. That it is an important measure and in the public mind the only one is, of course, quite clear. There are, however, intangible aspects of training which should not be overlooked. The mere fact of public interest in the problem of joblessness is an important morale booster; it has restored self-confidence and increased individual enterprise in job seeking, often with success in spite of earlier failure.

Extended Duration of Unemployment Benefits Important

It would be naive, indeed, to expect that a training and retraining program would represent a practical solution for the jobless problem for all, or even most, long-term unemployed. Shortage occupations in general require the sort of aptitudes and educational background which an overwhelming proportion of the jobless wage earners do not possess. That is certainly true for those who are out of work now. Quite apart from the educational limitations and skill potential of the jobless, present and future, the unemployment insurance program which has been developed in this country since 1963 is generally expected to meet the immediate problem for a vast majority of the unemployed. Our experience with postwar recessions suggests that our jobless insurance system, with its present limitations in the duration of benefit payments, has not been adequate to meet the problem. Its failure in this respect was recognized in 1958 when Congress enacted the TUC plan extending benefits for an additional period up to 13 weeks in states which passed appropriate legislation. This action was taken again during the recession of 1960; this time the Federal TEUC was so designed that it applied to all states. Both measures were of an emergency character and temporary. They have since expired. Barring a substantial liberalization in the duration provisions of the 51 unemployment insurance laws, it can be predicted that the next recession will, as in the two preceding declines, again find a substantial proportion of the unemployed exhausting their benefit rights under the state legislation.

Retraining programs are most inappropriate for this sort of extended unemployment. So are work programs, either of the public work or work relief variety. They are too costly and not sufficiently diversified to provide an opportunity for useful employment for more than a small proportion of the unemployed. Our experience suggests that long range planning for such projects, while attractive in theory, is most difficult in practice. Political and technical obstacles result in long delays, often until after the employment crisis has begun to ease.

The unemployment insurance program was designed to meet the needs of the unemployed expeditiously. It sorely needs improvement in several respects, but especially so as to make unnecessary another TUC or TEUC. Our measures should not be temporary nor handled as emergencies. We have enough experience to anticipate these problems. And we know for certain that our action in 1958 and 1961 will have to be repeated, if not in 1964, then in 1965, or a year later. The case for a permanent extended benefit program is unassailable. And it is unfortunate that such action is not likely to be taken by the present Congress, or at least not this year.

There appears to be substantial agreement that such extended benefits are necessary and desirable. There are, however, strong differences as to how best to achieve this result. Should the extension of benefits beyond the present duration of 26 weeks prevailing under most laws be left exclusively to the states; or should it not be required as a federal standard; or enacted by Congress as a permanent national supplementary program? The case for action which will make it applicable to all states is, in my judgment, stronger than on an individual state basis. National concern about provision for the unemployed is being increasingly recognized. Such responsibility cannot be shirked, and direct federal legislation, or a federal standard for state legislation, is in order. Either will accomplish the objective of extended benefits for involuntary unemployment wherever it exists and whenever such payments are needed.

More controversial is the question as to whether such benefits should be financed by the employer or whether an employee tax should be required for this purpose. Another alternative is to finance extended benefits from general revenues. These are not simple issues. I am inclined against the use of general revenues to finance unemployment insurance benefits. I see no philosophical objection to an employee tax. I find it difficult, however, to conceive of such a tax confined only to the extended benefit segment of the unemployment insurance program.

One additional note is pertinent. Until we adopt a general public assistance program to deal with need created by unemployment, it is inevitable that in any unemployment crisis we shall look to the unemployment insurance schemes as the logical and simplest way of dealing with the problem. This will impose upon the scheme burdens it was not intended to carry; it will add to its costs and often seriously complicate its "insurance character." There is a strong case for extending the public assistance features of the Social Security Act to include provision for aiding need resulting from unemployment as an additional category to those already included.

Basic Education a Serious Weakness

Even a cursory examination of the characteristics of the unemployed highlights the sad state of educational affairs. The gaps in basic education are overwhelming. It may be possible to teach people who are illiterate in arithmetic the fundamentals so that they can fill out orders or read instructions. And courses with ARA and MDTA should permit such instruction, if there are serious questions about it at present. The larger problem remains, however. Many who formerly were most vocal in their support of vocational training as a way to solve the jobless problem of the long-term unemployed now, as a result of our limited experience, recognize the importance of basic education. The relationship between courses in basic education and the individual's employability is not always clearly evident. Not all subjects in high school, for example, would increase a youth's job getting possibilities. The lack of such basic education, beyond functional literacy, may be a real bar to employment and certainly progress in employment. We need to insist on a program of basic education for all of our citizens; we need to conquer illiteracy without delay. Poorer countries who value education and human worth less than we do have accomplished it. It is shameful that such elementary ignorance should prevail and become a bar to employment for tens of thousands of people. This should be a part of our national policy and it should be broader in scope than would be required if related only to labor market policy. To be sure the labor force would profit from basic education. But such labor force advantages should be incidental. Anyone who is below the threshhold of some standard of literacy would be able to correct it.

We should not overlook the fact that in some occupational areas labor shortages may be related to wages and working conditions. This is said to be true for nursing, registered and practical. Adequate wages in hospitals and clinics would attract more trainees for these essential occupations. It is an important caution to those responsible to be aware of the fact that training more nurses is likely to depress wages further and lead many already registered and capable to leave this work and seek their rewards in more remunerative employment. Training alone will not meet the existing shortage.

We need to be careful that large scale nation-wide programs to retrain the unemployed should not impede the development of local programs. Such programs exist in a few states and in several cities. Local efforts can often be more carefully designed and related to existing job opportunities in the community.

Equally important is to avoid any development which may decrease the ongoing "on-the-job" training programs in our businesses and industries. Except for professional jobs and certain highly skilled crafts, most American workers are trained on the job. Much of the work in an assembly plant is individualized, related to the specific requirements of a company wherein the work is performed. It is an informal sort of training at the company expense. The MDTA recognizes these programs, and authorization for on-the-job training is redognized in the legislation. Steps to implement this phase of the work have recently been taken. Such a relationship between the training agency and the employer has many potential advantages.

The Role of the Employment Services

The effectiveness of a retraining program depends upon whether there will be jobs for those who are retrained. It depends also upon the competence of the retraining institution, the educational structure to which the task is assigned. And to a very considerable extent upon employment service. Without a good, efficient and widely accepted local, state and federal system offering a variety of employment services, the entire program can fail. However, the employment service has a vital role in community labor market management quite apart from the relationship to training. Its information-gathering function is vital. Its success depends, in large part, upon the relationships it is able to establish with employers--job givers--in the locality. In the absence of sanctions, and these are available only in times of war or similar national emergency, it must find acceptance by employers and employees and it will be judged by the efficiency and quality of its performance.

I am not particularly disturbed by the fact that its "national penetration rate," based on average monthly new hires in 1960 is only 15 per cent; nor that it varies from a low of 6 per cent for mining, 8 per cent for skilled workers, 10 per cent for professional and managerial, 21 per cent in manufacturing, and that only in placing the unskilled does it participate in as much as 30 per cent of the placements. European experience in Britain and on the continent is not substantially better.

And most American wage earners prefer to find their own jobs, to rely on tips from friends and relatives, and to shop around at various company employment offices. There would be many advantages if a larger proportion of the jobseekers were "processed" through a public employment service. Such a development cannot be forced. I reject as unwise the proposal that employers should be required to list all their vacancies with a public employment office. It has been suggested that such requirement should be made a condition for the right to participate in the experience-rating features of the state unemployment insurance law. There are ample justifications for such a course in times of national emergency. I doubt its necessity in normal times. And I doubt whether such a flow of new "business" would materially improve the role of the local or state employment office.

The employment office must "make its way" in the community of management and labor; its services must be valued and useful to all classes of wage earners. This prevails in many communities where diversified services exist. In some areas the local office is "involved" with the school authorities in planning the vocational curriculum, with employers in estimating the labor demand and supply outlook; with employees in counselling, testing, job referral and placement; with other states in interstate clearance of job openings. Much depends upon the imagination of the staff and the historical relationships which have been established between the employment office and the local employing institutions.

In some communities the local employment office is, in fact, a central local labor market agency, with accurate information because of ample contacts with employers and labor and free of the old stigma that it is "merely a central station for the payment" of unemployment insurance.

Such is not the fact, however, in most U. S. communities. It will take much effort before most of the 1900 local employment offices will achieve such a position of acceptance and recognition. The work imposed upon the office by the MDTA should help further in invigorating the employment services. Testing, counselling, job referral, placement, interstate job clearance for skilled, as well as for other jobs, must become services of such quality that the entire economic community will value them. That is not the case today.

That the employment service has improved and is improving, that it is making an important contribution in what one might refer to as "the organization of the labor market" is to many clearly evident. At the same time it is equally clear that it has not won wide acceptance in the economic community. This is not the place to review the reasons for its failure in this respect. There are many reasons to explain the "fixation" in the mind of the employer and the employee as to what the employment service is there to do. It is sufficient to recognize that until these fixations are overcome, the employment service will have difficulties in becoming the community's central manpower planning agency.

And such an agency it must become. It needs to expand rapidly and aggressively in the placement of skilled occupations, in its role in the white-collar, technical, semi-professional and professional areas. This will not be easy. Private fee-charging agencies are bound to resist any encroachment in this territory, and employers are not likely to come to the support of the public employment service now or in the near future. The role of the public employment service will be more appreciated only as we develop an enlarged understanding and respect for manpower as a vital and perhaps a limiting factor in our economic progress.

A National Manpower Program

The country sorely needs a national manpower program. Bits and pieces of such a program are strewn over the economic landscape. The heart of such a program must be full employment, however it is defined. Unless more jobs are developed, all other measures are palliatives which evade and avoid the only solution to unemployment consistent with a job economy. We need also a labor market policy on a continuing basis. Too much of what we do had its origin during the great depression or has been created in response to an emergency. Our manpower resources cannot be neglected, and millions left without adequate basic education, many ill equipped for the occupational requirements of these times and without proper counselling and direction. Perhaps out of the present critical situation when we are inquiring as to why we have unemployment during prosperity, we may begin to take the necessary steps toward the creation of a national manpower program.

Congress appears to have recognized these developments, and Title I of the MDTA is entitled "Manpower Requirements, Development, and Utilization." Congress recognizes the increasing centrality of the manpower role in the American economy and, to quote from Sec. 101 of the legislation, "that improved planning and expanded efforts will be required to assure that men, women and young people will be trained and available to meet shifting employment needs." And moreover, "that it is in the national interest that the opportunity to acquire new skills be afforded" to those whose skills may become obsolete because of occupational and other technical changes. And, consequently, "It is therefore the purpose of this Act to require the Federal Government to appraise the manpower requirements and resources of the Nation, and to develop and apply the information and methods needed to dealwwith the problems of unemployment resulting from automation and technological changes and other types of persistent unemployment."

SEYMOUR L. WOLFBEIN

I consider it an act of extraordinary understanding among those in charge of this conference to have assigned to me the preparation of a paper evaluating our experience in the beginning phases of operations under the Manpower Development and Training Act of 1962.

Engaged, as many of us are, in the tooling-up process of a new, major operation, I have been asked to review a field with which, perforce, I ought to be familiar. Not that this cannot be a sophisticated venture, indeed, involving an assessment of the experience so far, the emerging parameters which may determine the prognosis for the years ahead, the possibilities for research in this arena which suggest themselves as real life experience with training unfolds, etc. This, in fact, we will try to do in our paper.

I thank those who are in charge for this kind of assignment and, at the same time, apologize for not accepting it as my sole responsibility. The temptation for a professional economist to go beyond the fringe and give at least some of his reflections on labor market policy as a whole, I find irresistible. And, then, let's face it: the responsibilities of those who operate from policy, program, and operational vantage points in government require more and more participation in the conceptualization, design, and formulation of theory and principles in their respective fields.

Economic Growth and Labor Market Policy

What is Full Employment?

The statement which is perhaps most routinely made currently by those appraising the current employment and unemployment situation in the United States is that we need simultaneously, and in a designedly interacting way, policies and programs which will stimulate economic growth on the one hand and the pursuit of an active labor market policy on the other.

I think it is fair to say that there is a real consensus among practitioners in the field on this subject: That it is widely recognized that a step-up in the rate of economic growth is basic to the reduction in unemployment we want to achieve, the rise in living standards we wish to generate, the momentum in activity we have subscribed to internationally and we need to meet; that it is widely recognized that all this will not occur if we do not follow policies and carry out programs which anticipate and prepare for wide differentials in employment and unemployment among industries, occupations, geographic areas, and population groups, which strike at the rigidities and impediments to a responsively functioning labor market and which ameliorate the gaps and deficiencies in the education and training of the current and prospective labor force.

I have heard it said that economists (and lawyers, psychologists, architects, doctors, and people) abhor a consensus as nature does a vacuum. It was along these lines that a distinguished scientist recently talked about "the human proclivity to dichotomize." At the risk of proving this, I ought at least to affirm the fact that differences, of course, do exist as to priorities, timing, and magnitude of these programs. And going further, I would also affirm and submit for your reflection (immediate comments I fully expect to get) the following propositions:

First, a high rate of economic growth is neither a necessary nor sufficient condition for full employment, per se. A theoretical model showing this is easy enough to construct (e.g., under conditions of relatively slow labor force growth, little technological change); the empirical evidence from a real-life situation is easy enough to adduce by reference, e.g., to the experience during a decade and a half of postwar trends in Great Britain.

Of course, in our own current situation, with a demographic base for very substantial labor force growth and with significant technological change taking place and looming ahead, higher rates of economic growth than we have achieved in recent years are absolutely essential. Further, the prognosis for successful labor market policies is significantly enhanced by such economic growth.

But, rapid growth by itself may fall short of gaining full employment (with sharp growth in labor force and technological change); the high rates of growth in some states still troubled by high unemployment are in point. Also, if the composition of growth is heavily in sectors requiring little expansion in employment to yield greater output, positive employment effects will be limited.

This leads us to our second point, namely, that an active labor market policy is a necessary, but not sufficient, condition for full employment. Except for a completely static situation, I have not been able to construct a realistic model which supports full employment without the inclusion of important elements of an active labor market policy; neither have I been able to find empirical evidence for the same. In fact, one of the striking points of postwar experience in Great Britain which is directly relevant, is some of their more effective labor market operations, with a more comprehensive national employment service than ours, a youth employment service, vastly larger vocational education and apprentice training programs, etc. Incidentally, the sheer geographic size and the cultural and income variations in different parts of this country intensify the significance of labor market policy in the U. S.

The point is often made, vis-a-vis these first two propositions, through a form of argument by extremes, that is, by referring to the case of a wartime situation, where abnormal pressures generate a growth rate, a volume of production, and a demand for labor which are associated with very low levels and rates of unemployment. Aside from the fact that this is a situation irrelevant to a peacetime economy, I have been surprised by the lack of reference in the literature of our field to at least these two countervailing points: that a wartime experience is not an example of the effect of sheer economic growth alone; it has, in this country and all others for which we have information, been associated with a most active labor market policy, indeed--if only in the form of extensive military drafts of manpower, very widespread training within and outside of industry, substantial indirect (in this country) and very direct (in other countries) manpower policies involving movement of persons to industries and areas where they are needed, etc. Then, too, it is impressive that even under conditions of forced draft during World War II in this country, a significant number of our depressed areas remained in a poor position, in terms of their employment and unemployment situations.

An affirmation of propositions such as the two we just cited raises the urgent question of what definition of full employment is used. In this connection it is of some interest to note that, again, there is pretty solid agreement on a theoretical formulation of full employment, especially when it is simply put in terms of optimum utilization of available manpower resources, with room being left for some minimal unemployment rate below which it is hard to get even with a very active labor market policy.

Disagreements begin to emerge when the theoretical (or at least textual) definition is then translated into some quantitative goal. As we all know, there has been considerable discussion of the quantitative sights we should set for ourselves for the interim or the long run.

But I think the heart of the problem really lies in the very fact that both theoretical and practical goals are ordinarily formulated by reference only to an aggregative level or rate of unemployment and without reference to the disaggregative approach at all. What our two propositions are based on--and what would make a definition of full employment much more meaningful--is to equate full employment and to test it by reference to the data in terms of (a) the desired over-all employment of our manpower resources and a corresponding minimum over-all rate of unemployment, and (b) the desired utilization of our manpower resources by age, sex, color, geography, industry, occupation, etc., and a correspondingly minimum set of differential rates of unemployment. Is a 2 or 3 per cent over-all unemployment rate, but with 6 or 7 per cent unemployment for nonwhites or in a major occupational grouping, completely satisfactory "full employment"? Only when we have made an effective and lasting reduction in what are almost the classic differentials in unemployment will we be able to say that we have achieved "full employment"--and this takes a significant amount of active labor market policy to do.

I realize that at this stage of the game, the point is often made that a high enough rate of economic growth will do all of this for us, aided, at some critical juncture when the unemployment rate gets low enough, by labor market policies which can bring that rate even lower without the danger of inflation. As I have said before, the evidence for this is lacking; the only periods during the past quarter of a century when a reasonable facsimile of full employment was reached were during the years of World War II and the Korean episode and their immediate aftermaths; and as I have already indicated, these were periods of most active labor market policy indeed.

The fact of the matter is that the differentially high unemployment rates among different sectors of our population have and do now represent a ranking problem in this field--witness the fact that the rate of unemployment among professional and technical workers has not gone above about 2 per cent, on an average annual basis, at any time during the entire postwar period. Indeed, the unemployment rate for any of the white-collar groups (professional, managerial, sales, and clerical), again on an average annual basis, has rarely been above 4 per cent throughout the postwar period (the rate for the sales group was 4.6 per cent in 1961; 4.1 per cent in 1962). Of the 11 major occupational groups for which unemployment rates are regularly published, only 3 show rates above the national average: semiskilled operatives, service workers (excepting household service), and unskilled laborers. The last group's rate has usually been about double the national average. Nonwhites have consistently had a rate double the national average. We are now in the tenth consecutive year, when the unemployment rate for youths 16-19 has been running close to triple the national average. During this time, their rate of joblessness has never been below about 10 per cent and is now running at about 15 per cent.

As we all know, these examples can be extended by reference to other groups, but these ought to suffice to indicate that such differentials do exist, that they are sharp, and that they have persisted over long periods of time--in good times and in bad.

An Active Labor Market Policy

At this stage, we ought to say a few words about what we mean by a labor market policy. If one agrees that the objectives of a labor market policy can be defined as achieving and maintaining--in conjunction with monetary, fiscal, and other measures, a full employment level of activity defined as we have done--then such a policy would include at least the following:

1. An up-to-date current labor market information service for workers and employers, assessing and communicating the results of such information as job vacancies, occupational needs, availability of workers and skills at all the critical junctures where this type of information counts--particularly in a systematic manner at all placement services.

2. An early warning system of impending changes, especially layoffs, again communicated to where it counts, e.g., through the employ-

ment services, so that preventive work can be immediately initiated to place in jobs or put into training those who are scheduled to be displaced. Similarly, early expansion would facilitate efficient manning and growth.

3. An effective informational service for career guidance and counselling before entry into working life and, of course, an effective system of guidance activities beginning at the elementary school level--the latter especially important in view of the school dropout problem--and continuing throughout a person's working life.

4. A corresponding educational system, vocational as well as academic, which is responsive to current and upcoming manpower needs.

5. A well endowed system of placement services which focuses not only on a given labor market but is national in scope.

6. A program of training and retraining for unemployed and underemployed workers, as well as a program for equipping employed skilled workers with additional skills to meet increasing technical demands.

7. A program for aiding the mobility of workers, responsive to the changing geography of employment opportunities.

Each of these points warrants a full-scale presentation by itself and I leave this so starkly put because I expect that our ensuing discussions at these meetings will take them up in greater detail. One further word, however, is warranted. Government has, is, and will play an important role in implementing these programs at federal, state, and local levels; but each is becoming more and more a part of the responsibilities of labor and management. As Secretary of Labor Wirtz has indicated in recent discussions of this subject, the "manpower" aspects of the industrial relations scene are becoming much more central in current discussions. While wages and working conditions continue, of course, to be vital in these matters, the really intractable problems which are emerging are concerned with adjustments to marked changes in technology, e.g., as was evident in the recent eastern longshoremen's strike, the newspaper strike in New York, and the railroad disputes situation. These several dimensions of labor market policy are widely recognized, of course, although they each have a long way to go before we can say that we really have viable programs under way.

There are other programs which usually are not included in listings of elements of an active labor market policy, but which I think definitely belong there. There are, first, a set of policies running the gamut from anti-discrimination programs (by race, age, sex, etc.), to the provision of adequate housing and community facilities, to child-care programs which can and do play a vital role in making for a better match between job opportunities and the people available to fill them.

And there is, second, a set of income-sustaining measures such as unemployment compensation, public assistance, etc., which, in fact, underline the intimate relationship between labor market policies and programs for economic growth. Unemployment insurance is a particular case in point, in serving to sustain income and spending on the part of the unemployed on the one hand, while maintaining the unemployed during the interval between jobs on the other.

Relation of Labor Market Policy to Economic Growth

No discussion, even one as brief as this, can omit at least some reference to the contributions of labor market policy to economic growth. In this conference, which has a major interest in potential fruitful avenues of research, particular attention might be paid to this matter, in which there is a growing need for research, here and abroad. It is, for example, one specific area marked for increased research in the Manpower Committee of the OECD, as our recent participation in their meetings in Paris indicated.

In this connection, I submit the following seven points:

1. A labor market policy which matches and fills job vacancies with unemployed men and women, e.g., through training and retraining, makes an obvious and overt contribution to economic growth. It is, in fact, an axiom of our trade that the total number of job vacancies represents the major contribution which a training and retraining program can make to economic growth. Unemployment, associated with zero production, no earnings, transfer payments in the form of unemployment insurance and assistance can be converted by retraining and associated labor market programs to employment, production of goods and services, earnings, taxes paid, etc.

2. At the same time, the multiplier effects of this action can be considerable. The first is generated by what we already have described, in terms of the impact of a shift from unemployment to employment of those who are trained; the second is generated by the fact that the filling of a job often calls for the filling of associated jobs with additional multiplier effects. In my own field, the filling of job vacancies among professional staff would call for correlary hiring of secretarial and clerical assistance; experience has also shown that the filling of auto mechanic vacancies generates hiring of auto mechanic helpers, that of nurses, nurses aides, etc., etc.

3. As Professor R. A. Gordon, who chaired the recent President's Committee to Appraise Employment and Unemployment Statistics, and is co-directing this University's program on Unemployment and the American Economy, can attest, job vacancies represent a peculiar sort of statistical problem indeed. What makes the data collection in that field so difficult is our finding that job vacancies come to life (and to light) when the "right" kind of person shows up. We have no idea, of course, how many of these job vacancies are kindled into reality by supplying qualified personnel at the right time and right place--but that there are many seems certain if our past experience in experimenting with this kind of enumeration is any guide.

4. In purely economic terms, labor market policy can also be viewed as part of a program for making investment more attractive by reducing the marginal cost of labor. In its own way, it is analogous to programs for making reductions in the price of capital through reductions in the interest rate or through more liberal depreciation allowances. For example, training programs make available to employers trained workers when they need them, where they need them, especially through the operations of the Manpower Development and Training Act of 1962 which requires that training programs be supported and carried out where job needs are documented. Thus, with a moderate increase in demand, employers who might hesitate to expand production if the required labor were not available--or if it required new and costly training programs--have a better prognosis for getting the labor they need. Moreover, for many employers, training their own labor force may be impossible because of size, limited production activity, lack of facilities, etc. In this way, especially in conditions of less than full employment, labor market programs, including training, can be viewed as part of a comprehensive set of activities that can be utilized to stimulate economic growth.

5. Education, training, and retraining activities are in and of themselves activities involving investments in plant and equipment of substantial magnitudes, with growth-generating potentialities like any other investments; and personnel needs are also created for instructors and allied workers. At current rates, the training operations under both the Manpower Development and Training Act and the Area Redevelopment Act are costing about $1,000 per worker being trained and about 40 per cent of this amount is going for training costs (equipment, salaries, etc.) and 60 per cent for training allowances paid to the unemployed receiving instruction. The $1,000 figure is gross cost, of course; most of those being trained would be receiving unemployment insurance for at least some of the interval involved.

6. And then, of course, the investment in education and training results in a labor force endowed with the skills and talents which the economy needs to encourage the economic growth we need; and it is as necessary a condition for such growth as is the right kind of capital equipment, entrepreneurial skills, etc.

7. The potentialities of training and retraining in this regard can also be seen from some of the evidence we are getting at the beginning of our programs that it is possible to improve wages and working conditions through the training process itself. For example, we already have several instances in the relatively low paying occupations in the health services, e.g., in hospitals, where administrators of programs have agreed to pay a higher entry wage, if workers come to them with a background of training.

Beyond the values for economic growth and improved productivity, there are, of course, incalculable social values in achieving higher quality employment, in developing a better fit of jobs and worker's abilities and interests, an objective to which sound labor market policy can contribute markedly.

Training and Retraining

I think there is much to gain in beginning this section by noting the fact that an active labor market policy in general and programs of training and retraining in particular, hardly represent some absolutely new dimension of social and economic life.

Even with my own relatively low level of familiarity with the literature in the field, I can point to significant references to the subject in the basic Judeo-Christian writings right up to Pope John XXIII's Mater et Magistra, with its important allusions to these subjects, including training those affected by technological change.[1] The same, of course, can be said of the literature in the field of economics, from its earliest beginnings right through the most classical, laissez-faire theorists to current writers.

In our own history, aside from the general field of education, including the Smith-Hughes, George Barden, National Defense Education Acts and H.R. 3000 now before the Congress, I would say we have had some very good examples of an active labor market policy in the Homestead Acts of a century ago (a very interesting example of government action in relation to mobility in manning a new frontier), in the immigration laws which saw, in the first decade of this century, a million persons a year enter this country to help us man a burgeoning industrial sector, and just the opposite kind of policy right after World War I--at which point emerged substantial support for government stimulation of apprenticeship training programs as the supply of craftsmen from abroad was cut off.

Our current programs of training and retraining have, therefore, a significant and mostly honorable evolution behind them; they depend for their implementation, in very substantial part, on ongoing institutional arrangements. What makes them "new," of course, is their design and their legislative and administrative formulation to meet current problems. But they are part and parcel of the continuing problem we have: of making a more perfect match between the individual and his environment--in this particular case, that part of his environment we call the world of work.

Early Results

In evaluating the first returns from the new legislation relating to training and retraining, two points should be made in a prefatory way. First, there are a whole series of provisions in the legislation which form important boundaries for the programs by way of eligibility for training, duration of training, etc. We will be alluding to some of the

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[1] See, especially, paragraphs 94, 95, and 96 of Mater et Magistra, Encyclical Letter of His Holiness Pope John XXIII on Christianity and Social Progress, May 15, 1961.

important ones as we go along, but a reading of the legislation and background is suggested for those who may wish to pursue these matters in greater detail.[2]

Second, as the program has developed, a substantial amount of statistical information relating to the characteristics of training programs and trainees has become available and much more will be forthcoming on a current basis as reporting systems become operational. In this paper only a few summary tables will be presented; additional data are available from our Office of Manpower, Automation and Training.[3] It has to be emphasized at this point, however, that the program is at its genesis, and the data should be used with some care since the numbers involved, in many of the tabulations are still relatively small.

To date, the following 17 points warrant mention in an evaluation of the start we have made on training and retraining programs.

1. President Kennedy signed the Manpower Development and Training Act (MDTA) on March 15, 1962, appropriations became available on August 14, 1962, contracts with the states (as required by the law) began to be signed soon afterward and the basic program began to move right after Labor Day, 1962. In the seven months or so since then, as additional states have come into the program, training projects covering about 33,000 trainees in all have been approved in every state except Louisiana, and in the other jurisdictions eligible under the Act (Puerto Rico, D. C., Virgin Islands). Currently about 2000 persons a week are being approved for training, which is putting us up to about the expected schedule for this fiscal year.

2. Involved are a little over 1000 different training programs to which the 33,000 persons have been committed. This item deserves emphasis in view of the fact that each program requires an assessment of what jobs are available in the community for which training can be given (the law requires there be a reasonable prognosis for getting a job after training), the guidance, counselling, testing, and selection of eligible persons who can take the training required by the jobs in the offing, the development of the required curricula, training sites, acquisition of needed equipment and teaching personnel, etc.

3. If the program continues at its present momentum, between 60,000 and 70,000 persons will be approved for training this fiscal year and if

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[2] A good review will be found in Report of the Secretary of Labor on Research and Training Activities under the Manpower Development and Training Act Transmitted to the Congress February 1963, Washington, D. C.: Government Printing Office, 1963).

[3] A current periodical entitled Training Facts, brings together this kind of information and is available upon request from OMAT, U. S. Department of Labor, Washington 25, D. C.

appropriations are made available as authorized by the law, another 140,000 are expected to be approved during the next fiscal year. These numbers are cited so that they can be juxtaposed against the 4 to 5 million unemployed we have had in recent times, and to emphasize the fact that the training effort is small, is experimental (the training provisions of MDTA are authorized for a period of three years), and is only one part of an over-all labor market policy.

4. I am impressed, as the program unfolds, with the number of job vacancies we are finding which can be used to document the need for training. For example, under the Area Redevelopment Act, where we are limited, by definition, to areas of substantial and persistent unemployment, we have found enough job vacancies to put into training all the people we can with the funds available to us. With an unemployment rate between $5\frac{1}{2}$ and 6 per cent since MDTA got under way, documenting jobs to support training programs has not been a limiting factor in the program.

5. More than 150 different occupational fields are represented so far in approved training programs. The Act carries no limitation on the kinds of jobs for which training can be conducted, with the exception of those which would require less than two weeks of training time. The result has been a very wide spectrum of job fields, as can be seen, in part, from the summary in Table 1 which covers the first 31,000 trainees under the program.

6. Some of the highlights of Table 1 warrant separate comment. Thus, almost 1 out of every 10 trainees is being aimed at a professional or managerial job. Most of them are bunched around medical service occupations (licensed, practical nurses, lab assistants, operating room technicians) and draftsmen, but the range is actually quite wide and includes programmers, statistical quality control assistants, engineering aides, etc.

More than 1 in 5 of all trainees is being prepared for clerical and sales jobs. In very large part, there are women learning secretarial, stenographic, and typing skills. Included are bilingual, legal, and medical secretaries. The over-all group also includes bookkeepers, accounting clerks, key punch operators, etc.

The largest single group of trainees (one-third of the total so far) is aiming at skilled industrial jobs--and these, of course, are mostly men, unlike the clerical group in which women predominate. Many of these are being trained for entry level jobs in the crafts as well as in pre-apprenticeship courses; but a significant number--especially in the repair occupations--are being brought up to date, building on skills they already have acquired in previous training and in their work experience. I am particularly impressed by the large numbers being trained for repair occupations where, as anyone who has tried to get a car, radio, TV, washing machine, or some other piece of equipment repaired knows, shortages of qualified personnel do exist.

7. It should be noted, continuing our reference to Table 1, that a very significant number of trainees are in courses leading to semi-

Table 1

Occupational Distribution of Approved Projects Under Manpower Development and Training Act/First 31,000 Trainees

Total	100.0%
Professional and Managerial	8.9
Medical service	5.0
Draftsmen	2.0
Other	1.9
Clerical and Sales	22.5
Secretary	1.7
Stenographer	9.0
Typist	7.7
Salesperson	2.3
Other	1.8
Skilled	32.2
Metalworking machinery craftsman	10.8
Auto mechanic and repairman	8.8
Other mechanics and repairman	5.7
Construction craftsmen (entry)	2.7
Woodworking machinery (entry)	1.3
Other	2.9
Semiskilled	26.7
Metalworking machinery operators	14.2
Textile machinery operators	4.0
Electronics assembler	2.4
Leather, leather products worker	1.4
Other	4.7
Service	8.6
Medical service aides	4.0
Waiter, waitress	1.8
Cook	1.6
Other	1.2
Agriculture	1.1

skilled jobs, predominantly in the metalworking sector of the economy, mostly as general machine operators. I mention this point separately to make overt, in turn, the fact that observers often point out that, for some types of jobs, changes are impending which can upend the occupation and quite possibly cause loss of a job not long after the trainee gets placed.

Since this is a matter which already has generated a considerable among of discussion on the general subject of training and retraining efforts, let me take advantage of my position at the moment by at least referring to the fact that much the same comment could be made on just about every occupational field listed in Table 1 (if not on just about every occupational field not listed in Table 1); that upcoming change and its effects are just as relevant to other forms of training, e.g., at the college and university level; that a good part of our focus should be on the quality of training being given, so that the person is given as broad-based training as possible, to leave him as flexible and responsive to change as possible; that it may very well be that many will have to be trained or retrained more than once and that we are really moving, in an evolutionary way, to a continuum of training efforts at all levels during our working lives as, indeed, many already have.

8. There is, of course, another relevant point to be made in this connection--one which we can make by reference to the remainder of Table 1 and the occupational fields listed, such as cooks, waiters, and some of the farm occupations. When all is said and done, any training effort has to be based on the people involved--their skills, aptitudes, interests, previous work experience, educational attainment, etc. The interplay of this dimension and the one pertaining to available jobs, represents, I suspect, the major context in which our programs have to be carried out. Thus, we have approved programs for, say, formal waiters, because a demonstrated job need was shown, the skill content and a corresponding curriculum were demonstrated, and we found unemployed men whose aptitudes, interests, and backgrounds made for a favorable prognosis for successful training and placement and therefore a shift from the unemployed rolls to gainful activity. Similarly, we are continuing to approve training programs in the farm sector where, e.g., we have successfully trained underemployed, very low income migrant workers for jobs as year-round farm machinery operators.

9. All of which brings us to the point of some reference to the characteristics of the trainees themselves. With the caveat, again, that data for those actually enrolled in courses are based on relatively small numbers, here are some of the highlights:

The first 10,000 actual enrollees under MDTA were distributed by age as follows:

Total	100.0%
Under 19 years	4.4
19-21	20.0
22-34	43.1
35-44	22.1
45 and over	10.5

Under provisions of the Act, youths under 19 may take training, but may not receive allowances during their training period; youths 19 through 21 (unless otherwise eligible by virtue of the fact that they are family heads, have had the required amount of labor force experience, etc.) may receive limited training allowances up to a maximum of $20 a week. As the brief summary table shows, about one-fourth of the first 10,000 trainees actually enrolled were youths under 22; this is just about the same proportion of youth as found among all the unemployed workers.

About two-thirds were in the age range 22 to 44, a much larger proportion than this category is of the total unemployed; among all unemployed, about 40 per cent are in the age group 22 to 44 years. Correspondingly, those 45 years of age and over made up about 10 per cent of enrolled trainees under MDTA, but account for about 30 per cent of all unemployed. So far, at least, we are falling short on providing a proportionate share of training for the older workers and a much greater effort will be needed in terms of job development, design of courses, and acceptance by employers of older workers.

10. Among our first enrolled 10,000 trainees, we find the following facts on educational attainment:

Total	100.0%
Less than 8 years of School	2.8
8 years	6.9
9-11 years	27.8
12 years	52.5
over 12 years	10.0

Thus, about 6 out of every 10 enrolled trainees have had a high school education or better; 4 out of 10 never got a high school diploma--and out of those, 1 in 10 never got beyond grade school. The high proportion of those with a high school education or better is, perhaps, not surprising in view of the occupational distributions we have discussed previously and, of course, their generally better chance of coming through the guidance, counselling, and testing processes the MDTA operations involve before selection and referral for training.

11. One of the forces to be reckoned with in the training and retraining effort revolves about the fact that given the requirements of the Act and the realities of the labor force, a disporportionately small number of persons with a low level of educational attainment would be enrolled. This can be particularly true in a situation where only a relatively small per cent of the total number of unemployed can be trained to begin with under current and immediately foreseeable funding. It would, in fact, be relatively easy to skim the cream of the unemployed and enroll those with the best prognosis for successful placement. To date, the enrollment figures reinforce this dimension. It has led us to deliberately stimulate, design and support special programs--many of them frankly experimental--which aim specifically at some of these disadvantaged groups.

Thus, we have just completed a training course for 25 tractor operators in Hammonton, New Jersey--a course which included training in the operation, maintenance, and repair of tractors and tractor implements, together with job-oriented arithmetic and English language instruction which was given in cooperation with Harvard University. The trainees, most of whom were Spanish speaking migratory workers, follow another group, all members of which were successfully placed at substantially higher wages and annual earnings than they had formerly earned.

We have entered into agreements with private agencies in such areas as New Haven, New York City, and Portsmouth, Virginia, for the guidance, counselling, testing, and training of particularly disadvantaged groups, with very low levels of educational attainment, many on relief rolls. These--and many others now being worked out--are supported in part by our research funds and will serve as demonstration projects on the feasibility of moving into meaningful training and retraining programs for these sectors of our population.

I have now seen enough of these operations to venture the personal (and therefore educated but unscientific) opinion that while "functional illiteracy" and similar ailments of part of the unemployed population are very real, very difficult barriers, they are hardly insurmountable, and it is extremely worthwhile, in fact, absolutely necessary, to overcome them in a free and democratic society. We are out to show that it can be done. We may fail in some cases, but we are taking seriously the urgings for "new approaches, new methods, bold efforts."

12. The experience, to date, with the first group of enrolled trainees is quite good in terms of the unemployment experience of those selected. Data are available for 6000 trainees and they show the following:

Total	100.0%
Unemployed less than 5 weeks	26.2
5-14 weeks	24.3
15-26 weeks	15.9
27-52 weeks	12.6
More than 52 weeks	21.0

It is encouraging that one out of every five of this first group of trainees had been out of work for more than a year, but did get selected for retraining. In fact, just about 50 per cent of this first group of enrollees met the official definition of long-term unemployment (15 weeks or more)--close to double the corresponding proportion among the total unemployed.

13. The placement rate among those who have completed training is 71 per cent. Our warning about small numbers is particularly apt here, in view of the fact that data are available for only about 2,000 completions, since these programs began not much more than 6 months ago and the average duration of training programs is close to 6 months (the

maximum allowable with support by training allowances is 52 weeks). Whether the placement rate will continue to be this high (and we hope to make it higher) remains to be seen. For those who want some standard against which to measure this rate of placement, it may be noted that ongoing vocational courses which deal predominantly with the young have a placement rate of about 80 per cent; Sweden, with a sharply lower overall unemployment rate, mobility allowances, a much longer period of retraining experience, has a placement rate of 75 per cent in its programs.

14. Like all other education and training programs, those operated under MDTA also have dropouts, i.e., persons who leave after referral to and entrance upon a training course. Here, too, the data are minimal, but show a drop-out rate of less than 15 per cent--a very low drop-out rate in comparison with any other known programs in the regular high school, post-high school, or adult training systems. If this low rate continues, it may very well be testimony to the substantial motivation on the part of these predominantly adult, family head, jobless workers.

The little bit of data we do have at this time, indicates that dropouts occur for a wide and familiar variety of reasons ranging from exits because of a job offer, illness, persistent absence from training course, marriage and pregnancy, to death.

15. Of particular concern to us is the frequency of drop-outs--and the problems generated even when there is no drop-out--by the inadequacy of training allowances in many cases. Under the law, an eligible person may receive an amount equivalent to the average unemployment insurance payment prevailing in his state (if his own record in covered employment warrants a higher payment he does, of course, receive that). The average for the U. S. is $35 a week; the range is from $22 to $43 for the 50 states, and the allowance may be paid up to a maximum of 52 weeks.

The problem comes to the fore particularly when a person has to sign up for a substantial period of time, e.g., a year--or even half a year, during which time he can receive only his training allowance. Any earnings from any work done outside training time are deducted from his allowance. In six states this means less than $100 a month; in practically all states this means less than $150 a month. Since the majority of trainees are family heads (under MDTA these are defined in terms of the standards in the Internal Revenue Code), a commitment to a long period of training with this kind of income can be an important constraint. We already have a significant number of cases where trainees have dropped out because they could not support their families on the allowances, where trainees were trying to hold on to some kind of a job while training, found the conflict in hours impossible and dropped out in favor of the job they held, where a family member has delayed entry into college to take a job while the family head was taking training, etc.

16. As our operations have progressed we have come face to face with some of the realities of the training situation in this country--

particularly in the shortage of qualified vocational educational facilities and teachers. Under MDTA, we may support the training effort through funds for needed additional equipment, rent, light, payments to trainers. In several states, however, we already have come upon the experience of having to delay and sometimes even to cancel out approved programs because of the lack of ongoing facilities with space and personnel to carry out the required training. Some of the provisions of H.R. 3000, now being considered by the Congress, are particularly relevant here.

17. As we indicated at the beginning, programs under MDTA are being consummated by ongoing institutional arrangements, through the operations of state and local educational and employment security agencies. This gives us a tremendous head start by being able to use their experience, facilities, contacts, etc. I am personally familiar with about 10 per cent of the training projects developed so far and I don't see how these 100 varied programs could have gotten under way without the existence, already, of a vocational education system in the locality, with the know-how, the facilities, and perhaps most important of all, the ability to get the necessary teachers. Much the same goes for the local employment service office with its knowledge of the labor market, its counselling and testing facilities, its knowledge of the unemployed, etc.

While many improvements can and have to be made in both systems, I think that we also still have a long way to go in interlacing both into a systematic program aimed at providing training and retraining for workers. I seriously think that one of the best developments that may come out of the first years of operations under MDTA is a closer link, at the local level where it counts, between those in charge of designing and providing education and those in charge of designing and providing effective labor market programs. The potential benefits, up and down and across the educational and employment security systems are incalculable.

These, then, are some of the points which emerge at the beginning stages of our operations under MDTA. We will be learning much more in the months ahead as more complete data on many more cases become available. And we will be undertaking many other items of evaluation which were not even touched upon in this paper, again as the programs develop. The Act itself speaks very strongly in requiring a complete evaluation of our operations. Thus, we will be getting data not only on completions of training, but in a more proving way, why some drop out before completion and, in fact, why some don't get selected for training to begin with. And even for those who do complete, our plans call for follow-up to see if placement does occur in jobs which are related to the training received, how well the person does on the job, etc. Also to be examined is the role of mobility in relation to these training programs. Unlike the Trade Expansion Act, the Manpower Development and Training Act does not provide for aiding in the movement of workers and the importance of this factor will be carefully reviewed in the near future.

E. Wight Bakke

From one point of view this has been the easiest commentary to prepare of any I have made in a number of years of attending conferences like this one. The period since the training programs we are discussing have been in effect is so short that any criticism of their results or even their structure or administration would be untimely. They have hardly had time to take their shakedown cruises yet. One could, therefore, comment that it is a real privilege to hear reports from one like Seymour Wolfbein, so intimately involved in and responsible for its early operations, and from an oldtimer like Bill Haber, who so frequently has his finger in the pie when social legislation of this sort is being prepared, and let it go at that.

From another point of view, this is the hardest commentary I have had to write. First, because the papers did not arrive until after I had left home. And second, because I have never been very successful at being a prophet which is about what one has to be in this situation.

My reaction to the efforts being made thus far on the retraining program by the responsible people in the Departments of Labor and Health, Education, and Welfare in Washington and in the states and local communities is therefore, "Give them the chance to show what they can do, before we start criticizing or suggesting how they could do it better."

There is one question I would like to raise, however, about this relatively new emphasis on training and retraining as a part of the whole roster of public manpower services. Is it possible that this program can serve broader objectives than its unquestioned service to individual unemployed workers? Can the effort be made an integral part, a genuinely supporting part, of a well coordinated, over-all, positive, labor market policy and program, aiming to make maximum use of our manpower potential for the nation's economic health and growth?

Now if you read the statement of purpose in the MDTA, that is exactly the intention. That statement is a broadly-gauged declaration that manpower development is to become a key aspect of the total public effort to marshall every economic resource we have to promote strength and growth in the economy. The hopes and expectations that are being raised by the publicity accompanying the early stages of the program are focused on the possible impact of the program in helping to eliminate this black mark of 5 to 6 per cent unemployment on our economic record. Those who are responsible for planning and administering the program have an enthusiasm and morale that is based on the belief that they are making such a contribution. What I have to say, therefore, is no criticism of them. It grows out of a desire to think with them on how these high hopes can be realized.

There is one way that this retraining program helps to reduce unemployment for particular individuals if not the aggregate amount. It will obviously help individuals who are unemployed to get jobs they would not have had. And I for one believe that will be worth all it costs, according to present estimates, if they find jobs after they are trained. Criticisms that it doesn't really hold out hope for all the unemployed, the hard core, for instance, or that it is a drop in the bucket in the light of the volume of unemployment in certain depressed areas, or that only 16,000 out of 127,000 who were tested were found capable of taking the training offered, i.e., only 12½ per cent, are from this point of view beside the point. If it turns out that those 16,000 trained get jobs they wouldn't have had, that is a real achievement in terms of the chance of that 16,000 to contribute by their work to their own, their families, and the nation's economic well being.

But if the program is to be an integral and useful part of an active manpower program making a real and major contribution to the government's commitment to promoting full employment, it would seem to me that the objectives, and hence the direction and concept, of the program will have to go beyond this unquestionably useful and worthy achievement of helping a necessarily limited number of unemployed to better work and a better life.

Let's think about this matter a bit. What guide lines might be suggested then for emphases that could enlarge the horizons of the training program from one of relief to individual unemployed to encompass a contribution to a positive labor market and manpower program, which in turn contributes to an over-all attempt to move nearer to full employment, economic strength and growth for the nation. I'll have time just to illustrate, but I am confident those in charge of policy, plans, and operation can amplify the possibilities if they give that contribution a major emphasis.

The success of the effort to approximate full employment rides on the creation of new jobs. It is not just enough to move presently unemployed people after retraining into jobs, for example clerical or even semi-skilled industrial jobs, which ordinarily might have been taken up by new youthful entrants into the labor market. Now economists generally are convinced that the big push in creating new jobs will come from demand expanding measures related to monetary and fiscal and investment policy. I agree with my colleagues on that score. But is there anything a training and retraining program can do in this area?

One thing that slows down economic expansion is actual shortages of people ready to perform in certain skilled bottleneck occupations. If those bottlenecks could be broken, thus reducing the inhibitions facing entrepreneurial management to expand or initiate enterprise requiring such skilled performance, not only could employment increase in these skilled occupations, but the establishment or expansion of the total enterprise of which they are a part would be likely to create more openings for less skilled people who also have to be employed in such productive enterprise.

Now it doesn't seem likely that a program of retraining for the unemployed to get them ready, even in 52 weeks, for work which promises to be available in the local labor market will reduce those shortages of highly skilled people. Aside from those who are able to afford formal training in, say, engineering for several years, the best candidates for training for those jobs are not the unemployed, but people already employed at jobs providing a foundation in know-how and experience upon which training for upgrading to those jobs can be based. But how would training employed people help the unemployed? What might be envisaged here is a chain-reaction upgrading, which would create openings down the skill levels which the unemployed could be more likely to fill with the kind of minimal retraining which is related to their skill potential and the limited public resources available for such retraining.

I think what is being suggested here is that a retraining program which is a part of a positive manpower program would be concerned not merely with training for existing unfilled local job openings for which existing locally unemployed workers had the skill potential to be trained. It would also be concerned with amplifying retraining for presently employed people so they could be upgraded to fill job shortages, which then would create job openings down the line until the skill level was reached which is realistically consistent with that which the unemployed after retraining could bring to the openings thus created.

Now this means an emphasis on <u>in-plant</u> training. No one would suggest, of course, that the government should pay for the training that General Motors gives to 7,200 workers a year so that they can be upgraded to skilled jobs for which General Motors would have an insufficient supply were it not for that program. Nor is it suggested that the government absorb IBM's cost for its program of training tens of thousands a year to service and educate in the use of their equipment and for other functions making possible the expansion of the production of their product. Other large corporations with the ability to implement their foresight and ambitions for expansion in this way are doing the same. Is it not possible, however, that the economic patriotism of many of these firms could be stimulated, with the training facilities, equipment, and faculty they have available, to expand their training effort with government subsidies, for the purpose of providing firms <u>other than their own</u> with persons capable of reducing <u>their</u> bottlenecks in highly skilled workers?

Another factor which inhibits investment in new enterprise, and hence in newly created jobs, particularly for ambitious <u>but small-scale</u> risk takers, is the cost of training workers in communities where workers but not the required skills are readily available. Could a system of cooperation from government through a partial support of their training program encourage these risk takers to take the plunge and hence get under way productive enterprise that promises not only opening up new jobs in the present but in the future also as these enterprises grow? Training costs are not, of course, as dominant a consideration as a number of other costs in influencing investment decision making, but any reduction in those costs is a positive influence in the right direction.

Incidentally, in supplying such training assistance to new and expanding industry, I am inclined to think the present MDTA Act is overly restrictive by limiting the proportion of training allowances which can be paid to youths between 19 and 22 to 5 per cent of the estimated annual total. Experience alone will tell, but, for many jobs, employer preferences for the younger trainees will probably become evident.

Even though the dominant public effort toward creating new job openings will probably continue to be related to fiscal, monetary, and investment programs, there is, in making entrepreneurship more likely in expanding and new industrial enterprise, a role for public training and retraining programs.

As a part of a positive manpower program, training effort would be concerned with long- as well as short-range labor force development. One thing which would characterize a training effort guided by the objective to contribute positively to continued economic strength and growth would be the provision of a general grounding in the basic sciences on which new industrial processes are going to rest. Existing vocational training both of the private apprentice and in-plant and institutional trade school types tend to prepare the trainees for immediate performance in particular narrow occupational areas. If there is anything which is clear to the students of our manpower problems and the administrators of our public manpower programs, it is that the expectancy anyone can have of continuing for a whole working life without facing major changes in the skill content in, or the actual disappearance of, the occupation for which one has been trained is diminishing to the vanishing point. Vocational and apprenticeship training in the past could count on this probability of continuity in job requirement to validate their emphasis on fairly specialized retraining. The hallmark of adequate vocational and apprenticeship training in the future promises to be training for <u>adaptation to change</u>, which implies more emphasis on basic scientific principles than in the past.

I am not suggesting that the public training efforts go in for a wholesale development of courses in basic science, but that they stimulate in every way possible--in the development of public vocational, and private apprenticeship and in-plant training--the broadening of the content base of courses with this adaptability of skill in mind.

There are already signs that one of the happy consequences of the initiation of federal training and retraining programs is in bringing the knowledge of labor market and labor force facts and trends available to the manpower people to the attention of the institutional and in-plant vocational training people with whom they have to cooperate in setting up training programs. This can be accomplished informally through the requirements established for federally supported courses and through demonstration projects. For example, in England the Ministry of Labor has already demonstrated that a one-year basic general <u>pre</u>-apprenticeship program can reduce actual on-the-job apprenticeship training from 4-6 to 2-4 years. The suggestion made here is that the effort of public manpower people to update the conception of the scope and imperatives of vocational and apprenticeship training among those who are always going to be the numerically most dominant trainees, be considered not just a fortunate by-product but a major concern and emphasis of the public training and retraining effort.

Finally, it may be suggested that a training program that can lay claim to being a major significant aspect of the entire public effort to move toward full employment, economic health and growth, will increasingly be oriented to the national rather than merely to local labor market needs and possibilities. The proclamation of intent to do this is implicit in the MDTA and explicit in the declarations of purpose made by those in charge of administering the Act. Frankly, I don't see as yet much indication of the way that intent is going to be brought out into life. The Act itself in its wise provision, during this experimental stage, that training courses in particular communities shall be geared to probable job openings (which usually means job openings in the same communities) tends to focus concern primarily on the local labor market. The hesitancy to pay traveling and removal allowances results in the same limitation. To the extent that, after the second year, costs are shared by the states, local pressures for spending local funds only when local benefits are obvious will become stronger.

I would welcome more discussion by the responsible leaders of the training and retraining program as to how their efforts can be made to demonstrate service to the needs of a <u>national labor market</u> other than by adding up the services provided to several hundred local labor markets.

As I said, these suggestions as to how policy, plans, and performance might move in the direction of making the retraining effort not just a service to individual unemployed but an integral part of an over-all positive economic labor market program have been merely illustrative. I wish there were time to discuss what some of the operating implications of such a direction would be. Let me merely name only five:

1. Although such an emphasis can be administered through a federal-state system, I think the funds will have to come predominantly if not entirely from federal sources.

2. The <u>major</u> breakthrough is likely to come, not from the present type of institutional training, but from marshalling the self-interest, the facilities, the instructors, and the probable availability of jobs that are present in the case of amplified in-plant training.

3. An enlarged emphasis on the basic, and not narrow, training of youth would be required with an eye not only on preparation for specific occupational tasks but on the need for adaptation to future shifts in the skill content and the actual disappearance of present-day occupations.

4. Since government efforts will always be marginal to the great volume of private effort in this business of training and retraining for work, heavy support can well be given to demonstration projects indicating new paths for private efforts to follow.

5. Manpower vocational development as a major part of public economic policy and program is still in its infancy and there is a real challenge here to the foresight and initiative of public servants who have a chance to participate in bringing it to maturity.

Nathaniel Goldfinger

I am grateful to those who arranged this conference for the invitation to participate. This conference, the research project to which it is related, and the current national interest in employment and labor market policies may all somehow contribute, I hope, to making up for the many years of neglect since publication of Beverage's Full Employment in a Free Society and the debates on the Employment Act--years when American economic thinking was set back by a spreading cult of technique at best, trivia and unintelligibility at worst.

If we are to make up for lost time and to achieve rapid progress in policy and program formulation, we need a rigorous re-examination of our problems, our analyses and efforts. Search for scapegoats will not prove helpful, for all of us have blinded ourselves to the realities as they have unfolded since the end of the Korean War--all of us, in varying degrees. I need only mention, here, society's crime against the coal miners and textile workers in 1953-1957, with hardly a murmur of protest except from those directly affected, while most of academia--like most of the rest of us--concentrated attention on a general demand--inflation that was long since gone.

As I see it, employment and labor market policy should be at the center of economic thinking, for manpower is our most precious resource, and the satisfaction of human beings is, or should be, a basic goal of national policy.

In attempting to re-focus our thinking on employment and labor market policy, there is need for an integrated framework of analyses, policies, programs, goals, and priorities--in other words, an integrated full employment policy. Such a framework and policy we do not yet have.

The goal, we all agree, is full employment, and I believe that we can also agree with Wolfbein's textual definition. While this vague goal may be satisfactory at the moment, it is not an adequate long-term objective for national policy. But to spell out the definition in a meaningful way for policy making--and I mean in aggregate terms--we need the kinds of labor market studies we do not have: studies that can provide us with an approximate measurement, in terms of the special conditions of the American labor market, of a minimum level of unemployment below which it would be hard to get even with active demand and labor market policies. Such a minimum level, I believe, is probably in the neighborhood of an unemployment rate of 2 to $2\frac{1}{2}$ per cent or so. It is a reflection on the sad disarray in American economic thinking of recent years, that the goal of full employment has so often been defined in terms of the price level, rather than as a function of the labor market.

But there are other issues of greater importance at this time. In 1963, with an unemployment rate of $5\frac{1}{2}$ to 6 per cent, the priority emphasis should be on a sustained effort to reduce unemployment as rapidly as possible.

I agree with Haber and Wolfbein that the causes of the high and rising levels of unemployment of the past decade are varied. But I believe that this crucial issue deserves more serious examination, in depth, than it has received to date. Adequate diagnosis is an essential prerequisite for an adequate remedy.

As I see it, the major underlying problem is a continuing deficiency of aggregate demand in relation to the economy's increasing ability to produce. This has been true ever since 1953--with the possible exception of a few months at the end of 1955 and early 1956. But related to this deficiency in aggregate demand are the depressing effects of shifts in the demand-mix--connected with such factors as changes in demography and consumer preference, radical shifts in defense technology, the increased importance of personal and business services, regressive trends in income distribution, and a slow-down of major innovations in the civilian economy.

Aggregate fiscal and monetary policies are the essential ingredient, I believe, for an adequate remedy. But monolithic reliance on the aggregate approach alone cannot be the sole key to the solution of our problem--not only because of changes in the demand-mix, but also because of growing structural problems in the labor market. Haber and Wolfbein have indicated generally what these problems are--rapid technological change in several key parts of the economy, the obsolescence of old skills and declining requirements for unskilled and semiskilled workers, the decline and/or relocation of firms and industries.

If there is any validity to this cursory diagnosis, our actual policies and programs in the past decade have been strange, indeed. Instead of top-priority emphasis on the expansion of aggregate demand and the development of programs to offset the depressing effects of shifts in the demand-mix, we have consistently, since 1953, encouraged and stimulated savings and subsidized investment in new plants and equipment--thereby aggravating the problem of under-utilization and contributing to the regressive shift in the distribution of income and wealth.

Since January 1961, spokesmen for the new Administration have usually posed the under-utilization problem as one that is due overwhelmingly, or even solely, to demand-deficiency. But the actual programs and policies of the past two years have been essentially aimed at structural problems--the Area Redevelopment Act, the Manpower Development and Training Act, the adjustment procedures of the Trade Expansion Act.

The cart has been put before the horse, and political realities create pressures for these much-belated programs to provide success stories. Instead of an integrated attack on the unemployment problem, we now have a developing proliferation of agencies and programs--sometimes overlapping and sometimes competing--in an attempt to solve structural problems in an environment of high unemployment.

There are a host of other problems that confront us in employment and labor market policies, in addition to these basic inconsistencies.

Because we are so late in getting started on an active labor market policy, we lack experience, precedent, and trained personnel. In addition, we are engaged in tokenism rather than in massive efforts to reduce unemployment--not only in relation to demand, but also in relation to structural problems.

Even the numbers that are supposed to impress us with the successes of ARA and MDTA are pitifully small in relation to the serious problem. Moreover, when we look at the figures--such as the data presented by Wolfbein--it does not look as if much emphasis has been placed on increasing the skill level of the labor force and on meeting the skill needs of an economy in the throes of radical technological change.

The base of our training program--the vocational education system, on which training and retraining must rest--is as poor or poorer than Haber has described.

In a rational labor market policy, an effective nation-wide employment service would be at the center. But even with the improvements in the employment service of the past two years, we have never had, except during the war, a national employment service with a labor market orientation. Such a service has been needed throughout the postwar period. It is even more necessary at present. A public relations approach alone cannot achieve the national employment service we need. At a minimum, clear federal standards and federal policy direction of the employment service are required, in my opinion, and probably also a requirement that companies operating on federal contracts place their job openings with the employment service.

The federal-state-local relationships present difficulties in training and retraining, in vocational education, and in area redevelopment, as well as in the employment service. These are practical realities which we must confront squarely. But unless we develop some clear sets of federal standards and basic federal nation-wide policy guide lines--in manpower training, vocational and technical education, in area redevelopment, and in the all-important employment service--we will continue merely to play around the periphery of structural unemployment problems, with a scattered proliferation of policies and programs, even if the economy should achieve a higher rate of economic growth.

Let me add that there have been some improvements in the employment service in the past two years. There are several good local vocational education systems. There are some examples of genuine achievements by ARA, and there are also a number of very good MDTA retraining programs. But thus far, they tend to be isolated cases rather than the general rule, and we are still far away, in actual practice, from an integrated employment and labor market policy in this nation.

We have permitted a trend towards a polarization of the population--perhaps as much as half of the labor force, essentially production and maintenance types of workers, who are subject to frequent unemployment and part-time work, who have suffered severe income losses in some cases, and who are generally subjected to very slow improvements in real incomes, and who are simultaneously lectured about wage restraints, costs, prices, and the balance of payment problems. At the other end is a group of about 20 per cent of the labor force consisting of managerial, professional, and higher paid technical personnel--with rising employment opportunities, rapidly increasing incomes and capital gains, who are not faced with guide lines for their income improvements or with appeals for restraint. This condition--attributable in large part to the slow rate of economic growth and high unemployment--is a potential threat to our society.

First, I think we need expansionary fiscal and monetary policies to boost substantially the demand for goods, services, and manpower.

Secondly, I believe we need the development of programs to offset the depressing effects of recent shifts in the demand-mix--probably in the area of substantial increases in job-creating and materials-utilizing public investment programs, such as urban redevelopment and mass transportation. Related to such efforts, I think we likewise need specific job-creating programs for youth and for the long-term unemployed--those unskilled and semiskilled workers, who have been displaced by radical technological change, and find retraining impossible or difficult.

Thirdly, we need, I believe, a meaningful and active labor market policy, including relocation allowances for workers. Such an active labor market policy, as I have briefly indicated in these comments, should be an integrated part of an over-all full employment policy.

But in all of this, tokenism will not do. Unemployment is a serious economic and social problem. Massive, genuine efforts are needed to create jobs, to revive depressed areas to the extent that it is possible, to encourage labor mobility, and to upgrade the skills of the labor force to meet the skill requirements of the radical technological changes of this decade. And underlying such massive efforts must be a national, integrated employment and labor market policy--a meaningful full employment policy that is actually enforced.

Gerald G. Somers

There can be little disagreement with the major conclusions reached by Professor Haber and Dr. Wolfbein in their excellent evaluations of retraining and labor market policies.* The Department of Labor officials responsible for evaluation of the Manpower Development and Training Act reach many of the same conclusions in their first annual report on the Act; and these points are reiterated in the Manpower Report of the President, issued a few weeks ago.[1] Several recent newspaper accounts and magazine articles have drawn a roughly similar picture.

On the whole, the conclusions reached by Professor Haber and other critics are disheartening. They are disheartening not because retraining lacks potential for long-run good, but because the programs to date appear to be having such limited short-run impact on the hard core of unemployment. The disillusionment is greater because the initial expectations were so high. In the various Congressional hearings on unemployment policies, retraining proposals met with an almost "unanimous chorus of praise." After all, training is education, and who can be opposed to education? Training is the vehicle for occupational mobility, and in a dynamic economy of structural change who can be opposed to mobility?

But the expectations and current experience must both be seen in perspective. Retraining has three major functions: (1) short-run increase in employment; (2) long-run economic growth; (3) improvement in the welfare and general well-being of the trainees and society. Regardless of any short-run deficiencies, there can be little doubt that retraining the unemployed is a worthwhile enterprise from the standpoints of the long-run economic growth of the American economy and the general well-being of its citizens. In fact, some authorities are now saying that the investment in human resources, through education and training, has accounted for a greater part of our economic growth than the investment in capital equipment. Even if immediate employment does not result, the acquisition of new skills and knowledge by the unemployed is likely to make some future contribution to their own advancement and that of the economy.

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* Portions of this discussion are derived from research conducted under a grant from the Ford Foundation to evaluate programs for retraining and relocating unemployed workers.

[1] Report of the Secretary of Labor on Research and Training Activities Under the Manpower Development and Training Act, U. S. Department of Labor, February, 1963, especially pp. 63-65; Manpower Report of the President and A Report on Manpower Requirements, The Sources, Utilization and Training, U. S. Department of Labor, March, 1963, especially pp. 115-116.

Retraining allowances will usually take the place of unemployment compensation or relief payments for unemployed workers. Given these small additions to the costs for society, in what better way can the unemployed spend their moments of enforced idleness than in the acquisition of new skills? Our research provides ample evidence that retraining can give a new sense of pride, confidence, and social status to unemployed workers; and these represent substantial social gains regardless of immediate labor market consequences.

Therefore, I would favor a greatly expanded program for retraining of the unemployed even if it could be demonstrated that no immediate jobs were created thereby. I believe that Haber and Wolfbein would share this view. But most of those who have supported recent retraining measures have been more concerned with the current problems of unemployment than with long-run growth and well-being. And herein lies the disillusionment. The short-run concern can be seen in the MDTA provisions which restrict retraining to those who have "a reasonable expectation of employment"; in the incorporation of retraining provisions in the Area Redevelopment Act's attack on depressed areas; in the inclusion of retraining to meet the dislocations which may result from the Trade Expansion Act; in the retraining provisions espoused in the Youth Conservation Bill; and in the many state and local efforts to reduce relief rolls through retraining.

And yet, as the papers presented today make clear, retraining has achieved only minor reductions in unemployment to date. Professor Haber and other critics have noted deficiencies in the current programs; and our own research, although still in process, supports many of these findings. Some deficiencies are minor. They are recognized by the training authorities and can be corrected with the passage of time. Our responses from trainees, employers, unions, and government officials indicate that some of the current ARA and MDTA courses are too short for the occupational objectives they seek to achieve; equipment is often inadequate in quantity and quality, and frequently it is available to unemployed trainees for only a few hours in the evening; instructors may be out of touch with the latest techniques; training allowances are often inadequate; retrained workers are not provided the tools which they are expected to bring to the job; local advisory committees have not always functioned effectively; and the complicated relations between the Office of Manpower, Automation and Training, the Bureau of Employment Security, and Health, Education, and Welfare--both in Washington and at the local level--have sometimes served to delay the inception of programs and impair their effective functioning.

However, these are growing pains and they can be expected to diminish as greater experience is gained. The relatively meager accomplishments of the retraining programs to date are understandable because they have just begun, but the real concern for their future success stems from more fundamental causes. Although these have been touched on by Professor Haber and Dr. Wolfbein, a few points that they raise deserve greater emphasis.

Immediate Employment Effects of Retraining

To what extent have the present government retraining programs really created more jobs for the unemployed and to what extent are they likely to do so in the future? This is obviously a very basic question, and it can be fully answered only with much more research and a longer period of analysis. Some pertinent considerations are merely suggested here.

First, government-subsidized retraining of unemployed workers will create immediate employment only if vacancies exist which would not be filled in the absence of the retraining programs. It is frequently pointed out that there are still shortage occupations in spite of the large volume of unemployment. The shortages are said to occur at four levels: first, the professional level--scientists, engineers, teachers, etc.; second, the lower technical level, such as laboratory assistants, data processors, keypunchers, draftsmen, etc.; third, the skilled manual trades, such as electricians, automobile mechanics, and building craftsmen; and fourth, low-level service trades, such as waitresses and nurses aids. The professional categories are clearly beyond the scope of the present retraining programs because of the time required for the completion of training and the inadequate educational preparation of most of the unemployed.

If shortages exist at the two intermediate levels, and if the vacancies can be filled by training workers in courses ranging from 16 to 52 weeks, in the ARA and MDTA programs, why are the shortages not filled by the training programs of private employers? On-the-job training, apprentice training, and other varieties of these private programs have traditionally been used to fill shortages, and they continue to be the most widespread form of occupational training in the United States. A Department of Labor survey conducted among more than 710,000 establishments in the spring of 1962 found that $2\frac{1}{2}$ million workers were actually being trained in these establishments at that time.[2] Three-fourths of all establishments with 500 or more employees had training programs. These data are to be compared with the few thousand that have been trained under the ARA and MDTA to date, and even with the 400,000 to be trained under the MDTA's total three-year program.

If employers are not training workers to fill the shortages at the intermediate occupational levels, it must be because they feel that the shortages are not sufficiently great or persistent or the qualifications of potential trainees are not sufficiently promising to warrant the training investment. In some cases the investment would involve the establishment of training facilities. Since they fail to undertake an upgrading program to fill shortages by drawing from among their own employees, they are even less likely to hire and retrain unemployed workers for the intermediate job vacancies.

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[2] Manpower Report of the President, p. 197.

Under these circumstances, a government program of retraining will induce employers to hire formerly unemployed workers only if the government program represents a sufficient subsidy. The subsidy must be large enough to induce him to fill a vacancy which he would not fill if left to his own devices. Only then can we say that the government retraining program has created employment.

The low-level service occupations represent a different kind of shortage. Here the shortage is related to low wages, undesirable working conditions, and high turnover. The retraining subsidy in this case is more crucial for the worker than the employer. Hospitals are willing to hire nurses aids and orderlies with minimal skill and training. But how to induce workers to acquire even this minimal skill for a job which they do not consider very desirable in the first place? Training allowances provide an incentive to undertake such training courses, and the trainees are thereby placed under some obligation to accept the job for which they have been trained. Unfortunately, our follow-up surveys indicate that having benefitted from the training allowance during the course, many of the trainees stay on the hospital job for only a short time after completion of their training. The shortages then continue in spite of the training program. As Wolfbein has noted, the major contribution that the government programs can make here is the possible inducement of higher wages and better conditions commensurate with the higher productivity of the trainees.

A second basic problem, related to the question of immediate job creation and referred to by Professor Haber and other commentators on retraining, is the failure of the current programs to get at the older worker, the under-educated and minorities--the truly hard core of the unemployed. Perhaps the most striking evidence of this failure is seen in the age comparison between MDTA trainees and the long-term unemployed as a whole. Only 8.9 per cent of the male trainees enrolled in 1962 were over 45 years of age, whereas 31.9 per cent of all males unemployed six months or longer in 1962 were over 45.[3] A similar contrast is found in the age composition of ARA trainees and the age composition of all unemployed in the depressed areas to which ARA is directed.

It is generally conceded that greater experimentation must take place in formulating retraining programs for older workers and the ill-educated. These characteristics are often found in the same persons. The many functional illiterates found among the unemployed cannot hope to pass the screening interview or understand the aptitude test for retraining, let alone handle the content of the training course itself in any but the low-level service occupations. Efforts to educate and retrain these people are clearly desirable from the standpoints of long-run economic growth and general well-being.

But will the extension of retraining to the hard core make any substantial contribution to immediate job creation in the present economy?

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[3] Ibid., p. 47, and Report of the Secretary of Labor on MDTA, p. 55.

It must be noted that only 60 per cent of the ARA trainees and 70 per cent of the MDTA trainees are now being placed on jobs, even under the current selective recruiting standards. It is likely that the placement ratio would drop still further if selection criteria were changed to include more older, ill-educated, and minority groups. In the terminology used above, the subsidy-inducement to employers would have to be raised still further to overcome their traditional attitudes to the hiring of workers in these categories.

This leads to a third fundamental problem of job placement in the retraining field--the anomolous role of the Employment Service. Can the Service be expected to reduce its standards for the selection of trainees as long as its success rating in Congress and elsewhere depends on its job placement ratio? Certainly, if the hard core of the unemployed are to be included in the retraining programs, the Employment Service's contribution to the programs must be judged in terms other than the success of immediate job placement.

On the other hand, given the Service's present selective standards for trainee recruits, and its efforts to make a good showing in job placement, can we be sure that a job obtained after retraining results from the skills acquired in the training course? Professor Haber finds justification for the retraining programs in the job placement of unemployed workers following completion of their course. It can certainly be held that even if only 60-70 per cent of the trainees are placed, the programs must be considered a worthwhile venture on the score of job creation. The big unanswered question is whether these workers--the cream of the unemployed--would have obtained a job just as readily if they had been bypassed in training but were given the same treatment as the trainees in careful testing, selection, and placement efforts by the Employment Service.

Our surveys among employers indicate that the careful screening and selection of trainees by the Employment Service is a major influence on the employer's willingness to hire them. In many cases the actual skills acquired in the course play a secondary role. Employers are also influenced by the special placement efforts made on behalf of the trainees by the Employment Service. Trying to establish a good record under the new program, many of the local offices have given special emphasis to the placement of trainees. A case in point is the ARA program in Huntington, West Virginia--the first in the nation. Following national criticism of an initially poor placement record, the local employment office was urged to make greater efforts to find jobs for the trainees, and it succeeded in raising the placement ratio above the national average for other ARA programs.

Some Policy Recommendations

Of the many policy recommendations which might be offered for the future course of MDTA retraining, some of which are noted by Professor Haber and the Department of Labor reports, three questions stemming from the analysis above deserve greater emphasis than they have been given:

the role to be played by on-the-job training; the most effective relationship between retraining and relocation; and the relationship of retraining and accelerated economic growth.

1. The immediate employment effects resulting from government subsidized retraining could be enhanced by subsidized on-the-job training. The on-the-job training provisions of the MDTA are just now in the process of being implemented for the first time since passage of the Act over a year ago. However, a number of the ARA retraining programs have been so closely geared to the needs of a single employer that they provide a useful experience by which to judge the advantages--as well as some of the pitfalls--of on-the-job training for the unemployed.

By definition, the immediate job placement record of retraining will be greater if the unemployed are hired even before they are trained. The trainee benefits in morale by being assured of employment and the employer is provided with employees trained to the specifications of his particular job. The subsidy to the employer embodied in government-financed retraining can be a more direct and more attractive inducement to his expansion of employment opportunities when he gains greater control of the retraining procedures and content. Our surveys indicate that many employers, especially in such service occupations as auto repair and nurses' aids, would prefer this type of arrangement. In view of the slow start of the MDTA and the continuing shortage of vocational school facilities and instructors, it is not likely that the goal of 400,000 trainees can be achieved in three years without widespread use of on-the-job training.

But caution must be observed to ensure that much of the training is extended to unemployed workers and not only to the upgrading of existing employees. Our analysis indicates that many employers might prefer to use the government-subsidized retraining provisions in ways which offer little benefit for the unemployed. The recently-issued manual of procedure for on-the-job training under MDTA does not appear to include sufficient safeguards on this point. Care must also be taken to see that employees are assured some continuity of employment after their government-subsidized on-the-job training. Workers trained for a specific job in a specific plant will be placed in a vulnerable position if they are again set adrift among the unemployed. There have been some unfortunate experiences along this line under ARA programs geared to a specific employer. Here, too, the manual of procedure for MDTA on-the-job training does not appear to provide sufficient safeguards.

2. Relocation of retrained workers will frequently be necessary if the retraining investment is to bear fruit in job placement. This is especially true of retraining in depressed areas. It is not always recognized that the acquisition of new skills through a retraining program is in itself a powerful inducement to move out of an area of limited employment opportunities. In our study of McDowell County, West Virginia--a depressed coal mining area--it was found that almost one-third of the trainees under a state program for the unemployed had moved out of the county by the time of our interview survey. We managed to track down over

100 of the West Virginia outmigrants through mail questionnaires and personal interviews. In a preliminary tabulation, over 40 per cent indicated that their decision to move had been influenced by their training. However, only half of these were employed, as compared with 60 per cent of the total outmigrant group and roughly the same percentage who found employment under all ARA retraining programs.

One lesson to be learned here is that the major role of relocation allowances could be not to induce more outmigration but rather a more rational outmigration. By making the allowance contingent upon a move to known job opportunities, much fruitless geographic movement could be avoided. A second lesson is directly related to the planning of training programs in depressed areas. Less than 3 per cent of the outmigrants were over 50 years of age. Training courses for unskilled older workers should be mainly in low service occupations, geared to local opportunities. Younger workers in depressed areas should be given training in welding or some of the expanding intermediate occupations which presuppose their migration to areas in which industrial growth is taking place.

3. Finally, one must end with the customary caveat that retraining can do little to provide employment opportunities unless accompanied by vigorous policies designed to accelerate the rate of over-all economic growth. It is a point that "structuralists" all recognize and the "aggregate demand school" constantly repeats. But little attention is given in research or policy implementation to the changing requirements of the retraining programs as economic growth accelerates and we approach full employment. The closer we come to full employment, under expansionary monetary-fiscal policy, the greater will be the number of job vacancies and the need for retraining. But it can be expected that employers will then be willing to conduct more of this retraining themselves and the subsidy provided by the government programs may be less essential for increasing over-all employment levels.

As we approach full employment, the role of government-suzsidized retraining can and should change--and the change should be reflected in the types of courses approved. The emphasis should shift from the immediate creation of employment through retraining to the most efficient utilization and allocation of manpower resources in continuing long-run economic growth. As noted above, this is the major contribution to be made by government subsidies in the labor market, in any case.

Immersed as they are in the immediate problems of the unemployed, it is understandable that those responsible for the government retraining programs have given little consideration to the changing requirements of the programs at various levels of economic growth and employment. But it is a question to which increasing attention will have to be given if government retraining is to fulfill its primary functions.

II

THE PROBLEM OF EXPANDING ECONOMIC ACTIVITY

Addresses:	Walter W. Heller
	Otto Eckstein
Discussion:	Albert Rees
	Paul W. McCracken
	Don Vial

WALTER W. HELLER

The case for vigorous measures to expand aggregate demand seems to be self-evident in an economy with $5\frac{1}{2}$ to 6 per cent unemployment, output running well below both capacity and preferred operating rates, and GNP running at $572 billion when it could readily be $600 to $610 billion (at 4 per cent unemployment).* But that's just the starting point for analysis and research to determine the proper size and mix of demand stimulants and structural measures to bring us to our employment (and growth) goals.

The role and effectiveness of measures to expand consumer and investment demand depend heavily on the structural impediments to the flow of labor into available jobs. How far demand boosters can be pushed without touching off inflation depends heavily on the "fit" of the labor force in terms of skills and location to the jobs that expansion opens up. So the problem of structural unemployment--its size, nature, and trends--looms large in any discussion of aggregate demand policy, and it looms large in this paper.

Once structural unemployment is put in its rightful place, full employment policy has to define the deficiency of demand it is tackling, i.e., has to measure potential and actual demand and project their anticipated course. Either near-term or further down the road, is enough demand in sight to meet our goals without fiscal-monetary stimulants?

And if not, can we squeeze much additional demand out of shifts in the distributive shares? And again, if not, what does the President's tax program offer by way of fiscal nourishment for a slack economy? These are the questions to which this paper is addressed.

In the period of vigorous business activity in 1947 and 1948, the unemployment rate averaged 3.8 per cent of the labor force. After the recession of 1949 and the recovery of 1950, the rate remained approximately stable from early 1951 to late 1953, averaging 3.1 per cent. Thus, between 1947-1948 and 1951-1953, the unemployment rate fell by about one-fifth. Since that time, the rate has drifted upward. After the recession and recovery of 1953 and 1954, another period of stable unemployment was reached which lasted from mid-1955 to late 1957. During this period the unemployment rate averaged about 4.2 per cent, an increase of more than one-third above the 1951-1953 period. Again after the recession and recovery of 1957-1959, the unemployment rate stabilized briefly at a level of about 5.3 per cent in the first half of 1960--nearly one-fourth above the 1955-1957 level and more than two-thirds above the average for 1951-1953. Following the recession and recovery of 1960-1961, the rate fluctuated within a narrow range averaging 5.6 per cent in 1962--a little higher than in early 1960.

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* I wish to acknowledge the collaboration of Warren Smith and George Perry in the preparation of this paper as well as the underlying work on structural unemployment by Norman J. Simler and Edward Kalachek. All are members of the staff of the Council of Economic Advisers.

No doubt the exceptionally low level of unemployment in 1951-1953 was partly a result of the fact that the economy was operating under forced draft during the Korean War. Although this was the one period since World War II during which we actually experienced an extended period of declining wholesale prices, this doubtless reflects the fact that speculative forces pushed many prices in 1950 and early 1951 above levels that were sustainable on the basis of the advance in other prices and in wage rates in the U. S. and abroad.

It has been our view at the Council of Economic Advisers that the rise in unemployment in recent years has been caused primarily by inadequate growth of aggregate demand. Accordingly, we believe that the primary--although certainly not the only--line of attack on the twin problems of high unemployment and slow growth must be through measures--such as the President's program of tax reduction and reform--to speed the growth of total demand.

The Causes of Unemployment

There are two main views with respect to the causes of our present unemployment problem. The first is that the problem stems from lack of sufficient demand for labor to absorb all of those seeking work. According to this view, the primary solution to the problem lies in the adoption of monetary and fiscal policies which will expand total demand for goods and services, thus indirectly increasing the demand for labor and creating new job opportunities to absorb the unemployed.

The alternative thesis is that a fundamental cause of our heavy unemployment in recent years is the appearance of serious imbalances in our labor markets associated with technological change (for example, automation) and with other structural changes which have altered the composition of demand for labor. According to this argument, in many cases the unemployed either (a) do not possess the proper training or ability to fill the jobs that are actually or potentially available, or (b) are not located geographically where job vacancies are present or can be expected to open up and are either unable or unwilling to move, or (c) are unable to learn of the existence of suitable jobs. The problem, in other words, is primarily one of "square pegs" and "round holes." According to this view, a primary attack on the unemployment problem must be through the training and retraining of workers to raise their skill levels and fit them to fill the available jobs, through measures to increase the geographical mobility of labor, and through efforts to increase the dissemination of information concerning job opportunities.

Many supporters of the structural unemployment thesis would probably accept the proposition that some autonomous stimulus to total demand is necessary if unemployment is to be reduced substantially, but they would insist that vigorous application of structural measures is also vital. At the same time, most of them apparently also feel that structural measures by themselves without any autonomous demand stimulus can contribute importantly to the reduction of unemployment. On the other hand, most of those who would place the primary emphasis on demand creation as a means of dealing with unemployment would concede that such a policy could not reduce unemployment indefinitely without encountering difficulties whose resolution would require resort to structural measures. Nevertheless, there does exist a difference of opinion concerning the weights to be attached to demand creation on the one hand and structural adjustments on the other; in particular, there seems to be considerable skepticism in some circles as to whether expansion of aggregate demand by means of such measures as the Administration's proposed program of tax reduction and reform is capable of making significant inroads on unemployment.

It is important to recognize at the outset that even if the unemployment problem were primarily structural, even if it reflected primarily a mismatching of jobs and workers, a sufficient autonomous expansion of aggregate monetary demand brought about by monetary or fiscal measures should be capable of melting it away. The expansion process would set up forces working on both the supply and demand sides of the economy which would work toward an improved matching of jobs and men. Occupations in which there were labor shortages would experience rapidly rising incomes, which would attract new workers entering the labor force, induce older workers to retrain themselves for the more attractive jobs, and motivate employers to set up programs to train and retrain workers to meet their needs. To the extent that alternative productive techniques were available, changes in relative wage rates would make more attractive those techniques which used the kinds of labor that were readily available. Prices of products utilizing labor of the kinds that were in short supply would rise relative to prices of products utilizing labor which was amply available, inducing shifts of demand toward the latter products and opening up jobs for less skilled workers. Labor shortages would generate increased recruiting efforts by employers, thus resulting in more widespread dissemination of job information. The appearance of premium wages would induce workers possessing the appropriate training and ability to relocate in areas where jobs were available. By these and other means, market adjustments involving changes in relative prices and wages would be generated by expanding demand and should be capable of bringing about an improved matching of men and jobs, thereby reducing unemployment.

Indeed, in an economy in which prices and wages were flexible in both directions, this readaptation might come about without an increase in monetary demand as a result of declines in wages and prices in sectors and occupations having an excess supply of labor. But it is widely recognized that in the U. S. today prices and wages are much less flexible downward than upward. The result is that, while some adjustments may take place gradually through relative price and wage changes even without an increase in total demand, vigorous and rapid elimination of a serious mismatching of men and jobs would probably require an expansion of monetary demand. The adjustment would come primarily from an increase in wages and prices in those sectors and occupations suffering from labor shortages.

Thus, serious structural imbalances in labor markets do not mean that demand creation is incapable of reducing unemployment. But such imbalances would confront demand-creating policies with inflationary pressures much sooner than if unemployment is widely dispersed among occupations. In the latter case, the increased labor demands resulting from an expansionary policy can readily be met, with little need for relative price changes to readapt demand and supply in particular markets. In that case, the inflationary potential of demand creation will be minimal.[1]

Increase in Unemployment 1957-1962 by Occupation and Industry

While the specter of structural (or technological) unemployment has often been raised in the past, it has recently taken on a new urgency related to the rise of "automation," and it is frequently invoked as a major explanation of the increase in unemployment that has occurred since 1957. One formulation of the structural unemployment thesis may be expressed as follows: In earlier periods technological change resulted in the specialization of function and division of labor. This simplication of the work process created many semi-skilled and unskilled jobs. But, by contrast, in recent years further technological changes--including automation--have been reintegrating the production process and eliminating many semi-skilled and unskilled jobs. The workers displaced in this way cannot fill the jobs that are now available or the jobs would be likely to be made available by measures designed merely to increase aggregate demand.

If a substantial part of the increase in unemployment since 1957 were accounted for by this explanation, one would expect to find unusually large increases in unemployment (a) among blue-collar workers--craftsmen, the semi-skilled, and the unskilled--whose former jobs were such as to be vulnerable to displacement by automation and other technical change, and (b) among goods-producing industries--mining, manufacturing, construction, transportation, and public utilities--which have so far experienced the widest application of automation. And one would also expect the increases in unemployment to be considerable smaller in other occupations and industries. Indeed, in professional, technical, and managerial occupations one might expect to find labor

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[1] It should, of course, be recognized that the absence of serious structural imbalances in the labor market--or the adoption of adequate measures to deal with them--is not sufficient by itself to insure that inflation will be avoided in the process of reducing unemployment. Even in the absence of structural difficulties, the exercise of market power by large firms or large labor organizations or both can be a source of inflationary difficulties during a period of declining unemployment. The wage-price guideposts set forth by the Council of Economic Advisers in its Annual Report for 1962 (pp. 185-190) and reaffirmed in its Annual Report for 1963 (pp. 85-86) are aimed primarily at this problem. In addition, bottlenecks could arise in particular industries as a result of capital shortages; at the present time, however, the existence of widespread excess plant capacity suggests that this problem is not likely to be a significant one.

shortages, since workers in these fields would be those capable of adapting themselves to the increased demands of automation.

Over the entire postwar period, there does seem to be a decline in the rate of increase in employment in blue-collar occupations and goods-producing industries (see Table 1). But when we examine the facts concerning changes in unemployment rates since 1957, we do not find much evidence of unusual behavior. Unemployment has risen by more than the average in some goods-producing industries and blue-collar occupations and by less than the average in others (see Column 4 of Table 2). Treating all goods-producing industries as a unit, the unemployment rate has risen by one percentage point, the same as for all other experienced wage and salary workers. Treating all blue-collar occupations as a unit, the rate has risen by 1.4 percentage points--which is a larger than average increase.

However, this is not abnormal. We know that when unemployment rises because of a deficiency in demand, the incidence of the increase is never evenly spread. Workers in higher skill categories are often "overhead" workers, who are kept on the payroll even when activity slows down and the immediate need for their services becomes less urgent. Goods-producing industries are most cyclically sensitive, causing workers in these activities to be most adversely affected. Likewise unskilled and semi-skilled workers are disproportionately affected, because of the industries in which they are mostly employed and because of the vulnerability of persons in low skill categories. The rise in unemployment in these activities should then be evaluated not just against the rise in the over-all rate but against the normal increase in unemployment in blue-collar occupations and goods-producing industries that is to be expected when the over-all unemployment rate increases. Our studies of the postwar relationships between unemployment in specific occupations and industries and the over-all unemployment rate for experienced workers show that for some of these occupations and industries the actual increase is greater than the expected, but in most cases it is less (see Column 5 of Table 2). For all pertinent occupations and industries, taken together, the rise in unemployment is significantly less than would be expected.

Although the data may actually seem to suggest a decline in structural unemployment since 1957 rather than a rise, it should be remembered that terminal year comparisons can be affected by a variety of erratic factors. The main conclusion to be drawn from the analysis is that changes in the over-all unemployment rate explain most of the fluctuations in unemployment in the specific occupations and industries. Moreover, in general, the relationship between unemployment in these occupations and industries and the over-all rate has not changed over time. If unemployment in blue-collar occupations and goods-producing industries is correlated with the over-all unemployment rate and time for the postwar period, the partial correlation coefficient for the time trend is not significant, except for construction. In some instances--nondurable goods manufacturing and skilled workers--the trend coefficient

Table 1

Average Annual Changes in Employment--
Blue-Collar Occupations and Goods-Producing Industries

(thousands)

Occupation or industry	1948-53	1953-57	1957-62
Blue-collar occupations[a]	201	10	-97
Craftsmen, foremen, and kindred workers (skilled)	94	27	12
Operatives and kindred workers (semi-skilled)	70	-29	-89
Laborers, except farm and mine (unskilled)	37	12	-20
Goods-producing industries[b]	425	-40	-230
Manufacturing	339	-94	-85
Mining	-26	-10	-36
Contract construction	91	75	-45
Transportation and public utilities	20	-12	-63

Source: U. S. Department of Labor.

[a] Household survey data; data for 1957 and 1962 adjusted for comparability with prior data.

[b] Establishment data.

Table 2

Unemployment Rates in Industries and Occupations Most Likely to be Affected by Automation, 1957-62

(per cent[a])

Industry or occupation	1957	1961	1962	Change in rate 1957-62 Actual	Change in rate 1957-62 Expected[b]	Change in rate 1961-62 Actual
All workers	4.3	6.7	5.6	1.3	--	-1.1
Experienced wage and salary workers	4.5	6.8	5.5	1.0	--	-1.3
Workers in selected industries (goods producing)	5.4	8.3	6.4	1.0	1.3	-1.9
Mining, forestry, and fisheries	6.3	11.6	8.6	2.3	1.8	-3.0
Construction	9.8	14.1	12.0	2.2	1.8	-2.1
Durable goods manufacturing	4.9	8.4	5.7	.8	1.4	-2.7
Nondurable goods manufacturing	5.3	6.7	5.9	.6	1.0	-.8
Transportation and public utilities	3.1	5.1	3.9	.8	1.0	-1.2
Experienced workers	3.9	5.9	4.9	1.0	--	-1.0
Workers in selected occupations (blue collar)	6.0	9.2	7.4	1.4	1.7	-1.8
Craftsmen, foremen, and kindred workers (skilled)	3.8	6.3	5.1	1.3	1.3	-1.2
Operatives and kindred workers (semi-skilled)	6.3	9.6	7.5	1.2	1.6	-2.1
Laborers, except farm and mine (unskilled)	9.4	14.5	12.4	3.0	2.6	-2.1

Sources: U. S. Department of Labor and Council of Economic Advisers.

[a] Per cent of civilian labor force in group.

[b] Calculated by use of correlations of (a) unemployment rates by industry with the rate for all experienced wage and salary workers, and (b) unemployment rates by occupation with the rate for all experienced workers, using data for the period 1948-1957 in both cases.

is negative.[2]

Unemployment also increased substantially between 1957 and 1962 in service industries, and in occupations other than blue collar (see Column 4 of Table 3). In fact, unemployment has risen since 1957 in every major industry including those with the most rapid rates of growth in employment and in every major occupation (excepting only farm owners) including those where labor is generally believed to be even now in short supply. The fact that the rise has been so widely dispersed can be attributed to the slackening of employment growth in all activities, to the high rate of interindustry mobility, and to the fact that new entrants are increasingly attracted to white-collar occupations and service-producing industries.

The Distribution of Unemployment Reductions 1961-1962

The evidence presented above indicates little basis for the view that structural change contributed significantly to the increase in unemployment between 1957 and 1962. Further refutation of the structural unemployment thesis is provided by the changes that occurred between 1961 and 1962. The over-all unemployment rate declined from 6.7 to 5.6, a drop of 16.4 per cent, as a result of an expansion of aggregate demand sufficient to produce a rise in GNP (valued at 1962 prices) of 5.4 per cent from $525.5 billion in 1961 to $553.9 billion in 1962. Unemployment declined substantially between 1961 and 1962 in the industries and occupation most likely to be unfavorably affected by structural factors (see the last column of Table 2). In some cases, indeed, the decline was substantially greater than the drop in the over-all rate. Thus, the unemployment rate fell by 3.0 points or 25.9 per cent in mining, by 2.7 points or 32.1 per cent in durable goods manufacturing, by 1.2 points or 23.5 per cent in transportation and public utilities, by 0.8 points or 19.0 per cent among craftsmen, and by 2.1 points or 21.9 per cent among operatives. In no case was the decline very much less than average.

Reductions in unemployment also occurred between 1961 and 1962 in all service industries and in all occupations other than blue collar (see the last column of Table 3). But in relative terms, the declines in unemployment in these industries and occupations tended to be somewhat below average.

Thus, if anything, the declines in unemployment associated with the expansion of aggregate demand between 1961 and 1962 were concentrated

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[2] As a final check, the unemployment rate in blue-collar occupations and goods-producing industries was correlated with the over-all rate and with a "discontinuity variable" which shifted values after 1957. The discontinuity variable was not a significant explanatory factor, except for construction. In other words, there is no evidence of any change in relationship after 1957.

Table 3

Unemployment Rates in Selected Industries
and Occupations, 1957-62

(per cent[a])

Industry or occupation	1957	1961	1962	Change 1957-62 Actual	Change 1957-62 Expected[b]	Change 1961-62 Actual
Selected industries:						
Wholesale and retail trade	4.5	7.2	6.3	1.8	.8	-.9
Finance, insurance, and real estate	1.8	3.3	3.1	1.3	.3	-.2
Service industries	3.4	4.9	4.3	.9	.7	-.6
Public administration	2.0	2.7	2.2	.2	.4	-.5
Selected occupations:						
Professional, technical, and kindred workers	1.2	2.0	1.7	.5	.3	-.3
Managers, officials, and proprietors, except farm	1.0	1.8	1.5	.5	.3	-.3
Clerical and kindred workers	2.8	4.6	3.9	1.1	.7	-.7
Sales workers	2.6	4.7	4.1	1.5	.5	-.6
Private household workers	3.7	5.9	4.9	1.2	1.0	-1.0
Service workers, except private household	5.1	7.4	6.4	1.3	1.0	-1.0

Sources: U. S. Department of Labor and Council of Economic Advisers.

[a] Per cent of civilian labor force in group.

[b] Calculated by use of correlations of (a) unemployment rates by industry with the rate for all experienced wage and salary workers, and (b) unemployment rates by occupation with rate for all experienced workers, using data for the period 1948-1957 in both cases.

in blue-collar occupations and goods-producing industries. Of course, this is what one would expect in view of the cycle-sensitivity of many of these occupations and industries. But it does clearly demonstrate that structural maladjustments have not insulated whole categories of workers from the benefits of expanding demand.

Of course, as indicated earlier, an expansion of aggregate demand might reduce unemployment even in occupations afflicted with structural difficulties by bringing about demand-induced changes in relative wages and prices. Because of the downward inflexibility of wages and prices, this would mean a rise in over-all average price and wage levels. If such adjustments took place, one would expect them to show up in the form of increases in money wages that, on the average, exceeded the increases in labor productivity. However, between 1961 and 1962, on an economy-wide basis, the increase in hourly wages and salaries remained approximately in line with the 3.5 per cent increase in output per man-hour. And the wholesale price index rose by only 0.3 per cent between 1961 and 1962. That is, unemployment declined substantially in virtually every industry and every occupation and this decline occurred in a context of stable prices and non-inflationary wage adjustments.

Job Vacancies and Unemployment

If unemployment had increased since 1957 because of the appearance of structural imbalances rather than because of inadequacy of total demand, one would expect to observe an increase in unfilled job vacancies alongside the increase in unemployment. Of course, one would not expect job vacancies to increase as much as unemployment unless he viewed the increased unemployment as entirely structural.[3] Nevertheless, some increase in job vacancies would presumably be expected. On the other hand, if the rise in unemployment were primarily caused by deficiency in aggregate demand, one would expect to observe a decline in job vacancies.

There is, of course, no comprehensive series specifically designed to measure unfilled job vacancies.[4] The National Industrial Conference Board, however, compiles an index based on the number of help-wanted ads published in the classified section of a selected leading newspaper in each of 33 leading labor market areas. These areas account for 44 per cent of nonfarm employment.

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[3] Even in this case, the rise in vacancies and the rise in unemployment would not be identical--one doesn't hire a secretary unless he can hire the professional person for whom she will work.

[4] One of the recommendations of the President's Committee to Appraise Employment and Unemployment Statistics--headed by Aaron Gordon--was that the federal government should develop such a series, and funds have been provided for this purpose in the President's fiscal 1964 budget.

The series is shown in Table 4 as published, and after adjustment for changes in the size of the labor force. The adjusted series is the pertinent one, and it was actually lower in 1960 and 1962 than in 1955-1957. The only available series thus indicates a decline in job vacancies since the last period when unemployment was at 4 per cent.[5]

Further Comments on Structural Unemployment

The facts as presented and interpreted above strongly suggest that an expansion of aggregate demand can produce a significant further reduction in unemployment without encountering structural imbalances in labor markets, which can be overcome only by inflationary increases in wages and prices. They further suggest that expansion of aggregate demand is essential to reduction of unemployment; policies to improve labor market structure cannot do the job alone. But as we look ahead to the developments to be expected in the next few years, we must recognize that vigorous policies to deal with problems of labor market structure will be needed to complement our policies with respect to aggregate demand.

1. As unemployment melts away as a result of expanding aggregate demand, we can expect problems of structural imbalances in particular labor markets to become an increasingly serious obstacle in the path to further expansion. If we are to succeed--as we ultimately hope to do--in reducing unemployment below our interim goal of 4 per cent, increasing emphasis will have to be placed on structural policies designed to remove the obstacles of inadequate training and lack of mobility which will make a continued matching of men and jobs increasingly difficult.

2. If we succeed in speeding up our rate of economic growth--as we also hope to do--we may well experience an associated increase in the pace of technological advance. This may lead to an accelerated rate of change of skill requirements, thereby increasing the need for structural measures if we are to succeed in keeping unemployment at minimum levels.

3. From 1963 to 1970, the number of young people entering the labor force is expected to average about 2.8 million per year, substantially above the average of 2.1 million per year between 1956 and 1962. And the net increments to the labor force are expected to average about 1.3 million per year compared with an average of about 800 thousand in 1956-1962.[6] Moreover--as has been the case throughout the

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[5] It should be noted that the vacancies-unemployment balance is somewhat sensitive to cyclical movements, with vacancies rising relative to unemployment in periods of expansion and falling relative to unemployment in periods when the pace of activity is slowing down or declining. Thus, the 1960-1962 rise in vacancies in relation to unemployment is normal--as was the 1956-1957 decline--and not evidence of structural change.

[6] This comparison may in a sense overstate somewhat the magnitude of our problem during the remainder of the 1960's relative to 1956-1962, since labor force participation rates were depressed during that period by the lack of available jobs. In order to have maintained continuing full employment in 1956-1962, in other words, we would have had to have provided more than 800,000 additional jobs per year.

Table 4

Index of Help-Wanted Advertisements, 1955-62

Year	Help-wanted index (1957=100)	Unemployment (thousands)	Help-wanted index--civilian labor force (1957=100)	Unemployment rate (per cent)
1955	100.7	2,904	103.9	4.4
1956	117.3	2,822	118.0	4.2
1957	100.0	2,936	100.0	4.3
1960	94.2	3,931	90.7	5.6
1962	100.1	4,012[a]	94.4	5.6

Sources: National Industrial Conference Board, U. S. Department of Labor, and Council of Economic Advisers.

[a] Adjusted by Council of Economic Advisers for comparability with prior data.

postwar period--a large share of the new entrants to the labor force in the years ahead will be women and Negroes. While it is not clear that specific unemployment rates by age, sex, or color have undergone systematic relative changes in recent years, it is nevertheless true that unemployment rates for younger workers, for women, and for Negroes have consistently remained high. This indicates the urgency of efforts to improve the training of our young people to fit them to take their places as productive citizens. It is another urgent reason--if one be needed--for steps to eliminate the roadblocks of discrimination on account of color and sex.

The Inadequacy of Aggregate Demand

The analysis presented above demonstrates that to cure our unemployment problem we must, above all else, expand aggregate demand. The next question is: how large is our deficiency in aggregate demand? An answer to this question rests first on the level of our interim employment target, to be used in calculating the economy's near-term potentials.

As a starting point, we have used 4 per cent unemployment. This does not mean that the United States should settle for 4 per cent. As the Council said in its 1963 Annual Report (p. 42):

> Success in a combined policy of strengthening demand and adapting manpower supplies to evolving needs would enable us to achieve an interim objective of 4 per cent unemployment and permit us to push beyond it in a setting of reasonable price stability. Bottlenecks in skilled labor, middle-level manpower, and professional personnel tend to become acute as unemployment approaches 4 per cent. The result is to retard growth and generate wage-price pressures at particular points in the economy. As we widen or break these bottlenecks by intensified and flexible educational, training, and retraining efforts, our employment sights will steadily rise.
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> But reaching an interim goal, a way-station, of 4 per cent would be no small achievement in itself.

To tie some employment magnitudes to this goal, let me note that 4 per cent unemployment by the end of 1963 adds up to an estimated increase of 3.1 million in employment over the level that prevailed at the end of 1962. Of these jobs, 1.2 million would be needed to absorb the normal increment in the labor force during 1963; 1.1 million would be needed to reduce unemployment from 5.5 to 4.0 per cent; and approximately another 800,000 would be needed to employ the workers who would be induced to enter, or re-enter, the labor force as a result of a resurgence of job opportunities. Total man-hours would grow by even more than these employment figures suggest, as longer average weekly hours accompanied tighter labor markets and higher utilization rates.

To achieve this increase in labor input would require a more than proportional increase in total output. New capital formation and technological change bring continuous productivity gains. And more intensive utilization of existing capital facilities and already employed labor offer further increases in productivity.

We have made direct estimates of the relation between unemployment rates and output levels; and we have independently estimated the potential GNP that the economy could produce at 4 per cent unemployment. Both of these approaches yield consistent estimates of the output and demand requirements associated with the 4 per cent unemployment target at a given time. Subject to the customary modifications for cyclical variations in productivity and for temporary movements in labor force participation rates, we estimate that every percentage point of unemployment above 4.0 per cent means a gap between actual and potential output of about 3.2 per cent of potential output. Thus, for 1962, when the unemployment rate averaged 5.6 per cent--1.6 percentage points above 4 per cent--and when participation rates were exceptionally low by the Labor Department's trend estimates of labor force size, we estimated the gap between potential and actual GNP at around $30 to $35 billion, or a little over 5 per cent of a potential output of roughly $585 to $590 billion. Actually, the estimates of potential output (valued at constant prices) are very closely approximated by a $3\frac{1}{2}$ per cent trend line passing through actual GNP in mid-1955.[7] By this trend line estimate, current dollar potential GNP was $586 billion in 1962, $32 billion above the actual level of $554 billion.

The trend line projection, allowing for an annual rate of increase of $1\frac{1}{2}$ per cent in the GNP deflator, yields a potential GNP rate of $629 billion in the fourth quarter of 1963. This is over $65 billion, or nearly 12 per cent, above the level of $563.5 billion actually achieved in the last quarter of 1962. Thus, it appears that an increase of some $65 billion, in current-dollar GNP--and, therefore, in aggregate monetary demand--would be needed to create the 3.1 million jobs that would reduce unemployment from the 5.5 per cent rate that prevailed in the fourth quarter of 1962 to the interim goal of 4.0 per cent by the fourth quarter of 1963. Allowing for the rise in potential output and a small increase in the GNP deflator, further increases in monetary demand

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[7] For a full discussion of the estimates of potential output and the gap, see "The American Economy in 1961: Problems and Policies," Statement of the Council of Economic Advisers, _January 1961 Economic Report of the President and the Economic Situation and Outlook_, Hearings Before the Joint Economic Committee, 87th Cong., 1st sess., February, March, and April 1961, pp. 321-329 and Supplement A, pp. 373-377; also A. M. Okun, "Potential GNP: Its Measurement and Significance," Cowles Foundation Paper No. 190 (1963), reprinted from the 1962 _Proceedings of the Economic Statistics Section of the American Statistical Association_.

of about $1\frac{1}{4}$ per cent, or between $7 billion and $8 billion per quarter, would be necessary in ensuing quarters to hold unemployment constant at 4 per cent.

In order to close the end-of-1962 output gap by the fourth quarter of 1963, GNP would have to rise an average of $16 billion in each quarter this year. The preliminary estimate of the first quarter GNP released today, shows an $8.5 billion rise to a rate of $572 billion. This is a pleasant surprise to most forecasters--and is even a bit above the Administration's expectations--but only slightly more than the advance needed just to hold the output gap constant.

To close the output gap by the end of 1964 would require average quarterly GNP increases of over $12 billion starting in 1963. With average quarterly gains no greater than the $8.5 billion registered in this year's first quarter--and if potential output continues to grow at the present rate of 3.5 per cent annually--it would take roughly 10 years to erase the gap and reach 4 per cent unemployment.

Possible Solutions to the Problem of Deficient Demand

If there were natural forces at work in our economy which could be depended upon to increase aggregate demand and put things right within a relatively short period of time, there might be a case for sitting tight and taking no action now. But unfortunately this is not the case. It is true that over the longer pull there are demographic factors at work which may produce a substantial increase in demand: In due course, the large baby crop of the immediate postwar period will reach the age for marriage and household formation. When that happens--provided we take the appropriate measures in the meantime--we can hope for a spontaneous increase in the demand for homes, household appliances, automobiles, and all of the accoutrements of family living. However, it is not until the late 1960's and early 1970's that large numbers of children born in the immediate postwar period will reach the age for marriage and the establishment of homes. Meanwhile, between 1962 and 1965, the midpoint of the Census Bureau estimates for the average annual increase in the number of households is 1.1 million per year, not greatly above the average increase of 1,022,000 per year that prevailed between 1957 and 1962.

We should also note that the children born in the immediate postwar period will begin to enter the labor market very soon, typically some time before they reach the age for marriage and household formation. The need to provide them with adequate job opportunities thus precedes, both in priority and in timing, the need to accommodate their own latent demands.

It is plain, then, that action is needed to expand aggregate demand today. It is sometimes argued that this can be done by appropriately altering the distribution of income between wages and profits. But there is disagreement concerning the nature of the change that would be helpful: organized labor contends that wages should be increased in order to increase consumer purchasing power, while organized business says profits should be increased in order to stimulate investment.

I believe most economists would agree with me that the analysis required to assess the effects on aggregate demand and employment that would arise from a redistribution of income between wages and profits is so complex that even the direction of the effects is not clearly determinable. More important, however, even if we knew what the effects of income redistribution would be, and even if we were willing to ignore the ethical judgments that were implied, there is no effective means by which wage and price policies could bring about an appreciable deliberate redistribution in a free society. If, for example, we encourage unions to seek increases in money wages which would increase labor's share of the national income, we have no means (short of putting the economy into a straitjacket of wage and price controls) of ensuring that employers would not re-establish their share through higher product prices. Indeed, this would almost surely happen, thus doing untold harm to our balance of international payments without significantly expanding purchasing power in real terms and therefore without increasing real aggregate demand and employment. Similarly, encouraging prices to rise in order to increase profits at the expense of wages--on the assumption that this would stimulate investment more than it repressed consumption--would be likely to accelerate the rate of wage increases. An inflationary spiral without clear gain for real profits is the almost certain result.

Wage or price policies simply are not suitable vehicles for stimulating (or repressing) aggregate demand. They are more properly directed at assuring an environment of reasonable price stability within which an equitable sharing between labor and business of the fruits of economic progress can take place. This is the objective that the Administration has sought to advance by means of the suggested guideposts for noninflationary wage and price adjustments.[8] Under the guideposts, wage increases would, in general, be kept within the limits set by the economy-wide increase in productivity, thus leaving the relative shares of national income going to labor and business approximately constant.

An increase in aggregate demand is most appropriately brought about in a predominantly private-enterprise economy such as ours by means of monetary or fiscal measures. Under present conditions, our balance of payments position constrains us from making full and vigorous use of expansionary monetary policy. It is necessary for us to keep our short-term interest rates reasonably aligned with those in foreign money centers in order to minimize outflows of short-term capital. Within the constraint imposed by this requirement, the Federal Reserve and the

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[8] See the Annual Reports of the Council of Economic Advisers for 1962 (pp. 185-190) and 1963 (pp. 85-86).

Treasury have conducted their monetary and debt management operations since the present recovery began in early 1961 in a way to avoid increases in long-term interest rates, and especially to avoid the sharp increases which occurred during the recovery of 1958-1960. Indeed, long-term rates are about as low now as they were at the cyclical turning point of February 1961. But the fact that the term structure of interest rates is strongly affected by the expectations of investors concerning future interest rates places definite limits on the ability of the monetary authorities to bring about lower long-term rates without permitting short-term rates to fall. It is doubtful whether much could be done beyond the actions that have already been taken to ease credit and reduce long-term rates while keeping short-term rates at the levels called for by balance-of-payments considerations.

With monetary policy thus constrained, fiscal policy becomes the main reliance for expanding aggregate demand. In effecting an expansionary fiscal policy, we can work with the spending or the collecting sides of the Federal budget. The Administration has been using both.

The Administrative Budget proposed for fiscal year 1964 calls for a $4½ billion increase in expenditures. The most significant increases are in the areas of defense and space. However, increases are also scheduled in a number of particularly important and productive civilian programs. Trust fund expenditures for such programs are rising by over $1 billion. And within the constraint of virtual stability in total Administrative Budget expenditures for other than defense, space, and interest, a $3.1 billion increase is actually scheduled for the most urgent civilian programs, with an offsetting decrease of $3.4 billion in expenditures of lower priority.

The largest decreases are projected for veterans' readjustment benefits, the United Nations loan, farm price supports, and the substitution of private for public credit--categories which together account for an expenditure reduction of $2.7 billion in the proposed Budget. In fact, $1 billion of expenditure reduction is provided just by a reduction in direct loan programs--substituting loan insurance for direct lending in the Federal Housing Administration and Farmers Home Administration programs, and selling portfolio participations to private lenders by the Export-Import Bank.

Therefore present fiscal policies do provide for a share of our expanding productive resources to go for important public needs. Although at present the demands of our defense and space programs take the largest share of Budget increases, important public domestic programs are expanding as well within the stable over-all total of civilian expenditures. In future years, a larger share of Budget increases can be expected to go towards the civilian programs that are necessary if we are to cope effectively with the problems and challenges of our society. But in the current setting, larger increases in total expenditures than those scheduled do not seem the most acceptable and practicable method of providing additional fiscal stimulus to the economy. And additional stimulus is needed.

The kind of expenditure increases projected for this year and likely to be forthcoming in subsequent years would prevent any significant increase in the fiscal drag on the economy. But they cannot be counted on to reduce that drag which prevails today. Therefore, the deficiency in aggregate demand that now exists must be met by tax reduction aimed at increasing effective consumption and investment demands in the private sector.

The President's Tax Program

As you all know, the Administration has recommended, as a means of restoring vigor to the economy, a comprehensive program of tax reduction and reform, to become effective in stages over a period of 18 months. As proposed by the President, the first stage of this program would by July 1, 1963, lower the net tax liabilities of consumers and business by roughly $6 billion at an annual rate.

When the full program is in effect on January 1, 1965, the net reduction in annual tax liabilities after reforms would be well in excess of $10 billion a year, based on 1963 levels of income. More than $8 billion of the reductions would be in individual income taxes with the cut in corporate income tax liabilities accounting for the remainder.

I would like to stress the path-breaking boldness of the President's tax program. Its dual objective is to restore aggregate demand to full employment levels and to improve the incentives for private initiative that will accelerate economic growth in the long run. Never before has a President built his fiscal policies so clearly, so deliberately, and so thoroughly to meet the needs of the economy for an expansionary stimulus. This is surely a milestone in the history of U. S. economic policy under the Employment Act of 1946.

The President has proposed to give the economy a deliberate fiscal stimulus in spite of public and Congressional concern about budget deficits and public debt. Substantial tax reduction is proposed at a time when an increase of roughly $5 billion in federal expenditures is also being recommended and the short-run budget outlook already includes a substantial deficit. The Administration realizes that economic expansion and full employment are the objectives of first priority, and that in any case the chances of balancing the federal budget are poor except in a growing and fully operating economy.

Nor is the tax reduction proposal based on a simple anti-recession precaution. We are not in recession, and our latest readings lend impressive strength to the forecast in our 1963 Economic Report that no recession will occur in 1963. Fears of recession always lurk in the background in an economy which has, for example, had 4 recessions since the War. And the tax program provides important insurance against recession during its phasing-in period, in particular. But our basic problem is more subtle than recession--and at the same time more deep-seated. The economy has been expanding for two years now, but for the last year the pace of expansion has not been rapid enough to narrow the gap that exists between our actual output and our productive potential. As a result, the unemployment rate has remained unacceptably high.

The tax program will set in motion a number of interacting sets of stimuli to increase output and employment:[9]

1. When the full $10 billion of tax reduction is in effect, it will increase disposable personal income by about $8½ billion per year. This calculation is for the 1963 tax base, and it includes both the reductions in individual income taxes and the additional dividends generated by corporate tax reduction. Assuming that consumption increases by about 93 per cent of the rise in disposable income--the ratio has consistently ranged between 92 and 94 per cent in recent years--personal consumption expenditures will increase by about $8 billion per year. As output is adjusted to the increased demand, production and income will also rise by $8 billion per year. Allowing for the various leakages--federal tax collections (at the new lower tax rates), state and local taxes, and corporate and personal saving--which we estimate will absorb about 50 per cent of the rise in gross income, the remaining 50 per cent of the initial increase in GNP will find its way back into personal consumption and stimulate further production and income. When the entire cycle of successive rounds of income and consumption has worked its way through the system, it should raise income by roughly $16 billion, about half of the present gap. Thus, we estimate that the pure consumption multiplier applicable to the entire tax cut, personal and corporate, is about 1.6 ($16 billion ÷ $10 billion).

(Some observers have worried aloud whether the stimulus of federal tax reduction may not be in part offset by increases in state and local taxes. The theory is that tax collectors abhor a vacuum. The fact is that the expenditures of many state and local governments are up against the limit set by their financial resources. If federal tax reduction permits them to increase their revenues--whether from higher tax rates or from expansion of their tax base--it will equally permit them to increase their expenditures. The aggregate demand stimulus will be the same whether the federal tax savings are spent directly by the taxpayers or indirectly, at their command, by their state and local

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[9] For a fuller discussion of the "multiplier" and "accelerator" effects of the tax program, see the 1963 Annual Report of the Council of Economic Advisers, pp. 45-51; and the Council's statement to the Joint Economic Committee in January 1963 Economic Report of the President, Hearings Before the Joint Economic Committee, 88th Cong., 1st sess., January and February, 1963, pp. 1-18, 24-25 (see especially Chart 1 (p. 13), Chart 2 (p. 14), and Chart 3 (p. 25), which give a graphic view of the expansion process).

governments. The pressing needs for the public facilities and services provided by these governments suggest that if federal tax reduction can improve the financial situation of these governments, this should be considered a benefit of the program rather than a defect.)

2. The increased sales of consumer goods will increase business profits and internal funds, and the increased production will reduce margins of excess capacity in industry. For both these reasons, business investment will be stimulated. I would like to stress the importance of a general increase in demand and in visible business markets for revitalizing private investment. Business investment has been at disappointingly low levels over the past 5 years. Indeed, gross private domestic investment is the one major component of economic activity which has shown no upward trend since the mid-1950's. It did not return to its 1955 peak of $75 billion (in 1962 prices) until 1962--when real GNP had risen by 21 per cent. Fixed investment in relation to GNP has fallen from the 10 - 11 per cent levels of the 1949-1957 period--and even 12 per cent in 1947-1948--to an average of only 9 per cent in the past 5 years. The existing stock of business plant and equipment has increased by only 2 per cent a year since 1957, compared with 4 per cent a year in the 1947-1957 period (Department of Commerce estimates). And 1962 was the first nonrecession year in the postwar period when corporate investment fell short of corporate saving.

Therefore, a major objective of expansionary policy is to increase investment. This is the reason for the changes in business taxation which the Administration has already adopted and for the reductions in the corporate tax rate now proposed. But these cannot do the job alone. Investment cannot be lifted by its own bootstraps. A substantial general improvement in sales and expected sales through major income tax reduction must be coupled with the direct investment incentives if businessmen are to undertake large-scale commitments to new capacity.

3. The reduction in business tax rates--particularly the corporate rate--will also serve both to increase business cash flow and to raise the prospective profitability of new investment. And the tax inducements put into effect in 1962--more liberal depreciation allowances and the 7 per cent investment tax credit--will work to stimulate investment still further. (The combined 1962 actions and 1963 proposals reduce income tax liabilities by about 18 per cent for both individuals and corporations.) Indeed these measures will be increasingly powerful as final demand expands and excess capacity shrinks.

4. The increased investment resulting from (2) and (3) above will generate further increases in consumption via the multiplier.

The investment response is difficult to estimate precisely. But we believe that the program offers a good prospect of getting the American economy moving steadily toward full employment. Recent improvements in the outlook suggest that the tax reduction will be operating from a stronger base. Even so, it will take time to eliminate the slack that has developed in the course of 5 years of subnormal economic activity. But as soon as the program is enacted, it will provide a sizable and growing stimulus. Unemployment rates should then begin to drop fairly quickly. There is a good prospect that after the full program is in operation unemployment will move down to 4 per cent. It will then be our challenge to prove that 4 per cent is too modest a goal.

OTTO ECKSTEIN

It is a great pleasure to participate in this conference on unemployment and to see this substantial program of economic research under way on the problem.

Today's session is devoted to the relation of aggregate demand to unemployment. My paper will deal with five questions: First, is there an unemployment problem or is it all statistical illusion? Second, if there is an increase in unemployment, can it be explained by structural or regional peculiarities of the labor force? Third, are there relationships between movements in the Gross National Product and unemployment? Fourth, what is the outlook for aggregate demand in the coming year or two, and if the economy is to return to full employment, will our present labor force have the correct structure to meet the job requirements? And fifth, what unemployment problems will an increase of aggregate demand fail to solve? In dealing with these questions, I shall review some of the empirical evidence that can be brought to bear. Since the Berkeley program is now in its early stages and represents one of the most massive applications of scientific resources to the solution of this problem, I shall take the liberty of seeking to identify some of the areas of our ignorance which hold the promise of yielding to research.

There is an Unemployment Problem

The unemployment problem is not a statistical illusion. The national unemployment rate has averaged 6 per cent for five years, and has been below 5 per cent in only one month out of the last sixty-five. This level of unemployment compares with an average rate of 4.2 per cent for the earlier part of the postwar period, 1946-1957, even though the earlier period also contained two recessions. Perhaps more alarming is the increase in unemployment outside of recession, in "good times." In 1947-1948 this rate was 3.8 per cent, in 1951-1953, 3.1 per cent, in 1955-1957, 4.3 per cent, in 1959-1960, 5.5 per cent, and in the current recovery, 5.5 to 6.0 per cent. Thus, the figures are higher. Nor is there serious reason to question the accuracy and meaningfulness of these annual figures. The Gordon Report to the President[1] found that "The concept of unemployment now in official use is a reasonable one and represents a conscientious and well designed effort over a long period of time to resolve a wide range of difficult issues." This report leaves no doubt that unemployment is being measured well, and that the increase of recent years is a reality.

Further evidence can be found in the international comparisons of

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[1] President's Committee to Appraise Employment and Unemployment Statistics, "Measuring Employment and Unemployment," Washington, D. C., 1962, p. 14.

Kalachek and Westebbe[2] and of the Gordon Report. European figures are substantially lower than our own, but the methods of measurement are not the same. Kalachek and Westebbe found that the difference in unemployment figures in good times due to conceptual differences between the British and American figures may be a maximum of 1.5 per cent, which is much smaller than the actual difference in the figures of recent years. (The United Kingdom's greater sensitivity to unemployment can be seen in the recent riots of unemployed workers before Parliament at unemployment rates much below ours.) The comparisons for eight countries in the Gordon Report[3] are even more striking. They show that if the European figures are put on the same conceptual basis as our own, the 1960 rates for France, Germany, Japan, and Sweden are between 1 and 2 per cent, for Great Britain 2.4 per cent, and Italy 4.3 per cent. Only Canada, which is heavily dependent on our own economy, suffered from a higher unemployment rate, 7.0 per cent.

What fraction of our unemployment can be attributed to frictional factors? The Bureau of Labor Statistics[4] has estimated that during the 1955-1957 period, frictional unemployment accounted for about 20 per cent of the then unemployed, or 0.9 per cent of the labor force; voluntary job shifting accounted for another 10 per cent (or 0.4 per cent of the labor force), excluding new job seekers, or another 25 per cent (1.1 per cent) if they are included; seasonal unemployment represented another 20 per cent (0.9 per cent of the labor force). All in all, then, short-term frictional factors accounted for unemployment representing only 2.5 per cent of the labor force. The Bureau of Labor Statistics foresaw a rise of 0.5 per cent in frictional unemployment by 1975 due to coming demographic changes, including more young and older workers. Thus, an estimate of 3.0 per cent is a liberal estimate of frictional unemployment under current conditions. The rest is due to general unemployment and longer-term structural elements, particularly the rise of unemployment in goods-producing industries.

This figure of 3.0 per cent is a lot smaller than the interim target of 4.0 per cent which the Council of Economic Advisers has endorsed. The Council of Economic Advisers has selected 4.0 per cent on the ground that it is a figure which is consistent with price level stability.[5] I

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[2] Edward Kalachek and Richard Westebbe, "Rates of Unemployment in Great Britain and the United States," Review of Economics and Statistics, November, 1960, pp. 340-350.

[3] Op. cit., Appendix A, "Comparative Levels of Unemployment in Industrial Countries," pp. 233-270, prepared for the Committee by Robert J. Myers and John H. Chandler, Bureau of Labor Statistics.

[4] The Extent and Nature of Frictional Unemployment, BLS Study Paper no. 6, Study of Employment, Growth and Price Levels, Joint Economic Committee, U. S. Congress, 1959, especially pp. 1, 56, and 64.

[5] Economic Report of the President, January, 1962, p. 46.

do not believe that the full employment objective should be defined in terms of its compatibility with another objective. Perhaps with the present structure of the economy, full employment is inconsistent with stable prices, perhaps not. But I think it is implicit theorizing to achieve compatibility of the objectives by lowering one's sights on the objectives until compatibility is achieved by definition. If new policies are needed to achieve genuine compatibility, let us consider them on their own merits.

What, then, is a reasonable definition of full employment? I think it is impossible to define a once-and-for-all target rate of unemployment, since both the normal magnitude of short-term frictional unemployment and the additional unemployment needed to make possible the long-term structural adjustments of the growing labor force to a changing technology vary over time. However, in the light of the experience of other advanced economies, which have enjoyed unemployment rates between 0 and 2 per cent--in some cases even without price rises--and also given our unemployment experience during earlier periods of prosperity, I find it difficult to envisage that widespread labor shortages would develop here while unemployment was near the 4 per cent level.

I therefore conclude that unemployment in the last five years has been above a normal level by more than 2 per cent. The resultant loss of output is substantially greater because of the resultant decline in the growth of the labor force, the temporary deviation of productivity from its long-term trend (a loss which largely occurred between 1956 and 1958), and because of the induced decline in investment. I shall not discuss these other aspects of the loss of output in this paper today.

The study by the Bureau of Labor Statistics on which this discussion was based covered the period 1955 to 1957. I consider it a research task of high priority to bring this study up to date,[6] and to develop further the underlying concepts of the major structural components of unemployment.

Is the Rise in Unemployment Structural?

A few years ago the view was widely held that the increase in unemployment was due to structural peculiarities of the economy. The skillful and elaborate study by Kalachek and Knowles[7] has shown that there has not been any increase in the dispersion of unemployment by

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[6] Some parts of the study are brought up to date in the BLS paper, "Unemployment in the Early 1960's," in Unemployment: Terminology, Measurement and Analysis, Joint Economic Committee, 1961, pp. 1-96.

[7] Edward Kalachek and J. W. Knowles, "Higher Unemployment Rates, 1957-1960: Structural Transformation or Inadequate Demand?" paper prepared for the Joint Economic Committee, 1961.

skill or by industry, and that the unemployment cannot be explained by any acceleration of productivity trends or by a decrease in worker mobility. I shall not add to this evidence, except to call your attention to the comparisons of unemployment in 1957 and 1962 in the President's Manpower Report. These figures show substantial and relatively even increases in the unemployment rates of all groups of workers, whether arranged by sex, by age, by major occupation group, by race, by industry, or just about any combination of these classifications by which the data are available. Instead, I turn to another aspect of the problem, the regional distribution of unemployment.

Unemployment has become more evenly diffused through the economy in recent years. Unpublished studies by Denison[8] present a comparison of unemployment rates among states and among metropolitan areas for the years 1950 and 1960, using data from the Census of Population. These studies show a marked change toward a greater uniformity of unemployment rates.

I have performed some additional computations, using the data for 150 major labor market areas in the President's Manpower Report. Table 1 compares the distribution of unemployment among areas according to their unemployment rate. I compare first 1959, 1960, and 1962, three years with almost identical national unemployment rates. By 1962, fewer areas had extreme values of unemployment; for example, in 1959, 22 areas had unemployment above 8 per cent, in 1962 only 14. Also fewer of the unemployed were in the extreme areas, 20 per cent in areas with unemployment above 8 per cent in 1959, 8 per cent in 1962. A similar phenomenon can be found in a comparison of the two recession years, 1958 and 1961. While unemployment was slightly lower in 1961, this is not sufficient to account for the decline in the number of areas with unemployment above 10 per cent from 29 to 11, and the decline of the fraction of unemployed found in these areas from 24 per cent to 12 per cent. The offsetting increases in unemployment are found in the middle range, in the areas with unemployment between 4 per cent and 8 per cent.[9]

Comparisons of the rankings of these 150 major labor market areas according to their unemployment rates also shows some interesting changes. Table 2 lists all 150 areas according to their unemployment rank in 1959 and also in 1962. While there obviously was considerable

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[8] Edward F. Denison, "The Incidence of Unemployment by States and Regions, 1950 and 1960," and "The Dispersion of Unemployment Among Standard Metropolitan Areas."

[9] Unfortunately, these figures are not available on a comparable basis for earlier years. While the Major Labor Market Areas surveys were conducted in earlier years, the earlier figures are not annual averages but are figures for the middle of May. Differences in the extent of seasonal unemployment among areas makes comparisons impossible with annual average data.

TABLE 1a

Distribution of Unemployment in 150 Major Labor Market Areas of the United States, 1959, 1960, 1962

Percentage of Unemployment	Number of Areas			Number of Persons thousands			Percentage of Total for 150 Areas		
	1959	1960	1962	1959	1960	1962	1959	1960	1962
16 or more	1	-	-	14.8	-	-	0.59	-	-
14.0-15.9	2	-	1	32.0	-	13.1	1.28	-	0.54
12.0-13.9	4	4	3	31.1	52.0	17.0	1.24	2.15	0.71
10.0-11.9	4	4	4	51.4	24.5	39.4	2.05	1.01	1.63
8.0- 9.9	11	11	6	379.5	165.0	126.4	15.14	6.81	5.24
6.0- 7.9	30	39	32	441.0	644.8	579.7	17.60	26.61	24.04
4.0- 5.9	60	67	73	1327.3	1370.5	1407.4	52.96	58.57	58.36
2.0- 3.9	38	25	31	229.1	166.0	228.4	9.14	6.85	9.47
0 - 1.9	-	-	-	-	-	-	-	-	-
Total	150	150	150	2506.2	2422.8	2411.4	100.00	100.00	100.00

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TABLE 1b

Distribution of Unemployment in 150 Major Labor Market Areas of the United States, in 1958 and 1961

Percentage of Unemployment	Number of Areas		Number of Persons thousands		Percentage of Total for 150 Areas	
	1958	1961	1958	1961	1958	1961
16 or more	2	2	31.5	27.5	0.99	0.93
14.0-15.9	5	-	313.0	-	9.79	-
12.0-13.9	6	2	91.7	30.1	2.87	1.02
10.0-11.9	16	7	318.4	292.2	9.96	9.92
8.0- 9.9	27	24	608.1	254.2	19.02	8.63
6.0- 7.9	34	54	1222.1	1488.1	38.22	50.54
4.0- 5.9	46	50	512.6	771.1	16.03	26.19
2.0- 3.9	10	11	99.9	81.4	3.12	2.77
0 - 1.9	-	-	-	-	-	-
Total	146*	150	3197.3	2944.6	100.00	100.00

*In 1958, percentages were available for only 146 areas

Source: President's Manpower Survey

Table 2

Rankings of 150 Major Labor Market Areas by Unemployment Rates in 1959 and 1962

Area	1959 Level	1962 Level	Rank 1959	Rank 1962
Johnstown, Pa.	16.5	14.6	1	1
Wilkes Barre-Hazleton, Pa.	15.9	10.5	2	6
Scranton, Pa.	14.2	11.5	3	5
Ponce, Puerto Rico	13.2	13.1	4	2
Wheeling, W. Va.	13.0	12.0	5	4
Huntington-Ashland, W. Va.	12.9	10.4	6	7
Mayaquez, Puerto Rico	12.3	12.9	7	3
Erie, Pa.	11.2	7.7	8	20.5
Altoona, Pa.	11.0	10.3	9	8
Flint, Mich.	10.7	3.8	1.0	124.5
San Juan, Puerto Rico	10.1	6.3	11	38
Duluth-Superior, Minn.	9.8	8.9	12	11
Atlantic City, N. J.	9.5	7.8	13	18
Beaumont-Port Arthur, Tex.	9.3	6.9	14	26.5
Pittsburgh, Pa.	9.0	9.3	15	10
New Bedford, Mass.	8.9	7.9	16.5	15.5
Detroit, Mich.	8.9	6.9	16.5	26.5
Lowell, Mass.	8.6	8.1	18	14
Buffalo, N.Y.	8.5	7.4	19.5	23
Providence-Pawtucket, R.I.	8.5	6.5	19.5	34
Charleston, W.Va.	8.3	7.0	21	25
Evansville, Ind.	8.1	5.1	22	75
Fall River, Mass.	7.9	9.5	23	9
Roanoke, Va.	7.8	4.2	24	110.5
Bridgeport, Conn.	7.7	5.9	25.5	47.5
New Britain, Conn.	7.7	6.1	25.5	42.5
Terre Haute, Ind.	7.5	6.5	27	34
Jersey City, N.J.	7.3	6.5	28.5	34
Utica-Rome, N.Y.	7.3	6.0	28.5	45.5
Birmingham, Ala.	7.2	6.4	30.5	36.5
Philadelphia, Pa.	7.2	6.4	30.5	36.5
Brockton, Mass.	7.1	7.6	32	22
Patterson-Clifton-Passaic, N.J.	7.0	5.8	33	49
Worcester, Mass.	6.9	5.6	34.5	55.5
Spokane, Wash.	6.9	7.1	34.5	24

Table 2 cont.

Lawrence-Haverhill, Mass.	6.8	5.7	37.5	51
Springfield-Holyoke, Mass.	6.8	6.7	37.5	29.5
Trenton, N.J.	6.8	5.5	37.5	61
Allentown-Bethlehem-Easton, Pa.	6.8	5.5	37.5	61
Portland, Maine	6.7	4.5	40	96
Louisville, Ky.	6.6	5.1	41.5	75
Chattanooga, Tenn.	6.6	7.8	41.5	18
Saginaw, Mich	6.5	4.4	43.5	102.5
Newark, N.J.	6.5	5.9	43.5	47.5
Corpus Christi, Tex.	6.3	5.6	45	55.5
Waterbury, Conn.	6.2	6.6	46.5	31.5
Tacoma, Wash.	6.2	5.5	46.5	61
Syracuse, N.Y.	6.1	4.8	48	87
Baton Rouge, La.	6.0	5.6	50.5	55.5
New Brunswick-Perth Amboy, N.J.	6.0	6.1	50.5	42.5
Lorain-Elyria, Ohio	6.0	6.1	50.5	42.5
Knoxville, Tenn.	6.0	5.1	50.5	75
Durham, N.C.	5.9	5.1	54	75
Toimio, Ohio	5.9	6.8	54	28
York, Pa.	5.9	5.4	54	65
Gary-Hammond-East Chicago, Ind.	5.8	6.2	57.5	39.5
Baltimore, Md.	5.8	5.5	57.5	61
Lansing, Mich.	5.8	4.0	57.5	116
Albany-Schenectady-Troy, N.Y.	5.8	4.4	57.5	102.5
Mobile, Ala.	5.7	5.6	62	55.5
New Haven, Conn.	5.7	4.7	62	89
Kansas City, Mo.	5.7	5.6	62	55.5
St. Louis, Mo.	5.7	5.5	62	61
Asheville, N.C.	5.7	5.0	62	81
Stockton, Cal.	5.6	8.7	65.5	12
New York, N.Y.	5.6	5.2	65.5	69
New Orleans, La.	5.5	6.6	68	31.5
Muskegon-Muskegon Heights, Mich.	5.5	5.3	68	67
Reading, Pa.	5.5	4.5	68	96
South Bend, Ind.	5.3	5.7	70.5	51
Memphis, Tenn.	5.3	4.5	70.5	96
Columbus, Ga.	5.1	4.7	72.5	89
Fort Wayne, Ind.	5.1	3.9	72.5	121
Tampa-St. Petersburg, Fla.	5.0	5.1	75	75
Hamilton-Middletown, Ohio	5.0	7.7	75	20.5
Seattle, Wash.	5.0	4.9	75	84.5
San Jose, Cal.	4.9	4.7	78.5	51
Manchester, N.H.	4.9	4.5	78.5	96
Portland, Oregon	4.9	5.1	78.5	75
Fort Worth, Texas	4.9	4.9	78.5	84.5

Table 2 cont.

Fresno, Cal.	4.8	8.3	83	13
Wilmington, Del.	4.8	4.4	83	102.5
Grand Rapids, Mich.	4.8	4.3	83	108
Cleveland, Ohio	4.8	4.9	83	84.5
Youngstown-Warren, Ohio	4.8	7.9	83	15.5
Los Angeles-Long Beach, Cal.	4.7	5.4	88.5	65
Savannah, Ga.	4.7	5.2	88.5	69
Chicago, Ill.	4.7	4.4	88.5	102.5
Indianapolis, Ind.	4.7	4.3	88.5	108
Houston, Texas	4.7	4.0	88.5	116
Newport News-Hampton, Va.	4.7	3.0	88.5	145.5
San Francisco-Oakland, Cal.	4.6	5.2	93.5	69
Miami, Fla.	4.6	6.2	93.5	39.5
Binghamton, N.Y.	4.6	4.4	93.5	102.5
Nashville, Tenn.	4.6	4.0	93.5	116
San Bernardino-Riverside-Ontario, Cal.	4.5	6.0	97	45.5
Peoria, Ill.	4.5	5.1	97	75
Norfolk-Portsmouth, Va.	4.5	3.2	97	141
Hartford, Conn.	4.4	3.9	99.5	121
Battle Creek, Mich.	4.4	6.1	99.5	42.5
Augusta, Ga.	4.3	4.0	102.5	116
Boston, Mass.	4.3	4.6	102.5	92
Canton, Ohio	4.3	6.7	102.5	29.5
Harrisburg, Pa.	4.3	5.1	102.5	75
Minneapolis-St. Paul, Minn.	4.2	3.5	106	134
Rochester, N.Y.	4.2	3.1	106	143
Steubenville-Weirton, Ohio	4.2	5.4	106	65
Winston-Salem, N.C.	4.1	4.2	108	110.5
Phoenix, Ariz.	4.0	5.0	110.5	81
Atlanta, Ga.	4.0	3.6	110.5	130.5
Albuquerque, New Mexico	4.0	4.3	110.5	108
Charleston, S.C.	4.0	4.7	110.5	89
Kalamazoo, Mich.	3.9	4.1	114	112
Akron, Ohio	3.9	4.6	114	92
Tulsa, Okla.	3.9	4.6	114	92
San Diego, Cal.	3.8	7.8	116.5	18
Cincinnati, Ohio	3.8	4.4	116.5	102.5
Little Rock-North Little Rock, Ala.	3.7	3.6	118.5	130.5
Wichita, Kansas	3.7	4.0	118.5	116
Rockford, Ill.	3.6	4.4	124.5	102.5
Shreveport, La.	3.6	5.1	124.5	75
Jackson, Miss.	3.6	3.3	124.5	139
Charlotte, N.C.	3.6	3.5	124.5	134
Columbus, Ohio	3.6	3.3	124.5	139
Lancaster, Pa.	3.6	3.1	124.5	143

Table 2 cont.

Austin, Tex.	3.6	3.4	124.5	136.5
Dallas, Tex.	3.6	3.8	124.5	124.5
Salt Lake City, Utah	3.6	3.3	124.5	139
Racine, Wis.	3.6	4.5	124.5	96
El Paso, Tex.	3.5	4.9	130.5	84.5
San Antonio, Tex.	3.5	5.0	130.5	81
Milwaukee, Wis.	3.4	4.0	132	116
Stamford, Conn.	3.3	3.7	134	127.5
Macon, Ga.	3.3	3.8	134	124.5
Greensboro-High Point, N.C.	3.3	3.1	134	143
Richmond, Va.	3.2	2.3	136	149.5
Greenville, S.C.	3.1	4.0	137	116
Denver, Colo.	3.0	3.4	139	136.5
Davenport-Rock Island-Moline, Ill.	3.0	3.8	139	124.5
Madison, Wis.	3.0	2.6	139	147
Jacksonville, Fla.	2.9	3.5	142.5	134
Honolulu, Hawaii	2.9	4.4	142.5	102.5
Omaha, Neb.	2.9	3.6	142.5	130.5
Dayton, Ohio	2.9	3.7	142.5	127.5
Sacramento, Cal.	2.8	5.6	145	55.5
Des Moines, Iowa	2.7	3.0	146.5	145.5
Oklahoma City, Okla.	2.7	3.6	146.5	130.5
Kenosha, Wis.	2.6	3.9	148	121
Washington D.C.	2.3	2.4	149	148
Cedar Rapids, Iowa	2.0	2.3	150	149.5

persistence, explainable by the general economic characteristics of the area, it is not a frozen pattern. Looking only at the 11 areas which suffered from unemployment in excess of 10 per cent in 1959, it can be seen that there was important improvement in six of them, including at least one case of complete cure. I shall not attempt to discuss the areas one by one, but you may find it interesting to peruse the detail of the table. Of the 10 areas with unemployment below 3 per cent in 1959, only two remained in that happy state three years later.

One phenomenon still requires explanation, and I appeal to my discussants, particularly Dr. Myers, for any help that they can offer. The total unemployment in these 150 labor market areas has represented a declining fraction of the total national unemployment, as can be seen from Table 3. Since the unemployment rates for farm labor declined between these two years, I am really at a loss as to the location of the increase of unemployment outside the 150 major labor market areas. Perhaps the difference is in measurement.

In order to cover a longer period, I also present figures for insured unemployment for the 50 states (Table 4). This omits some important categories of the unemployed, particularly workers in agriculture, domestic service, non-profit organizations, unpaid family, and self-employed workers, and most state and local government employees. However, the figures are particularly reliable since they are based on comprehensive accounting records. The dispersion of unemployment rates, as measured by the standard deviation, was lower in 1962 than earlier, and this result is even more striking in terms of the coefficient of variation. The table also shows that there is a lot of change in rankings over the years. The New England states loomed large among the depressed areas of the early 1950's, and their unemployment rates have fallen significantly. The problem areas of our own day, West Virginia and Pennsylvania, were prosperous in 1956, and by 1962 already showed a significant improvement as compared with 1959. Thus, there is a good deal of change and adjustment going on in the economy. Depressed areas do not stay depressed forever, and one must recognize that the phrase "structural" does not always mean "permanent."

I conclude from the evidence of other studies and also from the figures above that the persistently high level of unemployment of the past five years is not due to structural peculiarities but is generally diffused into all broad sectors of the economy. This is not to deny that unemployment has structure, that this structure is worth intensive study, and that some parts of the unemployment will yield to an increase in general prosperity much more readily than others. These are points to which I shall return below.

Relationships between Changes in Gross National Product and Unemployment

That the national unemployment rate is mainly a product of the aggregate movements of the economy is also strongly borne out by the

Table 3

Analysis of Unemployment in 150 Major Labor Market Areas for 1958-1962

Year	Total Unemployment in 150 Areas (000)	Total in U.S. (000)	Total in 150 Areas as % of U.S. Total
1958	3,204.7 (147)*	4,681	68.462
1959	2,506.2 (150)	3,813	65.728
1960	2,422.8 (150)	3,931	61.633
1962	2,411.4 (150)	4,007	60.180

*Absolute figures available for only 147 areas.

Table 4

Rankings of 50 States and District of Columbia by Percentage Levels of Insured Unemployment in Selected Years 1950-1962

No.	State	Rates of Insured Unemployment for 1962	1959	1956	1952	1950	Ranks of States in 1962	1959	1956	1952	1950
2	Alaska	10.8	12.5	8.2	6.8	7.3	1	1	1	1	3
49	W. Va.	6.8	8.3	3.2	4.3	5.3	2	2	22	8.5	15
39	Pa.	6.3	6.8	4.4	3.2	3.9	3	4	12.5	19	29.5
48	Wash.	6.0	5.9	4.7	4.2	6.5	4	7	7	10	8
4	Ark.	5.9	5.6	4.6	3.7	5.6	5	8	8.5	14.5	11
18	Ken.	5.7	6.1	6.7	4.3	5.2	6	6	2	8.5	16.5
20	Maine	5.5	7.3	4.4	4.5	8.3	7	3	12.5	6.5	2
5	Calif.	5.4	4.1	2.6	3.3	6.9	8	26.5	32	17	5
43	Tenn.	5.3	5.1	5.9	4.6	6.0	9	15	3	4.5	10
31	N.J.	5.2	5.5	4.5	3.2	5.0	10.5	9.5	10.5	19	19
35	N. Dak.	5.2	4.8	3.9	2.9	4.0	10.5	18	16.5	24	26
1	Alabama	5.0	5.2	4.2	3.7	5.1	13	13	14.5	14.5	18
25	Miss.	5.0	5.2	5.0	4.6	6.1	13	13	6	4.5	9
40	R.I.	5.0	5.5	5.1	6.6	7.2	13	9.5	5	2	4
13	Idaho	4.9	4.6	3.7	3.1	4.9	17	20	18	21.5	20.5
19	La.	4.9	4.6	2.3	3.1	4.9	17	20	39.5	21.5	20.5
22	Mass.	4.9	4.5	2.8	3.8	5.4	17	22	29	12.5	13.5
27	Mont.	4.9	6.7	3.1	2.4	5.2	17	5	24.5	30	16.5
38	Oregon	4.9	4.6	4.6	4.5	6.7	17	20	8.5	6.5	6
33	N.Y.	4.8	5.2	3.5	3.8	6.6	21	13	19	12.5	7
46	Vt.	4.8	4.2	2.7	3.9	5.4	21	24	30	11	13.5
51	Wyo.	4.8	3.4	2.4	1.0	2.7	21	33.5	36	48	41
23	Mich.	4.5	5.3	5.3	3.2	2.9	23.5	11	4	19	40
37	Okla.	4.5	4.1	2.9	2.7	4.7	23.5	26.5	27.5	25	23
21	Md.	4.4	5.0	1.8	1.8	3.6	25	16	46.5	37	34
29	Nev.	4.2	4.9	4.2	2.2	5.5	26.5	17	14.5	32	12
36	Ohio	4.2	3.1	1.9	1.5	3.5	26.5	39.5	45	42	35.5
24	Minn.	4.0	3.9	3.2	2.4	3.5	29	29.5	22	30	35.5
26	Mo.	4.0	3.6	3.1	2.1	3.9	29	32	24.5	34	29.5
32	N.M.	4.0	2.7	2.0	1.4	2.5	29	43	43.5	44	42.5
3	Ariz.	3.9	3.9	2.6	1.7	3.9	31.5	29.5	32	39	29.5
12	Hawaii	3.9	2.6	3.0	3.0	4.3	31.5	45.5	26	23	24
10	Fla.	3.8	3.2	2.5	2.5	3.9	33.5	38	34.5	28	29.5
34	N.C.	3.8	4.1	3.9	3.5	4.0	33.5	26.5	16.5	16	26
7	Conn.	3.5	4.4	2.3	1.9	3.8	35.5	23	39.5	36	32
30	N.H.	3.5	4.1	4.5	5.2	8.5	35.5	26.5	10.5	3	1
8	Del.	3.4	3.3	1.6	1.1	2.1	37.5	36	49	47	47
11	Ga.	3.4	3.8	3.2	2.4	3.3	37.5	31	22	30	37
45	Utah	3.3	3.4	2.3	2.1	3.7	39	33.5	39.5	34	33
14	Ill.	3.2	3.3	2.3	2.6	4.8	40.5	36	39.5	26.5	22

Table 4 cont.

No.	State	Rates of Insured Unemployment for 1962	1959	1956	1952	1950	Ranks of States in 1962	1959	1956	1952	1950
15	Ind.	3.2	3.1	2.9	2.1	2.1	40.5	39.5	27.5	34	47
41	S.C.	3.1	3.3	3.4	2.6	4.0	42	36	20	26.5	26
50	Wis.	3.0	2.7	2.3	1.7	2.0	43	43	39.5	39	49
6	Col.	2.9	2.2	1.3	0.7	2.3	44	47	51	51	44
17	Kan.	2.8	2.7	2.3	1.2	3.0	45.5	43	39.5	45.5	38.5
44	Texas	2.8	2.8	1.4	0.9	1.8	45.5	41	50	49.5	51
42	S. Dak.	2.7	2.1	2.6	1.5	2.5	47	48	32	42	42.5
16	Iowa	2.5	1.9	2.0	1.5	2.1	48.5	50.5	43.5	42	47
28	Nebraska	2.5	2.0	2.5	1.2	2.2	48.5	49	34.5	45.5	45
47	Va.	2.1	2.6	1.8	1.7	3.0	50	45.5	46.5	39	38.5
9	D.C.	2.0	1.9	1.7	0.9	1.9	51	50.5	48	49.5	50
National Average		4.4	4.4	3.2	2.9	4.6					

	1962	1959	1956	1952	1950
Standard deviations of rates	1.452	1.853	.1.409	.1.407	1.725
Coefficient of variations	.3349	.4263	.4244	.4822	.3936

existence of statistical relationships. So far, no independent large-scale effort has been made to explain the unemployment rate in terms of other economic variables. However, various econometric model building efforts have included unemployment equations, and their statistical accuracy is about as good as that of other macro-economic relations. The Michigan model of Suits,[10] the Klein-Goldberger model,[11] the recent model of Gary Fromm,[12] as well as my own efforts with Duesenberry and Fromm,[13] contain such equations. This is not the proper occasion to review them.

To intrigue you a little on this problem let me present a crude equation which I have used in recent years for my own predictions of unemployment. The equation is the following:

Annual rate of change of unemployment = .3 (3.5%--the annual rate of growth of real Gross National Product)

This equation says that unemployment will remain constant if the real rate of growth is 3.5 per cent, that it improves by .3 per cent for every 1 per cent of GNP growth above the long-term 3.5 per cent trend level and gets worse in a symmetrical manner. Table 5 shows the combinations of value in the coming years which will produce full employment, according to this simple equation. To reach full employment in two years would require a real growth rate of 6.8 per cent a year, while over four years it would require a growth rate of 5.2 per cent. Thus, if this equation is correct it is indeed very difficult to get back to 4 per cent unemployment, and would require substantial growth in excess of 3.5 per cent per year.

This equation is derived, not from short-term time series, but strictly from changes in output and unemployment between business cycle peaks. Figure 1 shows the postwar observations, including the current one. The peak-to-peak approach was used because I wished to abstract from cyclical swings in unemployment. This seriously restricts the number of observations, but for a long-term analysis it is more meaningful to derive the parameters from these data than to base them on short-term cyclical swings. I have not attempted to apply the method to prewar data, but a cursory examination of the figures suggests that it does not

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[10] D. B. Suits, "Forecasting with an Econometric Model," American Economic Review, March, 1962, pp. 116-118.

[11] L. R. Klein and A. Goldberger, An Econometric Model of the United States, 1929-1952.

[12] Gary Fromm, "Inventories, Business Cycles, and Economic Stabilization," Joint Economic Committee, 1962, p. 82.

[13] J. S. Duesenberry, O. Eckstein, and G. Fromm, "A Simulation of the U. S. Economy in Recession," Econometrica, November, 1960, pp. 789-790.

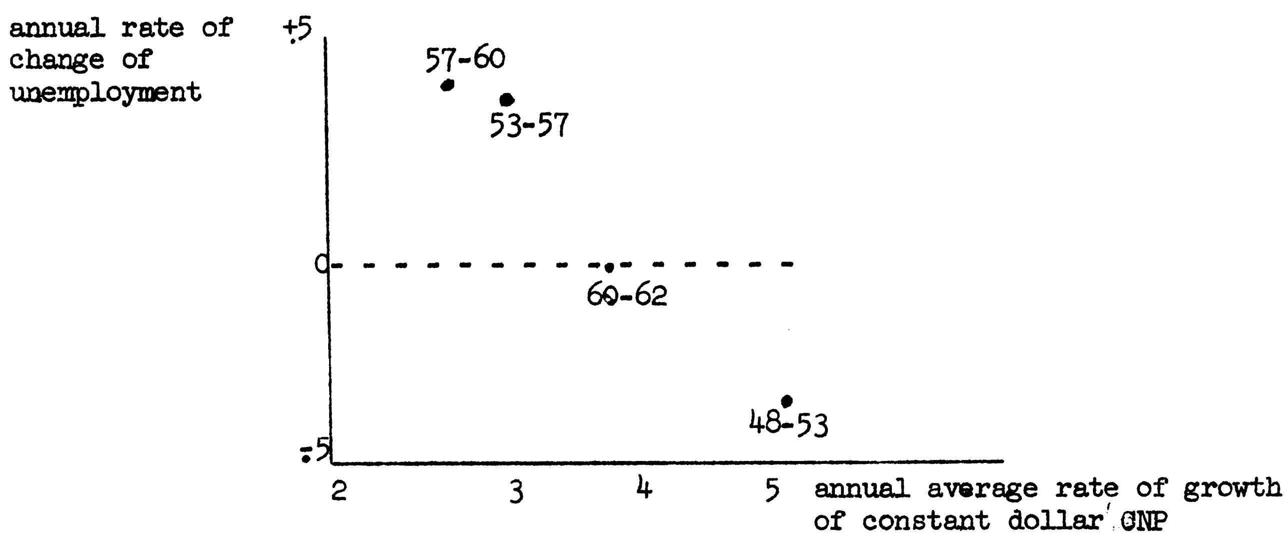
Table 5

Paths to 4% Unemployment

Number of Years Required	Required Real Rate of Growth
2	6.8%
3	5.7%
4	5.2%
5	4.8%
6	4.6%

Figure 1

Economic Growth and Unemployment



	GNP ($54)	Growth rate	Unemployment rate	Annual rate of change of unemp.
1948	293.1		3.8	
		4.7		-.22
1953	369.0		2.9	
		2.6		+.35
1957	408.6		4.3	
		2.5		+.43
1960	440.6		5.6	
		3.5		0
1962	471.5		5.6	

work out so neatly. Nor is the possibility excluded that a non-linear relationship is involved.

In some respects, the relationship is too simple. In particular, it makes the rate of unemployment independent of population movements which affect the growth of the supply of labor. I believe that the goodness of fit is due to the fact that the growth of the labor force responds to the growth of demand for labor, so that the effect of demographic swings on unemployment is very much attenuated.

These notes are just a beginning on this problem. Obviously, statistical explanations of unemployment rates in different regions and different industries still have to be undertaken. A more complete econometric theory of the structure of unemployment would also explicitly explain the (1) participation rates which determine the labor force, (2) the work week, and (3) the demand for labor based on a theory of productivity growth. This is one of the research tasks to which I would give high priority.

The Outlook for Aggregate Demand and Aggregate Unemployment

I shall not offer a long-term forecast of unemployment over the next five or ten years. I do not believe that much would be gained by such an exercise. Let me report what I believe to be the current consensus on the short-term outlook. Forecasting experts, both inside and outside the government, now expect that the total growth of output in the current period will be at about the rate of 3 per cent. After the recent brightening in the business outlook, the optimists are projecting GNP figures which have a real growth rate implicit in them of about 3.5 to 4.0 per cent, the pessimists (some of whom do not know they are pessimists) are projecting a real growth rate of 2.5 to 3 per cent.[14] None of these figures holds the promise of a real improvement in the unemployment rate. With little prospect of a tax cut having a major effect during this calendar year, the die is cast for 1963.

The behavior of unemployment in the succeeding two years, 1964 and 1965, is going to depend on the enactment of a tax cut. Without a tax cut there is now little prospect of an upward breakthrough, that is, there is now no development visible in the private economy which holds out the promise of producing full employment through spontaneous recovery. A $10 billion tax cut enacted during the next two years, combined with a multiplier of perhaps 2[15] might be expected to reduce the unemployment

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[14] 3.5 per cent real growth, fourth quarter 1962 to fourth quarter 1963, with the GNP deflator continuing its rise of 1.2 per cent a year, would mean a 1963 GNP of $580 billion. 2.5 per cent of growth would mean a GNP of $574 billion.

[15] See my paper, "The Tax Structure and the Functioning of the Economy," Proceedings of the National Tax Association, 1962, for a further discussion of these points.

rate by a little over 1 per cent, which would put us within shooting distance of full employment.

In the later years of the 1960's, the outlook for the private economy is brighter. The higher rate of household formation should lead to a greater volume of house building, greater demand for automobiles and appliances, and an induced increase in private investment. These demands are channelled into sectors in which productivity is high and the possibilities of technological progress relatively great. It has been our experience that prosperity in these industries is an essential ingredient for high general economic growth. On the other side, the growth of the population of working age also accelerates, so that more expansion is necessary to provide them with jobs.

It would be a mistake to place excessive faith in the expected favorable demographic development alone. If the economy is kept below full employment and full capacity utilization year after year, the economic potential of these developments may well be frustrated. A changing age structure of the population does not automatically convert itself into demand for final product or into requirements for additional capital. The changes in the marginal propensity to consume that are likely to be caused are limited, and if household incomes do not rise at a sufficient rate, the final demands will rise by lesser amounts. Family formation itself is affected by economic conditions, as marriages are postponed when there is unemployment; demands for houses can become demands for apartments or even doubling up with in-laws. The outlook of the late 1960's offers little argument for the postponement of the necessary tax changes in our own day.

Structural Changes in the Composition of Full Employment Demand

If the return to full employment follows the path indicated above, partial success due to tax reduction and reform plus completion of the task under the impetus of private recovery, then I see no reason to anticipate particular structural problems to the solution of the unemployment problem from this source. On the whole, this resurgence of demand in the durable goods industries and an expansion of construction would be a stimulus to employment in some of the very areas in which the decline has been felt most acutely in the last five years. Similarly, the balanced tax cut proposed by the President, designed to stimulate both consumption and investment, would lead to a diffused increase of demand for all sectors of the economy which would create few shortages and serve to reduce the generally diffused unemployment.

These assertions are based only on the crudest analysis and it would clearly be desirable to make elaborate sectoral projections of the growth of demand and unemployment for the remainder of this decade. Future shortages of specific skills as well as the coming geographic pattern of expansion could also be usefully identified. I hope this is one of the tasks to which the Berkeley program will address itself. The

Government's Interagency Growth Study should provide useful information along these lines.

What Unemployment Problems Will Aggregate Demand Increases Fail to Solve?

From all I have said so far, you might think that general stimulation of the economy, through fiscal methods, is going to eliminate the unemployment problem in its entirety. This is obviously incorrect. I have gone through this lengthy discussion because it is too easy to get carried away by descriptions of the plight of West Virginia coal miners. The case approach, as exemplified in the interesting recent issue of Newsweek magazine,[16] makes one lose sight of the basic fact that only an increase in aggregate demand is capable of reducing aggregate unemployment by a substantial amount. I believe one can turn to the structural aspects of the problem only when one sees it in terms of the economy as a whole. Stubborn problems will remain, and, in addition to the measures already taken, chiefly the Area Redevelopment Act and the Manpower Development and Training Act, further steps will be necessary before our society can feel content about the status of what has after all been one of the two or three most important domestic problems throughout our industrial history.

From a social point of view, not all unemployment is equally serious. The teenager casually attached to the labor force, the housewife who is the second or third labor force member of her household, the worker contentedly collecting his unemployment benefits in Florida during the offseason, should cause us less worry than the unemployed head of a household who has been out of a job for more than six months.[17] Let me now turn to the problems that will remain even when aggregate demand has been restored to a level consistent with aggregate supply.

The Six Special Groups with a Particularly High Incidence of Unemployment

The President's Manpower Report has identified six groups with the highest incidence of unemployment and I shall now discuss each of these in turn.

Young Workers

Unemployment in this group is always high, although in the past five years it has crept up a few per cent, in line with the increased

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16 "Unemployment in America," Newsweek, April 1, 1963, pp. 58-71.

17 For further discussion of this point, see John T. Dunlop, "Public Policy and Unemployment," Studies in Unemployment, U. S. Senate Special Committee on Unemployment Problems, 1960, pp. 1-15.

unemployment for all other age groups. In the coming years, the new entrants to the labor force will increase, worsening this problem. The high unemployment rate of this group is largely due to frequent job-shifting as young people experiment with different careers, to a lack of economic responsibilities which gives them the freedom to quit a job or even the labor force and, in some cases, the lack of skill and seniority.

I would expect this group's unemployment rate to return to normal (if rather high) levels when general full employment is restored. This group is mobile, adaptable, and responsive to changing skill needs. When job opportunities are abundant, whatever the field, young people will adapt their training and will seek them out.

The high unemployment rate which always prevails for this group is partly a reflection of the inadequacies of our general school system. The high school dropouts are the most serious hard-core unemployed of the group. Their plight is due to two factors, neither of which is amenable to quick solution: first, their school curricula are inappropriate, offering only academic courses for students who don't have the capacity or the interest to absorb the material, failing to provide vocational training in which the student could see some positive benefit in later life.[18] Second, the dropouts come from groups which do not share the puritan values of our society, without which integration into our economic system is very difficult. Frequently they come from environments suffering from acute social disorganization. What should properly be done for this group is far beyond my expertise; dropping out of school and being unemployed are usually only symptoms of a larger problem to which our society does not seem to have found the answer.

Older Workers

Workers over the age of 45 do not have particularly high unemployment rates (4.0 per cent in 1962) but a larger percentage remain unemployed 15 weeks or longer. Of all males in the labor force in the age brackets 45-64, 1.6 per cent were unemployed 15 weeks or more in 1962. Since the bulk of these men are heads of households, they constitute a particularly important group of the unemployed. A return to full employment would be beneficial: in 1957, only 0.9 per cent of this group suffered from long-term unemployment.

The United States has always been rather ruthless with the older worker and re-employment has been difficult for him. The higher long-term unemployment rate of the older workers of the last few years is a by-product of the decline of certain industries, particularly the goods-producing industries and some branches of mining.[19]

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[18] See Seymour L. Wolfbein, "The Transition from School to Work: A Study of the School Leaver," in Selected Readings on Unemployment, U. S. Senate Special Committee on Unemployment Problems, p. 705.

[19] For a fuller discussion, see Arthur M. and Jane N. Ross, "Employment Problems of Older Workers," Studies in Unemployment, U. S. Senate Special Committee on Unemployment Problems, pp. 97-120.

Negro Workers

Unemployment rates for non-white workers have been more than twice as high as the rates for white workers, and, to the extent that a trend is discernible, their relative position has been worsening through most of the postwar period. While new fields have slowly been opening up for Negroes, they still remain most vulnerable when unemployment comes. Negroes have a particularly large stake in a return to full employment, since their unemployment will decrease by an extremely large amount.

The longer-term problem of bringing Negro unemployment rates down to the national average level again is a problem beyond my expertise. The higher unemployment rate is a symptom which will not disappear until all Negroes have full access to the opportunities of our society and the motivation to take advantage of them.

Unskilled Workers

Unemployment rates of unskilled workers have been substantially higher than average. Here again there are many reasons, including technological progress, which is reducing the demand for this type of labor, plus perhaps a somewhat looser attachment to the labor force. A return to full employment will reduce the unemployment rates here as well, but the longer-term trend is running very much against this group. The obvious answer to their problem is to provide them with skills, but this again is not so easy. First, as long as there is general unemployment, there is little need for newly trained workers. Second, the unskilled tend to be older. I find it difficult to envisage how a man who has spent thirty years in unskilled physical labor can be given the types of skills for which demand is rising most rapidly.

Industries with High Unemployment

Seasonal industries. The highest unemployment rates prevail in construction (12 per cent), most of which is seasonal. In part this is due to the nature of the industry; but partly the cause must be found in the unemployment insurance system. The workers are able to receive a fraction of their normal income in the off-season. If the industry were confronted with the full social costs of its seasonal unemployment, for example by an experience rating system which had employers pay the entire cost of the unemployment benefits paid to their workers, there would be less seasonal unemployment. Other industries follow the same pattern, including apparel and the automobile industry.

When an acute labor shortage develops, as in Western Germany in recent years, even seasonal unemployment disappears. New techniques are found to build in the winter time; other industries change their production patterns to avoid seasonal layoffs. I think we have made a serious mistake in considering seasonal unemployment a purely technical matter, and our wholly numerical seasonal adjustment methods, which remove seasonal patterns before analysis of the figures, have deflected our attention from this important aspect of the unemployment problem.

Cyclical industries. Inevitably, industries with high cyclical variation in output, primarily the producer and consumer durable sectors, will have more than average unemployment due to this cause alone. However, in the last five years, cyclical unemployment has declined. The recession of 1960-1961 was the mildest of the postwar recessions and the subsequent expansion promises to be one of the longest; there is considerable evidence that the economy is in a relatively stable state at this time, with the inflow of orders to industry about in line with sales, with inventories apparently in proper adjustment to production, and with fixed investment continuing at what appears to be a sustainable rate. Further, the federal government has finally appreciated its own role as a source of instability in the economy, and there is less hazard of the kinds of sudden swings in government orders and expenditures which contributed so importantly to earlier postwar recessions.

This at least temporary decline of the significance of cyclical unemployment in the total is one of the reasons why we must rethink our remedies. Strengthening the automatic stabilizers or giving the President standby authority for temporary tax changes will play a smaller role in policy against unemployment under these circumstances, although they still may be worthy of adoption on their own merits. In any event, sooner or later the economy will again lose its present happy stability properties.

Industries with long-term declining employment. This problem is concentrated in the goods-producing sector of the economy. Total goods production has increased at a very slow rate since 1955-1956. This has been combined with rapid automation and a rate of productivity advance of 3.5 per cent, substantially above the economy-wide average. While an increase in aggregate demand would raise employment to some extent--many of these workers will never be re-employed in their old jobs. For example, the rise of product of 23 per cent from 1961 to 1962, led to an increase of employment of only 12 per cent. Further, many of the semi-skilled assembly line workers, in fact, do not possess transferable skills. Accustomed as they have been to the relatively high wages common in organized heavy industry, they now find themselves in a very difficult position, unable to find work at their past wage rates and unable to utilize their skills.[20]

What is to be done in this situation? No doubt, some fraction of this group can be retrained and given new skills. The introduction of

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[20] On this set of problems, see the forthcoming study by John W. Dorsey. Also see the interesting data in Bureau of Employment Security, Family Characteristics of the Long-Term Unemployed, a report on a study of the claimants under the Temporary Extended Unemployment Compensation Program, 1961-1962, TEUC Report No. 1, BES No. U 207-1. This study found over half of all claimants to have been laid off from manufacturing, three-fifths to be men, two-thirds heads of households.

automation can be facilitated by collective bargaining agreements which provide readjustment allowances and other benefits of a type now being pioneered in several industries. But in the end, some highly selective reduction of the work week to spread the remaining work may be a necessary part of the solution.

Depressed Areas

Even if one must be careful not to exaggerate the quantitative importance of unemployment in depressed areas, one must recognize that numbers alone do not convey the social significance of this problem. We know from studies of the Bureau of Labor Statistics[21] that unemployment in areas of substantial labor surplus differs from the national pattern: more of the unemployment is among males, more in the 25-65 age categories, more heads of households, and more of it is of long-term duration. What is more, some areas are a lot more depressed than others, and the extreme cases, the coal mining regions of West Virginia, Kentucky, and Pennsylvania, particularly, should stir our conscience even if they have little impact on macro-economic statistics. In these extreme cases, a combination of the worst of economic factors seems to be at work: there is no alternative economic base to the resource industries which have collapsed; they are geographically remote so that commuting to nearby industry is impossible; in some cases the unemployment has gone on so long that the social patterns have changed in a deleterious fashion, with men doing little more than occasional jobs, but with women finding it possible to work in service and retail establishments; mobility is low, particularly for the older workers who see mining as a way of life which they refuse to abandon. In some respects, this group of people really has more in common with other underprivileged groups in our society, such as the American Indians or families with a disabled head of household than they have in common with the ordinary unemployed elsewhere.

Concluding Comments

In this paper I have tried to argue that the first task in the restoration of full employment must be an increase of the general level of demand. Second, I do not expect this increase to develop spontaneously in the private economy unless a substantial tax reduction is enacted. Third, while a return to general full employment will reduce virtually all aspects of the unemployment problem, some of the people in the worst of the depressed areas and some of the older semi-skilled workers that have lost their jobs in manufacturing and mining will continue in difficulty.

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[21] Bureau of Labor Statistics, The Structure of Unemployment in Areas of Substantial Labor Surplus, Study Paper No. 23, Study of Employment, Growth and Price Levels, Joint Economic Committee, 1960. This study used data for the spring of 1959 and should be brought up to date.

Further, the unemployment rates for some groups in our labor force, particularly young people and Negroes, are very high even in prosperous times. General economic policies will not reduce these unemployment rates to levels that prevail for the rest of society. These high unemployment rates are a symptom of a more fundamental failure to fully integrate members of these groups into our economic system.

This paper would not be complete without calling your attention to one other matter of the very first importance. I have considered today only the achievement of the objective of full employment, without paying attention to other important objectives of economic policy. It is my belief that our society has not succeeded in reconciling true full employment with price level stability. In a world in which our trade balance is inadequate to the needs of our foreign policy and in which devaluation is an unacceptable policy instrument for the United States, the level of unemployment is in fact related to the rate of wage increase. No arguments about the favorable purchasing power effects of rising wages are going to change the simple fact that our economic policies over the next few years are going to have to be just as cautious as the balance of payments forces them to be. A resumption of inflation, whether due to irresponsible price behavior by business or wage increases beyond productivity gains, is the surest method of preventing a solution to the unemployment problem. Even the tougher prescription of Per [illegible] Jacobssen, of keeping wages stable for a period in order to bring our cost levels again in line with our major competitors, has much to recommend it, although one would wish some assurance that wage stability does not simply produce increased profits but results, in fact, in corresponding reductions of prices.

Albert Rees

The papers just presented by Dr. Heller and Dr. Eckstein devote most of their attention to examining the evidence on the causes of our recent high levels of unemployment. Both conclude that the cause has been inadequate aggregate demand rather than structural shifts in the economy. I find the evidence convincing and have no inclination to quarrel with their conclusion. In particular, it seems clear that the geographical dispersion of unemployment has been decreasing in recent years. The evidence on occupational and industrial structure is somewhat less conclusive, and work remains to be done on some dimensions of structural change, such as changes in unemployment by level of educational attainment. However, my main concern this morning is not with the speakers' conclusions about the nature of our unemployment problem but with the framework within which they examine the policy alternatives confronting us. In particular, I should like to take issue with Professor Eckstein's statements that "a resumption of inflation...is the surest method of preventing a solution to the unemployment problem" and that "our economic policies over the next few years are going to have to be just as cautious as the balance of payments forces them to be."

It has long been commonplace to argue in discussions of monetary and fiscal policy that we must choose between the risks of high unemployment and rising prices. The events of the past five years have confirmed the existence of an inverse relationship between the level of unemployment and the rate of price increase. During this period, when the average rate of unemployment has been 5½ per cent or higher in each year, the wholesale price index has not risen at all, and the rate of increase of consumer prices has slowed to about 1.2 per cent a year, a figure which is probably within the range of measurement bias. Moreover, there has been a notable lessening in the rate of increase of average hourly earnings during this period, not only in manufacturing, but also in construction and trade. The annual rate of increase in average hourly earnings in manufacturing has been lower in each successive non-recession period since the war, dropping from more than 10 per cent in 1947-1948 to a mere 1.5 per cent since the beginning of 1962. As a result labor cost per unit of output in manufacturing has fallen slightly since the start of 1958. In short, we have demonstrated that inflation can be brought to a halt even in an economy with strong unions and strong oligopolies by the combined brakes of tight monetary policy and increasing marginal rates of taxation, provided that we are willing to pay the price of joblessness above the frictional level.

The central question for monetary and fiscal policy today is whether checking inflation is worth the price, for the price is very high. Avoidable unemployment of, say, 2 per cent causes a loss of real output of more than 2 per cent for a variety of reasons. The lack of demand associated with total unemployment is reflected to some extent in shorter average hours of work for those who are employed and in underemployment--the inclusion among the employed of some people working at less than their highest skills. There is a further loss of production because output per manhour is adversely affected by below-capacity operations. These are the factors that make up the gap between actual output and potential output which Dr. Heller has discussed on this and other occasions.

This gap, however, does not reflect the full cost of unemployment. Persistent unemployment has some costs that are only felt in the future, which cause reductions in potential output rather than failures to live up to the potential. For example, high levels of unemployment materially retard the flow of excess labor out of low productivity occupations, and in particular the flow of labor from agriculture into the nonagricultural sector. High unemployment intensifies the resistance of workers and unions to labor-saving innovation and leads to demands for a shorter work week. Long-term unemployment further results in a deterioration of skills and of morale on the part of the unemployed that may impair future ability or willingness to work. In this connection, it should be recalled that when unemployment is at higher than normal levels, long-term unemployment increases more proportionately. For example, between 1957 and 1962 the number of unemployed increased 36 per cent, but the number unemployed 27 weeks or more increased 145 per cent. I have dealt so far primarily with the economic costs of unemployment. Over and above these, there are social costs that we are only now beginning to measure. My colleague Belton Fleisher is studying the labor market aspects of juvenile delinquency, and his preliminary results indicate a significant positive relationship between the unemployment rate of juveniles and arrests for crimes against property.

If the costs of unemployment are so high, and if we nevertheless choose high unemployment in preference to rising prices, one would imagine that the costs of rising prices are even higher. Yet I know of no demonstration that gently rising prices have any cost at all to the economy as a whole. It is true that there have been periods in American history when full employment and rapid growth have been associated with falling prices, as in the 1880's, or with stable prices, as in the 1920's. But it is equally true that there have been periods of full employment and rapid growth accompanied by rising prices, as in the first decade of this century, or the decade following World War II.

There is reason to believe that in principle gently rising prices improve the allocation of resources. Since many prices are sticky downward, the changes in relative prices required by changes in costs or in demand can take place more readily when some downward relative changes need not also be downward absolute changes. In other words, a gently rising price level serves to lubricate adjustments in particular prices against frictions.

Arguments against inflation on the ground that it causes reductions in output are at best tenuous; the true case against inflation is that it causes unintended transfers of real income. The most consistent of these transfers is, of course, that from creditors to debtors. Two important special cases of this are the transfer from the public to the government, which is always a net debtor, and the transfer away from older people who are on the whole net creditors. Strictly speaking, the transfers of real income from inflation arise only when the inflation is unanticipated; to the extent that it is anticipated it will be offset by rising interest rates and other changes in the terms of long-term contracts designed to preserve the intended real value of future payments. Therefore, a permanent shift in monetary-fiscal policy designed to give greater weight to reducing unemployment and less weight to checking price increases would cause smaller transfers of real income after it had been in effect for some time than it would initially.[1] To the extent that rising prices nevertheless cause unintended transfers of real income, these can be offset by deliberate policy. For example, social security payments could be raised to keep pace with the rise in consumer prices. The compensation to losers from inflation could be financed by taxing the gains of the winners. If a situation of full employment with rising prices is contrasted with a situation of unavoidable unemployment and stable prices, it is apparent that there is also another source from which to draw compensation for the losers. It can be drawn from the added production that takes place at full employment.[2]

It will no doubt be objected that we cannot afford to restore full employment with rising prices since this will aggravate the balance of payments problem. To this there are two answers. First, it is not certain that rising prices will in fact worsen the balance of payments; they will no doubt make the balance of trade less favorable, but they could increase private investment at home at the expense of U. S. private investment abroad by enough to offset the change in the trade balance. Second, if the balance of payments would in fact be more unfavorable at full employment, it is possible to alter our international monetary arrangements, for example by raising the selling price of gold and allowing its price to move freely between the present buying price and the higher selling price. Professional economists owe it to the public, and in particular to the unemployed and their families, to bring the issue of gold policy into the arena of open discussion. At present it is the almost unmentionable specter haunting our policy decisions and blocking the way to the creation of adequate demand. Vainly we seek to

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[1] As Victor Fuchs has reminded me, a perfectly anticipated rising price level will have less expansionary effect than an unexpected price rise, since the latter will lead to expectations of acceleration that result in attempts to spend before the pace of inflation quickens. An uneven rate of rise in prices is therefore preferable to a steady one in terms of its ability to stimulate economic activity, although it is less desirable on grounds of interpersonal equity.

[2] Nothing in this paper is intended to argue that inflation is desirable in itself, or that raising the price level should be a deliberate aim of macroeconomic policy. Rather, I am suggesting the following reordering of priorities: Instead of aiming at the lowest unemployment consistent with stable prices, we should aim at the smallest price increases consistent with some independently defined full-employment goal. The difference is not a trivial one.

propitiate this specter by such inanities as shipping American beer to post exchanges in Munich, or we wait for it to be dissipated by rising factor prices abroad. It is fortunate for American policy makers that our unemployed have been so patient, but can we count on this indefinitely?

In suggesting that we should place more emphasis on reducing unemployment relative to other goals of policy, I do not mean to suggest that increasing aggregate demand is the only way to combat unemployment. Much can be done through retraining programs and through improvement of the labor market, and the better the job we do along these lines, the smaller the price rise that will be associated with the return to full employment. However, it is probably an illusion to believe that our manpower and retraining policies could be so improved that we can re-achieve full employment with no price rises whatever. Dr. Heller's paper has pointed out one reason for this; wages will rise in occupations with labor shortages long before they fall in occupations with labor surpluses, and the best that retraining programs can hope to do is to minimize this difference.

The opportunities for further training programs is illustrated by the presence, in the midst of unemployment, of labor shortages in such occupations as medical technicians and office machine repairmen. In addition to what can be done through retraining for particular occupations, a great deal might be accomplished by a federal program for teaching adult illiterates basic skills of reading, writing, and arithmetic. But it is generally agreed that there are grave dangers in putting exclusive reliance on the retraining and education of the unemployed without also creating more adequate demand. One danger is that many people who have been retrained at considerable cost both to the public and to themselves will still be unable to find jobs after they have completed their programs, and this will be an embittering experience. Another danger is that without expansion of the total number of job opportunities, jobs taken by retrained adults will come at the expense of youths just entering the labor market, whose unemployment rate may be pushed even higher than it already is. Moreover, the amount of retraining that can be done under even greatly expanded public programs is small compared to the amount of private training that would be done by employers and by workers at their own expense under the stimulus of labor shortages in a larger set of occupations.

What are the implications of these remarks for policy proposals currently under consideration? First, I think that they argue strongly for a tax reduction program of at least the size proposed by President Kennedy, but with a greater concentration of the tax reductions in the first year. They also suggest that if tax reduction is to be imperiled or long delayed by tax reform, we should have the reduction this year without the full program of reform, with further reduction in the higher bracket rates of the personal income tax to take place later in connection with reform and without substantial additional loss in net revenue. Finally, if we are to reduce unemployment to tolerable levels, tax reduction of the magnitudes currently under consideration cannot be relied upon to do the whole job. It should be accompanied by an expansion of the money supply and, if necessary, relaxation of the constraint that short-term interest rates cannot be allowed to fall. The latter is, of course, contingent on changes in our international monetary arrangements. High unemployment is sufficient ground for monetary ease; it should not be necessary to wait until we are already in a confirmed business contraction, when the job of restoring adequate demand will be even more difficult than it is at present.

Paul W. McCracken

There are two issues about which it ought to be possible to achieve a substantial consensus. First, in recent years a real unemployment problem has arisen. On this the evidence is quite clear. Our unemployment rate is higher than those for other countries, even when adjustments are made to effect definitional comparability. An increase in unemployment would be a reasonable expectation with the abnormally slow growth of recent years. And the detailed examination of unemployment data in the papers of Dr. Heller and Professor Eckstein develop no contrary evidence.

Second, a higher level of demand for output is essential if the level of unemployment is to be reduced to more normal levels. This is not to deny that there will be problems of a misfit between the pattern of demands for additional labor and the pattern of supplies available. The demand may appear in Iowa while the surplus supply is in West Virginia or Alaska. Or the demand may be for skilled labor while the people to be re-employed are semi-skilled. Most markets in a dynamic economy are not in a state of perfect equilibrium and the labor market is no exception.

We are entitled, however, to be reasonably sanguine about the effectiveness of market forces (if allowed to operate) in dealing with these disequilibria if the total demand for labor is in reasonable balance with the supply. Professor Eckstein's state data are instructive on this point. From 1950 to 1962 unemployment rates for only ten of the 51 observations (including Washington, D. C.) moved in a perverse direction--i.e., unemployment rates above average in 1950 that were still higher in 1962, or rates that were below average in 1950 that moved still lower. The power of the market to activate equilibrating tendencies is substantial, if the total demand for labor is adequate, and this can reasonably be expected to do most of the job of fitting demands to supplies.

What problems do we confront in trying to lift the volume of aggregate demand to a trend 5 per cent or so (the gap between actual and potential output discussed by Dr. Heller) above the one we have been moving along in recent years? There are, I think, three that deserve to be mentioned in this conference. First, there are formidable problems to be faced in getting the higher level of money demand for output. Monetary policy has been doing all that can reasonably be expected of it. The extent to which the rate curve can be nudged toward high short rates (to minimize balance-of-payments strains) and low long-term rates (to stimulate business activity) is limited, and in any case low long-term rates also create balance of payments problems by making our capital markets an even more attractive place for foreign long-term borrowing. Given the balance of payments constraint, in fact, monetary policy has been making a remarkably substantial contribution. The volume of net free reserves has been large, and the expansion of the money supply (defined, as it should be, to include time deposits) has outpaced the normal growth of the economy by a substantial margin.

In principle we can have the best of both worlds through the vigorous use of fiscal policy. This would stimulate domestic business activity, and the more active domestic demand for money would help our balance of payments. In practice we are finding that it is not so easy to pull off the vigorous use of fiscal policy. And the problem is vastly more complex than simply that large elements of the population still hold troglodytic views about balancing the budget.

A much more fundamental problem is that we have a tax structure which has become too sensitive to changes in business conditions. Most economists here have at one time or other given the usual speech about how we have built automatic stability into the economy via the tax structure. A large part of the decline in incomes during a recession is at the expense of taxes, leaving incomes after taxes more stable. The facts on this are persuasive. The decline in federal receipts (on a national income basis) during the 1957-1958 recession was equal to 51 per cent of the decline in national income and the ratio was even higher for the 1960-1961 recession.

To an astonishing extent we have ignored the fact that this same process operates on the upswing--also acting as a powerful "stabilizer" (i.e., inhibitor of expansion). From the first quarter of 1961 to the fourth quarter of 1962 the increase in federal receipts (again on a national income basis) was equal to 35 per cent of the rise in national income, and the rise in federal, state, and local receipts was equal to 45 per cent of the rise in national income. For the expansion after 1958 the ratios were very similar.

One need be no pessimist about the inherent or natural strength of the economy to suggest that this drag of the tax structure has become too severe for there to be reasonable assurance that we can operate at sustained full employment. This calls for actions in three directions. First, a lowering of the tax structure would be a step forward, and it is to be hoped that this year's emergent consensus on this in principle can bear fruit in fact.

Second, the tax structure must be made less sensitive to changes in the level of income. This means that we must work toward a slower gradient in personal tax rates, and more reliance on indirect taxes. This means, in short, a less progressive tax structure, and a lesser redistribution of income via the taxing mechanism. Such a suggestion may to some sound like turning the clock backward (or perhaps the whole calendar), but the lower income groups have more to lose through the inadequate job opportunities of an arthritic economy than through the relatively nominal redistribution of the tax load that would be implied here. Moreover, this incidence-of-taxation issue needs a little refocusing in its own right. We persist in looking at only half of the income-incidence of government activity--namely, the tax side. For reasons that are not at all clear we usually ignore the distribution of government services and benefits by income groups. When we include both taxes and benefits, we find that the fiscal operations of government are effecting a large redistribution of incomes toward lower income groups, and would do so even if we made our tax system somewhat less sensitive to changes in business conditions. A study of Michigan's fiscal operations in 1956, for example, showed that the net value of benefits (benefits less taxes paid) received by those with incomes less than $2,000 added about 30 per cent to their income.[1] The tax structure was regressive, but this was swamped by the enormously greater relative contribution to those with lower incomes.

Third, we must increase our capability for taking affirmative, ad hoc contra-cyclical action if we are to reduce the degree to which the tax structure automatically retards changes in business activity. Here the clear preference is for presidential authority to vary tax rates over a limited range, for a designated period, and perhaps after making a full report to the Congress on reasons for his action. It is to be hoped that this item will reappear on the list of Administration recommendations after the tax reduction issue is resolved.

There is a second problem here that may be even more difficult than activating policy measures to achieve an expansion in demand for output. Will agglomerations of market power in labor or product markets begin to produce untenable upward pressures on costs and prices before the rise in aggregate demand achieves reasonably full employment? Perhaps not. The price level has been more stable in recent years. Wage settlements have been smaller. Foreign suppliers have added a new dimension to competitive disciplines in domestic markets. There is a degree of candor about facing this problem that did not exist a few years ago. Discussions of this problem in the Economic Reports of the President for 1957 and 1958, widely criticized by economists at the time, would evoke less professional dissent now.

We may be out of the woods on this problem, and substantial progress has unquestionably been made, but it would clearly be unwise for public policy to be based on the assumption that the wage-cost-price, market-power dimension of inflation no longer exists. The recent stability of prices may mean little more than that there is some level of underemployment that will hold the price level steady--something we have always known. Moreover, from 1959 to 1962 (both initial years after a recession) hourly earnings adjusted to exclude the effect of overtime and interindustry shifts increased 9 per cent. This is probably somewhat more than would be consistent with a stable cost level, even though it was a period of underemployment. (Employment costs per unit of output did, in fact, rise 6 per cent during this period.) Finally, a more vigorous demand for output will certainly create market conditions prompting some price increases, unless the future turns out to be a break with history.

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[1] Richard A. Musgrave and D. W. Daicoff, "Who Pays the Michigan Taxes?" in Staff Papers: Michigan Tax Study (Lansing, 1958), p. 138.

If policies to regain full employment come to grief, there is a high probability that resumption of an untenable degree of upward wage-price pressures because of market-power agglomerations will be the shoals on which we run aground. If so, a research program designed to contribute to our understanding of the unemployment problem should devote substantial resources to this market-power phenomenon. If it turns out to be a problem, it is apt to be a fairly intractable one--unless we get some more homework done on the matter early. This work of identifying the questions and assembling the pertinent evidence should go forward in two areas.

First, how can we reduce the market power available to unions in labor markets or to businesses in product markets? This in principle can take the form of suppression of power that admittedly does exist--through techniques ranging from Presidential scolding to defacto or de jure wage and price controls. Or the approach can be in the direction of reducing the power residing in any group--a restructuring to achieve more effective market disciplines.

On this matter it is the usual custom carefully to ration exactly as many words to the monopoly power of businesses in product markets as to the power of unions to extract wage increases. In fact, it would be a remarkable coincidence if exactly half of the problem was found on each side of the boundary line. And it is at least reasonable to predict that the more difficult half of the problem to cope with, in principle and in fact, will be the upward drift of labor costs per unit of output.

Second, how much inflation can we tolerate? Though a rising price level may be an unattractive prospect, we must weigh the inflation against the effects of measures necessary to eliminate it. Would willingness to accept a rising price level enable us to have more rapid economic growth? The evidence is not at all clear on this matter, and the question very much needs intensive and objective study. What is a reasonable expectation about the impact of inflation on decisions of consumers to buy? Available evidence suggests that it has an inhibiting effect. If we cannot have a stable price level, at least in the absence of a corset of direct controls, we had better have at hand as much objective evidence as possible on what might be expected to be the result of a rising price level.

Third, the continuing disequilibria in our balance of payments may also turn out to be a leading contender for the honor of impeding the return to full employment. Do we have a "fundamental disequilibrium" in our balance of payments? For obvious reasons we shall continue to answer this question in the negative unless the evidence to the contrary is overwhelmingly clear. And this means that we shall continue to move more cautiously on the domestic front than would be necessary if we did not need to keep one eye focused on our external payments. Hopefully, this means only a moderately delayed return to full output. In academic research, however, more resources should be devoted to the specifics of economic policy needed if it becomes ineluctably clear that we do have a "fundamental disequilibrium." Failing a well thought-out plan for action, we would risk cowering at less than reasonably full employment until forced to extemporize when some crisis explodes.

The thrust of these two papers is that the source of the problem of unemployment is not to be found among the unemployed *per se*. It is nothing less than the problem of over-all economic policy. This, I think, is correct. It provides a key guide line for the direction that a major part of research ought to take.

Don Vial

I regret that Stan Ruttenberg, because of pressing business in Washington, is unable to be here today. Apart from Mr. Ruttenberg's superior qualifications for commenting on the papers delivered this morning by Dr. Heller and Professor Eckstein--papers which I did not see until half an hour before commencement of this morning's program--there are other factors to be considered in the substitution. Mr. Ruttenberg is no longer with the AFL-CIO; his responsibilities are to the Administration. On the other hand, my work with the state AFL-CIO is oriented toward Sacramento. In fact, Nat Goldfinger, the current AFL-CIO Research Director in Washington, D. C., and Mr. Ruttenberg's successor, is in the audience.

All of this gives me license to be something of a villain in this morning's performance. Indeed, I am in a good position to give full vent to my criticisms of what has been said here this morning, and what is or isn't being done to get our economy moving again and restore full employment. When I am through, I will be able to return to Sacramento. Nat Goldfinger is the one who will be returning to Washington, D. C.

Seriously, I find it difficult to reconcile Dr. Heller's eloquent description of the economy's ills and analysis of its needs with the Administration's performance to date. The analysis clearly calls for bold action; the performance is something considerably less than bold.

At the outset, it was gratifying to hear Dr. Heller emphasize the necessity of vastly expanding aggregate demand to achieve full employment while at the same time giving recognition to the "structural" aspects of the current unemployment problem. The AFL-CIO is in full agreement with Dr. Heller and the Council of Economic Advisers that the basic problem is one of aggregate demand, and that fiscal policies aimed at achieving a more favorable rate of economic growth must be combined with labor market programs geared to matching men and jobs and keeping the skills of our labor force abreast with technology.

Recognition of the over-riding importance of the demand function does not mean that we must deny the existence of structural problems. Indeed, the structural aspects of the total problem extend beyond the retraining of those who are displaced by automation and other technological developments. They extend also to the training of those who are entering the labor market, and the development of skills through planned, coordinated skill development programs at the community level within the framework of an expanding economy. The point has been well made that to the extent we do not come to grips with structural problems, efforts to stimulate aggregate demand will be confronted with inflationary pressures at an earlier stage than would otherwise be the case if men and jobs were more adequately being matched through effective skill development programs.

Yet, with all the balance in Dr. Heller's address, I must admit to some confusion. The performance has not been balanced. It has been almost entirely on the structural side with the passage of MDTA, the Area Redevelopment Act, and the adjustment assistance features of the Trade Expansion Act--apart from the $2.5 billion in tax relief given to business through revision of the depreciation schedules and last year's investment tax credit. On the aggregate demand side, the Administration's fiscal policies appear to combine a "hold-down" approach to public investments with tax cuts and reforms that are both inadequate in scope and misdirected in their "mix." In my commentary, I would point to several areas of omission and deficiency in the Administration's fiscal policies.

It seems to me, in considering the stimulation of aggregate demand, that very little has been said this morning about the millions of families in this nation of so-called affluence who live in poverty. All of the excess capacity of our economy, put to work, would not be enough to provide these families with a so-called American standard of living. It is obviously among those most in need that any increase in buying power would be immediately translated into effective demand. The Administration's program seems to be most lacking in this area both from a social and economic point of view. In our own wealthy state, the California Welfare Study Commission issued a report recently containing a study on "the patterns of dependent poverty in California." This study, which I commend to everyone here, indicates that 25 per cent of our population either lives in poverty or is on the borderline of poverty.

I would single out just one example here--the plight of the domestic farm worker whose wages and working conditions are an affront to the moral and social conscience of the nation. Here is an important segment of our labor force that stands at the lowest rung of the nation's economic ladder. In our rich valleys in California, the Administration appears to be pursuing policies in the development of water resources that are enthroning our landed monopolists and contributing to the development of a 20th century form of feudalism with imported cheap labor at its base.

The farm worker provides an excellent example of how the classical law of supply and demand is not working out in California. During the past decade a persistent shortage of domestic workers claimed by growers has actually depressed farm wages and working conditions in many crop activities. Obviously, this is because of the bracero importation program under Public Law 78. The Administration has toyed with reforms to eliminate some of the adverse effect, but the Administration's policy today is to extend the bracero program.

The "trap ghetto" is another breeding ground of dependent poverty. Here again, the Administration's programs, in coming to grips with metropolitan problems and expending the supply of low-cost nonsegregated housing, are seriously lacking.

Moving on into the area of wage and price policies, Dr. Heller has indicated that these are not "suitable vehicles for stimulating aggregate demand." The Administration's "guide-post for noninflationary wage and price adjustments" were reasserted in the interest of "reasonable price stability" to accommodate the Administration's over-riding concern with the balance of payments problem. It would appear to me that Mr. Rees' comments here expose the shortcomings of the Administration's policies in this respect. There is no economic evidence that moderate price increases are harmful to the economy. The Administration's adherence to political "taboos" in connection with efforts to resolve the balance of payments problems hardly justifies the price that is being extracted in domestic policies. It appears also that Professor Eckstein would subordinate wage policy to the balance of payments problem--and again without questioning the efforts of the Administration to bring our international transactions into balance.

Beyond this, the wage policy guidelines appear to ignore the most significant fact about wage movements in recent years. The record of the past seven years shows that real wages in manufacturing have failed to keep pace with productivity advancements. To argue stability in the relative shares of national income going to labor and business in the face of this experience is asking a great deal of organized labor, especially when the motivating factor behind the guidepost seems to be the balance of payments issue.

It is unrealistic also to ignore the substantial shift that has been taking place in the distribution of money income between families. While those in the middle ranges realized improvements in their relative shares, it is a known fact that the rich have been getting richer and the poor have been getting poorer.

In my opinion, the Administration's wage policy should be concerned with more than just wages in the organized sector. What about those outside of the bargaining structure? Is it the Administration's policy to accept the unhealthy trend that has taken hold in the distribution of personal income? The whole issue of wage and price policy, in my opinion, requires a more fundamental analysis of the factors that are contributing to the imbalance between purchasing power and the nation's ability to produce than has been recognized by the Administration.

In effecting an expansionary fiscal policy, it was pointed out that the Administration is working on the "spending side" as well as the "collecting side" of the federal budget. Dr. Heller made reference to a $4\frac{1}{2}$ billion increase in expenditures for fiscal year 1964, but most of this, he pointed out, will be in the areas of defense and space.

California, of course, has participated handsomely in the distribution of these expenditures, but not without an awareness of the problems of imbalance that this has created in our industrial development. Indeed, our experiences in San Diego with cutbacks and shifts in defense expenditures have taught us the hard way that this is a mixed blessing. Apart from our support of U. S. policies in defense of the free world, we find little to be happy about in the fact that California manufacturing is 35 per cent defense-dependent at the state level, over 40 per cent defense-dependent in Los Angeles, and in excess of 63 per cent in San Diego. We would prefer greater public expenditures in the area of peaceful needs and in assistance programs to secure better balance in our industrial development.

Outside of the area of defense expenditures, we are advised that there will be a re-shuffling of priorities in civilian programs toward those that are "most urgent." Any way you slice it, this re-shuffling amounts to a "hold-down" public investment program. This is particularly difficult to accept because it is a known fact that in our so-called "affluent" society, many of our greatest unmet needs are in the public sector requiring huge investments by the federal government into the future of the nation. In fact, I would quarrel not only with this short-sightedness, but also with some of the re-shuffling of priorities in civilian programs.

I learned for the first time today that the Administration was contemplating a $1 billion reduction in direct loan programs--substituting loan insurance for direct lending in housing as well as in other program areas. In California, this will have a devastating effect on our efforts to increase the supply of housing for our exploding population. The cut-back in direct loans for housing means an increase in mortgage interest rates and the pricing of more moderate income families out of the housing market. This cut-back in direct loans, furthermore, comes at a time when the Governor's Commission on Housing Problems has just submitted a report to the Legislature urging a vast expansion of direct loan programs to extend the housing market to low and middle income groups, to help develop balanced communities in the accommodation of our vastly expanding population, and to prevent the further stratification of our suburbs that is turning our core cities into ghettoes of dependent poverty.

It should be pointed out that the Administration's cut-back in direct loans also has implications on the structural side of the unemployment problem. The cultural and environmental limitations of the ghetto are important factors that contribute to the school drop-out problem and the underdevelopment of skills among minority groups. Rather than cutting back on direct loans for housing, I would urge the Administration to move in the opposite direction and recognize housing as one of the most important areas for vast expansion of government investment programs. This one example points up the need for the development of a federal "capital expenditures" budget to separate government investment functions from ordinary government administrative expenditures. In many areas of urban growth, in addition to housing, the investment of government funds is vital to the stimulation of the private sector of our economy.

Turning to the Administration's tax program, the AFL-CIO has indicated its belief that the $10 billion net tax cut proposed by the President--spread over a three-year period--will provide an insufficient stimulus to the economy. The first order of business, in labor's opinion, should be an immediate $10 billion tax cut retroactive to January 1, 1963, and concentrated in the lower income brackets to provide an immediate and necessary stimulus to consumer purchasing power. This first step tax cut urged by the AFL-CIO would include:

1. Reduction of the present 20 per cent tax on first-bracket taxable income under $2,000 a year for a single person. This would be accomplished by dividing the first bracket into two parts, with a 12 per cent tax rate applied to the first $1,000 and with a 15 per cent rate applied to the second $1,000. For a married couple filing a joint return, the 12 per cent would be applied to the first $2,000 of taxable income and the 15 per cent rate would be applied to the second $2,000.

2. Establish a minimum standard deduction of $400 for an individual plus $200 for each dependent. This would be in addition to the existing personal exemption of $600 each.

3. Reduction in taxes on the first $25,000 of corporate profits from 30 per cent to 20 per cent, as proposed by the Administration. This would give quick tax relief to small businesses which are most likely to have immediate investment uses for extra money.

The AFL-CIO estimates that these three provisions, if made retroactive to the beginning of 1963, would release $10 billion into the economy--$9.8 billion in extra buying power for American families and $200 million in extra after tax profits to small business. The "multiplier effect" would be to contribute as much as $20 billion or more to total national production, creating new jobs, providing business with incentives for rising investment outlays, increasing the rate of economic growth, and generating increased tax revenues.

It is apparent that organized labor does not believe that the President's tax program provides the best "mix" to increase aggregate demand. Almost half of the total tax cut proposed by the Administration--$4.8 billion--would go to corporations and to the 15 per cent of the taxpayers in the top income brackets. Furthermore, on top of the $2.5 billion tax windfall handed business last year, organized labor is of the opinion that the President's proposals for additional relief to stimulate investment is both uneconomic and unwarranted.

The so-called corporation "profit squeeze" is a myth. There is no basis to the claim by business that corporations lack investment money. In 1962, corporate profits after taxes reached a record high of $26 billion and corporate dividend payments were at an all time high of $15.9 billion--achieved while 15 per cent of our productive capacity was idle. Furthermore, the availability of investment money is more accurately measured internally by their "cash flow" after payment of taxes and dividends. In 1962, non-financial corporations piled up $35 billion in undistributed profits and depreciation set-asides. This was more money than they spent on new plant and equipment--and this is the story of the past three years.

Clearly, the serious lag in business investment is not a result of lack of investment money. It is a lack of job-creating investment opportunities stemming from a lagging purchasing power base.

Tax reform, constituting the second phase of the AFL-CIO's tax recommendations, would be aimed at equity, at a fair distribution of the tax burden not only as a matter of justice, but also to strengthen the faith of the American people in the integrity of the tax system. Beyond the first brackets tax cuts recommended by the AFL-CIO, there should be no further across-the-board reductions that are not linked to closing the loopholes enacted over the years that have benefited primarily the upper income groups. In this respect, the 91 per cent upper tax rate is more of a fiction than a reality. I have examined the distribution of tax returns tabulated by the Internal Revenue Service. I am not able to find any evidence that wealthy persons are paying 90 per cent--nor are they paying 80 per cent--nor 70 per cent--nor 60 per cent. Because of the loopholes benefiting the wealthy, the Internal Revenue Service tabulations of returns indicates that the effective top rate is in the 50 per cent range.

The loophole-closing reforms proposed by the Administration point in the right direction, but they do not go far enough. Unfortunately, much of the revenue and equity gained from the Administration's reforms would be lost as a result of the Administration's proposal to cut the capital gains tax from the present 25 per cent maximum to 19.5 per cent--when it should be raised. Furthermore, the Administration has failed to call for the repeal of the popular "tax shelter" of very rich people--the tax-free interest income from state and local government bonds--and to ask for cuts in the excessive mineral depletion allowances. I personally cannot visualize any real reform measure without cutting into the excessive mineral depletion allowances.

In concluding, I would like to make one further observation. It is obvious from my remarks, reflecting AFL-CIO policy, that there is a great deal of labor dissatisfaction with the timidity of the Administration's tax and spending program to stimulate economic growth. The Administration's effort does not appear to match the urgency of the problem outlined in the papers delivered here this morning. Similar reservations were expressed yesterday regarding the quality and scope of programs enacted to alleviate structural problems.

Out of these frustrations--speaking from a California vantage point--it is understandable that the AFL-CIO has taken such a strong position in support of a shorter work week. I am well aware that many economists are less than sympathetic with this stand, not because there is no room for shortening the work week or work day based on productivity increases, but because of their belief that it is not a panacea for restoring the economy to full employment. The labor movement knows that it is no panacea, either. Lacking any real evidence that the government is prepared to come to grips with the problem, however, the AFL-CIO has been left with little to turn to in the way of alternatives.

The labor movement's only reason for existence is to improve the conditions of life and labor. The federal government, by act of Congress in 1946, also has its responsibilities to pursue policies that will maintain high purchasing power and promote full employment. Thus, we have our mutual obligations, and the labor movement certainly cannot assume the obligations of government. In an economy of less than full employment and in the absence of effective government remedial action, the labor movement may be left to alternatives which are only second best. In this respect, as in the case of the shorter work week position, the labor movement certainly is not beyond criticism, but we would urge understanding of the movement in doing what the alternatives permit when a solution must be found.

The unemployment problem must find a solution, and it must be found soon.

III

WHAT CAN WE LEARN FROM EUROPEAN EXPERIENCE?

Addresses:	Jack Downie
	Robert J. Myers
Discussion:	Robben W. Fleming
	William H. Miernyk
	Richard A. Lester

JACK DOWNIE

Let me remind you that, in the first postwar decade, the question, "What can the United States learn from European experience?" was being asked in the reverse sense; and very naturally so, given the huge difference in income levels on the two sides of the Atlantic, the staggering expansion of production which the American economy had achieved in the preceding decade, and the presence of 70 per cent of the world's stock of monetary gold in the United States as a sort of visible symbol of the tendency for all good things to go west.* Europe was living still under the shadow of the belief that, unless it could copy American methods, it would be further and further outstripped and the world persistently unbalanced by the Midas-touch of an ever more productive America.

With this in mind, I am tempted to answer shortly in the words of Pitt the Younger, "Roll up that map of Europe; it will not be wanted these ten years." Nor am I much dissuaded from doing so by the argument that the very success of European countries in avoiding the fate which they feared--indeed the emergence of trends the opposite of those which were thought to be likely--is evidence of the success with which the lessons of American experience were in fact learned and applied, and that this provides clear indication that, in turn, the teacher can now benefit from his former pupil. It may be that European business has learned much from America; certainly, strenuous efforts were made to persuade it to do so. But even here it is very difficult to discover specific examples where the transplantation of American ways of doing things was clearly at the root of European transformations. And it is all the more difficult in other spheres than business. But European experience perhaps at least suggests that self-questioning and the desire to question others is the first condition for improving one's performance. And, in any event, if a question is asked, it would be churlish of Europeans not to try to give the best answer that they can. But I ask in turn that my audience should bear in mind the advice of an American, Benjamin Franklin--"In this world nothing can be said to be certain, except death and taxes."

I suppose that people are interested in what lessons can be drawn from European experience for the better government of the United States; the question is prompted by a belief that U. S. government policy could respond more effectively to the situation of the United States. In addressing oneself to a question of this kind, one needs to bear in mind that government is a two-sided process, the action of the governing upon the governed. And this means that there can be two quite different reasons why the performance of a government is responding inadequately to the demands of the situation with which it is faced. The government may be wrong or in doubt about what it ought to do. Or, knowing what it ought to do, it may be unable to do it because the governed do not accept that such action would in fact be "in the national interest." The sermon which is appropriate will vary according to the audience to which it is addressed.

It is not for a foreigner to decide whether it is the people or the Government of the United States which is currently most in need of

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* My staff in the Department of Economics and Statistics of the Organisation for Economic Cooperation and Development have taught me most of what I know about the United States and Europe. I thank Miss I. K. Moe, Mr. J. D. Fay, Mr. B. MacLaury, and Mr. J. McGibbon in particular for helping me with this paper.

such lessons as foreign experience has to teach. And this means that he is compelled to adopt a rather less sharply directed approach than might otherwise be possible. What appears to be seemly is that he should observe what it is that people are arguing about and make such contribution as he can to the illumination of the debate. It is not true that people can be trusted always to ask themselves the questions which are most important and relevant. But one should take such self-interrogation as a starting point.

Approaching the matter in this way, I find Americans comparing their performance with that of European countries in respect to employment and the growth of productivity, prices, and the balance of payments. They seem to agree in concluding from these comparisons that they have something to learn about employment and growth, something to teach about price stability, and justification for a sense of grievance about the balance of payments. Thereafter there is a good deal of dispute among them about what precisely it is that they can learn from Europe about employment policy and growth.

I shall summarize my own position equally shortly. I believe that Europe has little to teach the United States about how to achieve strongly desired employment goals; that the United States has still something to learn about prices and incomes; and that people should not be blinded by any sense of grievance to some useful if general morals which can be drawn from balance of payments experience. Having said this, let me say at once that my disagreement is not about the facts but about the interpretation to be put upon them. I have presented some summary comparative statistics in the Appendix. But they do no more than confirm a story which is now sufficiently well known and I shall not repeat them in words.

Employment and Growth

One country may do more poorly than others because its task is more difficult, its capacities are more limited, or its determination to use its capacities is less.

I do not believe that the main reason for the more successful employment and growth record of European countries is that they had an easier job. I will not deny that I find this a particularly uncomfortable time to offer such a judgment. European growth has slackened, investment demand has weakened, and some people are beginning to suggest that we have passed a watershed and moved out of the golden light of the 1950's. The change in the labor situation and the shift in the distribution of income in Germany have stimulated some gloomy prognostications. The United Kingdom which, up until now, has compensated for a rather modest growth record by a very low unemployment record, is now experiencing unemployment on a bigger scale than in any normal period since the War. More generally, people are asking themselves whether it is realistic to hope that Europe can again end an investment boom without going into a slump.

Nor do I deny that plausible theories can be built to support the view that it has been easier for Europe to grow than it has for the United States. Such theories can be summed up in a phrase of Boris Pasternak: "He was spoilt from childhood by the future, which he mastered rather early and apparently without great difficulty."

The crude notion of "catching up"--i.e., the idea that countries have a certain "natural" rate of growth and that if they fall below the trend they will subsequently move back on to it at an accelerated rate--has perhaps little to commend it save such comfort to the inactive as determinism can yield. But there are more plausible versions of the thesis that the relatively rapid growth of Europe is simply a correction of past disequilibria. It may be argued that there is a natural tendency for levels of income and capital endowment per head to be roughly the same in countries where natural endowments and the quality of labor are broadly equivalent. This tendency was checked over a long period by a number of "non-economic" factors, notably war and political confusion in Europe. But these factors have been losing their force during the 1950's, so that the disequilibrium between income and capital per head in the two areas may be expected to correct itself, with a capital flow from the United States to Europe playing a large part in the process of correction. On this view, it is only the force of external diseconomies which prevents the trickle from turning into a deluge.

And so one can go on. My own reluctance to do so is partly a burnt-child reaction to the fate, on which I commented at the start, of the compelling theories by which we conclusively demonstrated the inevitability of continuing continental drift in the first postwar decade. But it flows also, and more strongly, from a positive belief that the simplest explanation of the poor productivity record of the United States is its poor employment record. When simplicity goes hand in hand with plausibility, why seek the esoteric? Until such time as achieved and experienced full employment may disprove me, I take the view that the United States does not have a growth problem, but only an employment problem. And when I look for evidence that the problem of achieving full employment in the United States has been more difficult than that of achieving it in Europe, I fail to find it.

I am led therefore to enquire whether there have been substantial differences in the technical capacities of governments in the two continents to influence domestic economic developments. What I have in mind here is capacity to influence the level of aggregate demand and so the level of employment and capacity working. For this purpose, governments need to know what they ought to do, to be big enough to do it and to have instruments apt to their purpose. Again, I see no clear superiority of Europe over the United States in any one of these fields.

Knowing what to do is a matter of forecasting the balance of supply and demand. This is a difficult art and it is always easy to make sport of the mistakes of its practitioners. We are at present engaged in the OECD on a comparison of the methods of short-period forecasting used in different countries. This is still far from complete. But my provisional conclusion is that North America has as much to teach as to learn in this field and that, bearing in mind that much more of its forecasting has been done in the difficult conditions of underemployment, its record is no worse than most. Longer period forecasting is an art in which no country can claim to have acquired much skill. I agree with Bishop Butler that "the pretending to extraordinary revelations and gifts of the Holy Ghost is a horrid thing, a very horrid thing."

Being big enough to do what is needed and the capacity of a government to influence the course of aggregate demand, are somewhat imprecise notions. But one may suppose that they are connected in some crude fashion with the relative importance of government transactions in total transactions. The simple indicators which are presented in Table 1 of the Appendix do not suggest any marked inferiority for the United States. Central government expenditure on goods and services, capital and current, is of roughly the same order in all the countries included, except in Germany, where the federal principle has been pushed much further than in the United States. Nor, with the same exceptions, are there great differences in the proportion of national income taken in taxes. And, while it may be argued that the United States Administration has constitutional constraints on its freedom of maneuver to a degree unknown in Europe, experience suggests that these limitations are not decisive in practice when some course of action commands wide support.

The only major policy instrument which is found in Europe and not in the United States is the system of so-called "indicative planning," which the French have been the leaders in developing. This is, in essence, a statement, invested with the authority of the government but based on prior consultation with the interests concerned, that the pattern and level of output should move in a defined way; and that the government intends to do all in its power to ensure that these movements do in fact take place.

In France this method has certainly been associated with success throughout most of the 1950's in terms of the growth of output, and more recently by other standards also. And this establishes some presumption in favor of attributing at least some of the success of the French economy to the efforts of the public planners. But it is very easy to fall into the trap of <u>post hoc ergo propter hoc</u>. And, although the fashion for indicative planning is now spreading, there is as yet no other major country whose experience may be used as a check on that of France. It should be remembered that, in France, the system is assisted by certain special features of the economy and by some long-standing French traditions. A large part of the financial machinery for collecting savings and turning them into investment capital is in the hands of the public authorities and this gives them powers of leverage which do not exist in most other countries. More generally, the French system may be seen as squarely in the main stream of a tradition of cooperation between government and industry which goes back at least to the time of Colbert.

In any event, whatever be the virtues of planning in the French sense (or in the Swedish, Dutch, or British senses for that matter), it is not conceived of by its authors as primarily an instrument of employment policy. And it is with the unsatisfactory employment record in the United States that I am here concerned.

Having concluded that European countries had no pre-eminent advantages in respect to the task they faced or the capacities at their disposal, I am led to conclude, by exclusion, that the major reason why most of them have done better than the United States is that Europeans have been more determined that governmental capacities should be used. On this view, what European experience has to teach people in the United States is that you tend to get whatever it is that you want most.

I need not, perhaps, spend time laboring the contrast between the political cash value which full employment has had in most European countries and the political tolerance for unemployment which has existed, and still exists, in the United States. The contrast is so striking that it was natural to give credence to the view, now abandoned, that American methods of measuring unemployment exaggerated it so that there wasn't "really" all that difference between the United States and Europe. But one is unavoidably driven to ask what other policy objectives have been set above that of employment.

The answer seems to be, in considerable measure, the negative objective of avoiding strong and purposeful government of economic affairs. Nor is it, perhaps, surprising that this should have been so. The strength and antiquity of the American belief in the desirability of market solutions--typified by the requirement in the Employment Act of 1946 that the government should act to maintain employment "...in a manner calculated to foster and promote free competitive enterprise...."--is something of which a European needs constantly to remind himself. He needs to remind himself also that one of the fundamental reasons why there is such a difference from the European belief that government is a difficult but necessary and highly valuable art is the immutable fact of the continental dimensions of the United States. The problem of reconciling the conflicts of different interest groups, which is what government is about, comes near to being different in kind when the population in question is raised by a factor of four and the area by one of fifteen.

Traditional attitudes were doubtless strengthened for a time by the accidents of postwar experience. The remarkable responsiveness of the American economy to the excesses of demand to which it was subjected in the earlier postwar years was a powerful reinforcement for the hope that, having been equipped with some improved built-in stabilizers, the American economy could be relied on always to find an even keel by itself, and that a hands-off policy by the government might positively help it to do so. It is perhaps not surprising that a certain number of lean years had to be experienced before this belief began to be shaken.

But seven lean years have nearly passed and one is still witnessing the remarkable spectacle of an Administration laboring to convince its public that unemployment matters and to convince their elected representatives that a reduction in the tax burden may be nationally as well as privately rewarding. It is hard to believe that the negative objective of avoiding government can be so powerful as to provide the whole explanation.

It is always unwise to shun the obvious. And the most obvious explanation, which fits not only the facts but what people said, is quite simply that Americans chose employment weakly because they chose price stability strongly. It may be that "price stability" has often been used as a convenient shorthand for "sound economic policies," in which were included the negative objectives discussed above. But it is hard to avoid the conclusion that the contrast between European and American price history over the last seven years or so is an accurate index of a contrast in attitudes. Much has been said in Europe about the importance of price stability. But nowhere--not even in Germany, supposedly the classic example of inflation neurosis--have countries been prepared in the event to arrest their growth and create unemployment simply in order to stop prices from rising.

Prices and Incomes

It is not for me or anyone else to criticize a choice of price stability over employment. But it is important to emphasize that the simplest and most convincing *ex post* explanation of the poor growth and employment record is that, explicitly or implicitly, such a choice was made in the United States. For otherwise, there is a danger that people will come to believe that an acceptable solution for the price problem has been found. Much of the comment on the end of the age of inflation which I read today leads me to fear that just this error is being made.

In 1956, in a paper contributed to a National Planning Association 10th Anniversary Symposium on the Employment Act, Mr. Tobin wrote: "The nightmare of an economy of special interest groups who use their economic and political power to escalate wages and prices upwards in a continuous competitive scramble has given way to the American dream of an evergrowing full employment economy with a stable, or at worst slowly rising, price level. Economists are notoriously susceptible to the current economic climate, and we should not be guilty today of dismissing too hastily the problems that seemed so formidable only five years ago." Since then, American opinion has gone through another full cycle; a return of the nightmare which, *inter alia*, gave birth to the massive study of the Joint Economic Committee; and its subsequent re-evaporation under the benevolent light of the price and cost experience of the last five years.

Even economists learn, and I am not suggesting that many people in the United States do not now recognize that price stability is something which can be maintained, if at all, only by strenuous and constant effort. But I believe that there is, nevertheless, a danger that the problem will be neglected until it forces attention, in the shape of an embarrassing choice, when the level of employment begins to rise again.

I see this danger all the more strongly because I believe the nature of the problem to be frequently misconstrued.

The 1962 Report of the Council of Economic Advisers, in its discussion of prices, notes that "at least in the short run, there is considerable room for the exercise of private power, and a parallel need for the assumption of private responsibility." The implication is that it is essentially the existence of imperfections in the competitive system which creates a problem of prices and that when there are no imperfections the natural workings of the competitive system will ensure zero cost and price changes. This view seems to be characteristic of much American thinking.

I suppose that the theoretical formulation of my reasons for believing this view to be wrong is that the demand and supply curves for the (closed) economy as a whole are not independent of each other, but identically equal, so that the notion of an equilibrium price, which has meaning in particular equilibrium analysis, has no meaning here. Translated into common sense terms, this means that if any particular set of employers know that the rate of wage increase that they grant will be generalized throughout the economy, they will not be restrained from granting it by the knowledge that it will be necessary to raise prices to compensate for it.

If the supply of money is taken as independently given then, even in a closed economy, the price level ceases to be completely indeterminate. This corresponds to the common sense notion that at some level of unemployment the price level will be stable and that, if the money supply is kept constant, a general price rise will eventually be brought to an end through the medium of the unemployment which the increasing tightness of money produces. And one may go on, introducing further constraints into the model and approaching closer to determinacy.

I have emphasized this point of the absence of theoretical justification for considering price stability as the normal product of a competitive economy because it has important practical consequences. If you believe that it is only the imperfections of competition which make it difficult to maintain stable prices in conditions of full employment and rising output, you will be led to seek atavistic kinds of solutions for the problem. Your attention will be directed towards securing a return to the primitive virtues. Consider, for example, this extract from the memorandum of reservation entered by Professors Fellner and Lutz in the OEEC report on <u>The Problem of Rising Prices</u>.[1]

> ...The future is unpredictable and it might turn out that, given the present bargaining systems and the prevalent attitudes of the bargaining parties, the prevention of wage-push inflation would, even in the years ahead, require unreasonably low levels

[1] Published by OEEC in May 1961.

> of employment...in this event we would urge making it clear to the public that wage bargaining between powerful groups has become incompatible with a reasonable employment policy...collective bargaining for wages by large unions would not be needed to protect labor's interests.... On neither side of the labor market should the permissible size and the permissible functions of organizational units be regarded as immutable.

If, alternatively, you believe that a fully employed economy has no natural tendency towards price stability, you will be driven instead to seek radical solutions, in the shape of new methods of income and price determination. A steadily growing conviction in Europe of the need for such radical solutions--the need for what has come to be called an incomes policy--is, I believe, one of the most important lessons it offers to the United States.

This is not to say that European experience yet provides a recipe book on how to run an incomes policy. Most European countries are still at the beginning of their search for an effective policy. And, in any case, the mechanisms by which incomes get settled, the institutions and the traditions, vary so much from country to country that it will rarely be possible to transfer the detail of one country's experience to another country. Nevertheless, I think European experience has already something to teach the United States about the nature of the problem and the sort of conditions which a solution must satisfy.

The problem is how to handle the very fundamental interest conflicts which arise over the distribution of the national income. Traditionally, this has been left to be settled in a decentralized fashion through the workings of the market. The government has stepped in only as midwife, when the birth of new agreements was proving unduly prolonged and painful, or, after the event, to remedy by use of its fiscal powers any really dangerous anomalies to which the competitive processes had given rise. Definition of the national interest by the government, which is the sign that an interest conflict is being transferred to the center, has not been customary with respect to such primary settlements. This studied failure to intervene in such settlements has been in conformity with the normal democratic rule that you do not bring conflicts to the center for settlement if this can be avoided. Given the strength of this presumption, it is scarcely surprising that governments have moved towards accepting the need to define the national interest in income settlements with marked reluctance. But many European governments have nevertheless come to feel that events compel them to make this move.

When the ice has thus been broken, governments have immediately been confronted with the problem of how to make <u>effective</u> statements; how to define the national interest in a way which is relevant to the processes of decision making which are involved in income determination.

The first lesson they have learned is that they are likely to fail if they confine themselves to only certain classes of income; the present transition in terminology from wages policy to incomes policy is much more than a change in words. The immediate and natural reaction of wage earners to the suggestion that considerations of the national interest should enter into wage determination was the claim that what was good for them was good for other classes of income also. The need to accommodate this reaction makes it harder to work out a policy. But it is an important step forward when governments recognize the need as a fact of life.

The next discovery has been how difficult it is to frame general statements of what the national interest requires in terms which allow one to verify after the event whether any particular income or price decision has conformed to the advice. And this, after all, is the minimum requirement for an effective policy. An American example--the guide posts, suggested in the 1962 Report of the Council of Economic Advisers, Chapter IV, page 189--may serve as an illustration. The guidance offered to price setters is the relation between their industry's rate of productivity increase and that of the economy as a whole. Wherever it is appropriate to think of the industry as setting prices, this guide post can clearly be effective; the Administration found it possible to say unequivocally in 1962 that, in raising its prices, the steel industry was behaving contrary to the national interest. But it is typically the individual firm which determines price policy and in such cases there appears a sharp conflict between the guidance and some of the essential practices of a market economy. If a firm is particularly efficient (low cost) it is neither normal nor desirable that it should immediately reduce its prices below the point necessary to attract demand for the whole of its output; the "excess profits" which it then earns provide the means for the expansion which will justify a further reduction in prices subsequently. There is in fact a dilemma; how to make statements which mean something without being driven into a multitude of definitions of the national interest corresponding to the multitude of income and price determinations which occur. The dilemma is most acute in pricing, because of the greater decentralization of decision making. But it is in fact quite general.

As and when some means is found of making statements of the national interest which are verifiable in principle, governments are confronted with the need for information to translate principle into practice. An increasing number of European countries have been finding that they simply do not have the information which is needed to carry out an incomes policy. The minimum requirement is information on the level and rates of growth of the classes of income which are significant for the processes of income determination particular to the economy in question. In most countries, however, such data on incomes as exist have usually been collected with other purposes in mind, and rarely meet the present need. I doubt whether the United States will find itself much better provided. Since it usually takes a long time to organize new statistical sources, it is never too soon to start.

Finally, and perhaps most important of all, how severe should be the standards which countries set themselves in this matter of price stability? This is ultimately a matter of values. In any case, European experience is yet too scanty to offer much guidance on the conditions for varying degrees of success. But I am inclined to believe that the sort of price record which the United States has had in the last five years is more than it is reasonable to hope for in a fully employed, rapidly growing economy. The experience of Europe, and particularly the remarkable restoration of faith in money which we have witnessed in France and Germany, gives some warrant for hoping that such strict canons of monetary behavior are unnecessary as well as unattainable.

The Balance of Payments

I suggested earlier that Americans thought they had something to learn about employment and growth and something to teach about prices, but that on the balance of payments they mostly felt aggrieved. If employment and growth objectives are now being accorded a higher priority in the American scale, it is inevitably frustrating to find that the government's ability to move more strongly in pursuit of these objectives is constrained by the deficit in the balance of payments. Frustration is turned to irritation by the belief that the balance of payments deficit results in considerable measure from the inappropriate distribution of military and development lending responsibilities between the United States and European countries.

This view collides with the alternative view of many Europeans that the trouble lies rather in the scale on which the private sector in the United States is acquiring capital assets in other countries. At the next remove, there is a further argument about whether the blame for such international problems as may be created by movements on long-term capital account is to be laid at the door of American or European policies. These are not statistical or analytical questions; an infinite variety of partial balances can be shown to be equal to the United States balance of payments deficit, but no one of them is therefore the "cause" of the deficit; the arguments are rather about political values and standards.

European experience is in principle relevant to the more mundane question of how the United States could (as opposed to should) solve its external problem. And the persistence of large external surpluses in continental Europe in the last ten years might suggest that Europe had much to teach in practice. But, in fact, the scope for advising America from the experience of Europe is limited because, in large measure, Europe's strength on external account and the United States' weakness have been two sides of the same coin. With the outcome jointly determined in this way, it is very difficult to say that this or that aspect of European policies was instrumental in creating a strong balance of payments position. With the United States deficit so large and long-standing, there have been very few examples of major European countries achieving balance of payments transformations from sustained deficit to balance or surplus. The United Kingdom, where such a transformation has been perhaps most necessary, and whose situation in many ways closely resembles that of the United States, has not in fact done better than keep its nose above the water. France is a striking example of a country which, having lived externally in queer street throughout most of the postwar period, achieved a remarkable transformation in 1959, and has since maintained the strength then acquired. But there were many special elements in the French transformation--in particular the readiness of other countries to accept a change in the relative exchange value of the franc and a special concatenation of domestic political circumstances which made it possible to avoid the devaluation's being offset by internal cost increases.

There are, however, a limited number of morals from European experience which are relevant to the United States. The first relates to self-help. It is now universally recognized in Europe, not only in theory but in practice, that there are two sides to a balance of payments, a deficit in one place implying a surplus in another. In recent years, there has been a good deal of discussion of the responsibilities of surplus countries for contributing to the correction of international disequilibrium. And there have been some substantial practical contributions to match this growing understanding. But the brute fact still remains that a country which is gaining reserves can, in principle, go on doing so indefinitely whereas the country which is losing them can do so only for a finite period. And this difference in the imperatives of reality is matched by a continuing difference in attitudes. However much it may be recognized that surplus countries have their responsibilities, a deficit country is still regarded as carrying the primary responsibility for curing its deficit. The question, "How can I cure my deficit?" is one which the deficit country must, in the last resort, address to and answer itself.

My second moral was drawn nearly twenty years ago. In his last article, published posthumously in the Economic Journal, Keynes said:

> The pressure on the rest of the world from 1930 onwards was due to a large-scale capital movement from Europe to America being superimposed on a substantial, but not unwieldy, balance on current account. The serious consequences to the rest of the world flowed from the anomaly of a country with a substantial favourable balance being simultaneously the recipient of investible funds from abroad.

If the terms United States and Europe are interchanged in this passage, we have not a bad description of the balance of payments situation of today. The fact is that the countries which have a strong current account position have more often than not had strong positions on capital account also--both France and Germany have provided striking examples of this association. Perhaps, indeed, it is time that we ceased to regard such associations as anomalies. Strong current account positions have tended to be associated with strongly competitive cost positions and rapid rates of growth, thus offering attractive prospects of capital gain to the investor. And the stronger a country's position on over-all external account has been, the more likely has the speculator thought it that there was a capital gain to be secured through exchange rate appreciation. The frequent disappointment of such speculative hopes has not destroyed their allure. While the point I am making may be thought cold comfort at the moment, it suggests that when once the U. S. balance of payments begins to right itself decisively, it will move much faster than we think.

The fundamental condition for such a decisive change is that costs in the United States should be in appropriate relationship to those in Europe. While recent European experience has shown mainly that it is impossible to hold an unduly low level of costs against the pressures of the external surplus which it generates, United States experience in the future may be expected to demonstrate that the improvement in costs which has occurred will generate the needed improvement on current account. From this standpoint, the earlier choice of price stability before employment will pay dividends; the problem will be, as I have discussed earlier, to hold costs when unemployment recedes.

But an interim has to be lived through which may require independent action on capital account. This leads me to my final point which I pose as a question rather than offer as an answer. In Europe it is thought to be both right and unavoidable to allow policies affecting the money and capital markets to be very heavily conditioned by external circumstances. The United Kingdom, for example, has shown repeatedly that tight and dear money can bring about quickly and maintain big improvements on capital account. The German monetary authorities, having an external surplus, have been pursuing an easy or neutral policy for the last two-and-a-half years, in spite of the fact that, for most of the time, they were confronted with a roaring boom. In the United States, by contrast, the authorities (both monetary and debt management) have apparently been forced to engage in a continuous effort of defensive explanation for concessions to external considerations which many people in Europe have thought unduly modest.

This contrast in attitudes and in practice is clearly yet another reflection of the difference in size between the United States and any single European country. There are few European money and capital markets which cannot be swamped by international movements; as indeed the German market was in 1961 when the authorities at first sought to counter the boom with an active monetary policy. By contrast, the United States market is dominated by domestic flows; the flow of foreign money can never be large in relation to these and even international movements of American money, while they may be large in balance of payments terms, are likely to be only marginal by the standards of the capital market.

The psychological implications of this difference are easy to see; in the United States, it is much more difficult to get acceptance for externally oriented monetary and debt management policies. What is less clear is whether, from a technical standpoint, the proportionately limited magnitude of the external factor leaves the United States authorities without the strength to maintain the unusual relation between monetary conditions and the state of the economy which is called for when external and internal considerations are pointing in opposite directions.

This last circumstance is sufficiently common these days for the answer to this question to be of the first importance.

> "Now you have seen what we can do. Now want it!
> and if you do, we will achieve an art." Wagner.

TABLE 1

Central Government Transactions in 1961

(in per cent of GNP)

	U.S.	U.K.	Germany 1)	France	Sweden
Tax receipts, total	18.90	22.51	12.97	20.13	23.89
of which: Direct taxes on households	12.19	8.92	2.51	3.57)	
Direct taxes on corporations	4.03	3.09	1.08	) 2.43)	12.16
Indirect taxes	2.68	10.50	9.38	14.13	11.73
Current expenditure on goods and services	11.0	11.46	4.49	10.78	9.39
of which: Military	9.67	6.47	3.40	..	4.41
Other	1.28	4.99	1.09	..	4.98
Gross fixed asset formation	0.39	0.59	0.53	0.61	2.94 2)

1) 1960

2) Including stock changes

TABLE 2

SOME STATISTICAL INDICATORS OF GROWTH

Annual percentage growth rates[a)]

Country	Gross National Product					Employment[b)]				Gross National Product per Person Employed			
	1950-1955	1955-1960	1950-1960	1960-1961	1961-1962	1950-1955	1955-1960	1950-1960	1960-1961	1950-1955	1955-1960	1950-1960	1960-1961
Austria	6.1	5.2	5.6	4.7	2.3	-0.1	0.7	0.3	0.4	6.2	4.4	5.3	4.3
Belgium	3.3	2.4	2.9	3.7	3.4	0.7	-	0.3	1.2	2.6	2.4	2.5	2.5
Canada	4.6	3.2	3.9	1.8	7.0	1.7	2.1	1.9	1.5	2.9	1.1	2.0	0.2
Denmark	2.0	4.9	3.4	4.7	4.5	0.6	0.9	0.8	1.1	1.4	3.9	2.6	3.5
France	4.4	4.3	4.4	4.4	6.0	0.2	0.6	0.4	0.7	4.2	3.7	4.0	3.6
Germany	9.0	6.2	7.6	5.5	4.1	2.7	1.7	2.2	1.7	6.2	4.4	5.3	3.7
Greece	7.0	5.4	6.2	12.2	3.5	..	..	..	..	..	..	..	..
Iceland	5.4	2.8	4.1	..	..	..	..	..	..	..	..	..	..
Ireland	2.3	1.2	1.8	4.0	3.0	-0.7	-1.2	-1.0	1.5	3.1	2.4	2.8	2.4
Italy	6.0	5.9	5.9	8.0	6.0	1.2	1.9	1.6	1.5	4.7	3.9	4.3	6.4
Netherlands	5.7	4.1	4.9	2.7	2.5	1.5	1.4	1.4	1.7	4.1	2.7	3.4	1.0
Norway	3.6	3.3	3.5	5.8	4.0	0.3	0.1	0.2	1.6	3.3	3.2	3.2	4.1
Portugal	4.2	4.8	4.5	7.0	5.0	..	..	..	..	..	..	..	..
Spain	6.2	3.5	4.9	7.4	5.2	..	..	..	..	..	..	..	..
Sweden	3.2	3.4	3.3	6.3	3.5	0.2	0.4	0.3	2.8	3.0	3.0	3.0	3.4
Switzerland	..	4.7	..	8.8	..	..	..	1.5	..	..	..	..	..
Turkey[b)]	6.3	5.0	5.6	-1.4	5.3	..	..	..	..	..	..	..	..
United Kingdom	2.6	2.6	2.6	2.1	1.0	0.9	0.3	0.6	1.0	1.7	2.3	2.0	1.1
United States	4.2	2.3	3.3	1.9	5.4	1.4	1.0	1.2	0.3	2.8	1.3	2.0	1.6
Total European O.E.C.D. c)	4.9	4.3	4.6	4.6	3.8	1.2	1.0	1.1	(1.3)	3.7	3.3	3.5	3.3
Total O.E.C.D.	4.5	3.0	3.8	2.9	4.9	1.3	1.0	1.2	(0.6)	3.2	2.0	2.6	2.2

a) For the five and ten year periods specified in this and following tables the rates shown are the average annual compound rates between the first and last year of the period.

b) Covers employed and self-employed.

c) O.E.C.D. countries excluding Canada and the United States.

TABLE 3

GROSS NATIONAL PRODUCT PRICE CHANGES a)

	1950-1955	1955-1960	1950-1960	1960-1961
Austria	8.9	3.1	6.0	4.7
Belgium	2.5	2.2	2.3	..
Canada	3.7	2.5	3.1	0.7
Denmark	4.1	2.4	3.2	4.7
France	6.5	6.3	6.4	3.5
Germany	3.5	2.9	3.2	4.2
Greece	10.5	1.7	6.0	1.8
Iceland	..	7.1	..	14.3
Ireland	4.5	2.7	3.6	2.1
Italy	3.3	1.6	2.5	1.8
Netherlands	3.9	2.8	3.4	1.7
Norway	5.9	2.4	4.2	..
Portugal	0.7	1.5	1.1	..
Sweden	6.1	3.5	4.8	2.6
Switzerland	..	1.2	..	1.9
Turkey	8.5	12.6	10.5	2.0
United Kingdom	4.9	3.1	4.0	3.4
United States	4.2	2.3	3.3	1.9
Total European O.E.C.D.	4.7	3.6	4.1	3.2
Total O.E.C.D.	3.3	2.9	3.1	2.0

a) The changes shown refer to the implied price deflators for gross National product at market prices.
b) Data refer to net domestic product at factor cost.

TABLE 4

CONSUMER PRICES

Average annual percentage changes

Country	Years	All items	Food, drink & tobacco	Other goods	Rent	Other Services
CANADA a)	1953-58	1.6	1.6	0.7	2.2	4.0
	1958-61	1.1	0.5	0.7	1.6	2.9
	1960-61	0.9	1.6	0.1	0.9	2.0
	1961-62	1.2	1.8	0.3	1.6	2.1
FRANCE b)	1953-58	4.2	4.0	3.0	11.2	5.2
	1958-61	4.3	3.2	3.9	14.7	6.9
	1960-61	3.3	4.1	1.9	13.1	0.7
	1961-62	4.7	5.9	2.6	7.9	3.8
GERMANY	1953-58	1.9	2.1	0.2	2.5	3.0
	1958-61	1.6	0.9	1.1	5.7	2.9
	1960-61	2.5	1.0	2.3	8.6	3.4
	1961-62	3.5	3.9	2.8	3.1	4.4
ITALY	1953-58	2.5	2.8	0.7	10.3	3.5
	1958-61	1.3	-0.4	-0.1	10.9	6.4
	1960-61	2.1	0.3	-	8.9	8.5
NETHERLANDS	1953-58	3.3	2.9	1.7	8.3	3.3
	1958-61	1.7	1.3	0.7	4.5	2.0
	1960-61	1.5	1.0	1.0	3.0	2.0
SWEDEN	1953-58	3.5	4.3	1.9	5.1	3.8
	1958-61	2.4	2.9	1.5	4.1	1.8
	1960-61	2.5	2.0	1.0	6.0	3.0
UNITED KINGDOM c)	1953-58	3.6	3.2	3.0	5.9	5.0
	1958-61	1.6	0.8	1.5	4.2	3.9
	1960-61	3.4	2.5	3.8	4.4	5.7
UNITED STATES a)	1953-58	1.6	1.3	0.6	2.1	2.9
	1958-61	1.1	0.3	0.8	1.4	2.6
	1960-61	1.1	1.5	0.3	1.3	2.1

a) Data in second column refer to food only. Drink and tobacco included in other goods.
b) Data in second column refer to food and drink. Tobacco is included in other goods.
c) Nonalcoholic drink included in other goods.

TABLE 5

BALANCE OF PAYMENTS

Millions of dollars at annual rate

	1950-1955				1955-60				1961				1961
	a) France	Germany	U.K.	U.S.A.	a) France	Germany	U.K.	U.S.A.	a) France	Germany	U.K.	U.S.A.	b) France
1. Trade, f.o.b.	-273	482	-898	2,150	-241	1,596	-350	3,744	648	2,418	-401	5,401	1,197
2. Private invisibles and Transfers	104	-234	1,282	1,258	115	-802	1,097	1,597	413	-1,924	1,131	1,787	862
3. Total (1-2)	-169	248	384	3,408	-126	794	747	5,341	1,061	494	730	7,188	2,059
4. Government Transactions (Current and Capital)	444	263	-337	-4,431	118	-60	-732	-5,470	-321	-573	-1,111	-5,700	-2,632
5. Private Capital	25	-20	-387	-726	239	9	-267	-1,768	50	349	-216	-1,934	-88
6. Errors and Omissions	-98	-35	124	309	-125	151	289	359	201	51	224	-602	1,599
7. TOTAL of Above	202	456	-216	-1,440	106	894	37	-1,538	991	321	-373	-1,048	938

a) The figures cover the balance of payments of metropolitan France with foreign countries excluding the franc area.
b) For purposes of comparison this column shows the balance of payments of metropolitan France for 1961 with foreign countries including the franc area.

NOTE: Item 4: Covers official current invisible transactions plus official unilateral transfers plus official long and short term capital.
Item 5: Covers short and long term private capital movements.

ROBERT J. MYERS

This paper reviews the recent unemployment experience of five of the leading industrial countries of Western Europe. They have a combined population of over 200 million and a combined labor force of some 93 million--about a third larger than our own. Yet in 1962 they reported a total of only about 2.1 million unemployed as compared with 4.0 million in this country. During the past five years, when joblessness in these countries was hovering around the 1 or 2 or 3 per cent level, our own rate never fell below 5 per cent and averaged 6 per cent.

The difference between our unemployment rate and the average for these European countries was only a little more than 3 percentage points, but what a 3 per cent! If we could wipe out that difference, it would mean 2 million more jobs, perhaps $40 to $50 billion in Gross National Product, and assuredly a great advantage in the cold war. We can surely be excused for looking enviously at our European friends, for peeking a bit, perhaps, to see how they do it. We have profited much in the past from exchange of ideas with Europe. It would be short-sighted indeed to ignore Europe's recent success in holding down unemployment.

Comparative Levels of Unemployment

Before considering the factors that account for Europe's happier experience with unemployment, however, I should like to deal briefly with the oft-expressed suspicion that the difference between jobless rates here and across the sea is largely an illusion, arising out of differences in the definitions and statistical methods used in counting the unemployed. It has even been suggested that if we would only adopt the more restrictive definitions used in Europe, we would already be a long step forward in solving our unemployment problem.

During the past two years, the Bureau of Labor Statistics has looked into the question of comparability in some detail. Its efforts were accelerated after the President expressed interest in the matter late in 1961, in appointing the President's Committee to Appraise Employment and Unemployment Statistics--the "Gordon Committee." That Committee encouraged the Bureau's research from the outset, and the first findings of this research were published in the Committee's report, Measuring Employment and Unemployment. These findings need to be summarized here only briefly.[1]

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[1] Those interested in further detail are referred to Measuring Employment and Unemployment (Washington, D. C.: Government Printing Office, 1962), Chapter X and Appendix A. See also Joseph S. Zeisel, "Comparison of British and U. S. Unemployment Rates," Monthly Labor Review, May 1962.

The most widely published and most commonly quoted statistics on unemployment in European countries are indeed quite different from our own and are usually based on registrations at placement offices or the records of unemployment insurance or public relief agencies. The unemployment rates for five of these countries during the period 1951-1962 are shown in Chart 1, in which Japan and Canada are included for good measure.[2] This chart depicts the striking decline of unemployment in Germany and Italy over the 11-year period, the irregular rise in the United States and Canada, and the consistently low levels maintained by France, Great Britain, Italy, Japan, and Sweden, none of which reported unemployment averaging as high as 3 per cent in any year during the period.

Fortunately, most of these countries have also had a try at the sample survey approach to unemployment measurement, sometimes referred to as the "American system." The official monthly unemployment statistics in Japan and Canada are now very similar to our own. The Federal Republic of Germany, Italy, and Sweden have periodic sample surveys in addition to other, more widely-known, systems of measurement. France has made sample surveys irregularly and somewhat experimentally since 1950. Only Great Britain has never made a labor force sample survey, and in the case of that country we have had the advantage of intensive research by a competent labor economist over a period of nearly a year.[3]

The sample surveys have not always used the same concepts and definitions as our own, but their general pattern has been the same as ours and the definitions, where they have differed, have been reasonably explicit. The surveys have been conducted by competent statisticians. Much supplementary information has been obtained, facilitating adjustment for differences in definitions. It has thus been possible to arrive at an estimate of the number of unemployed in each country measured in accordance with United States definitions and methods.

Unemployment rates for each country for the years 1960-1962--as published and after adjustment to United States definitions--are presented in Table 1. It is not necessary to comment on these data in detail. It is noteworthy, however, that adjustment to United States definitions does not change the comparative position of the United States very much. The adjustments result in lowering the unemployment rate of the foreign countries more frequently than raising them. The adjusted figures for 1962 show this country second only to Canada in rate of unemployment, instead of third, after Canada and Italy, in terms of the

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[2] The data presented in Chart 1 are taken from International Labour Office, Year Book of Labour Statistics (Geneva) and International Labour Review (Geneva), and from national publications. Rates for France were computed by the author, based on national data.

[3] See Zeisel, op. cit.

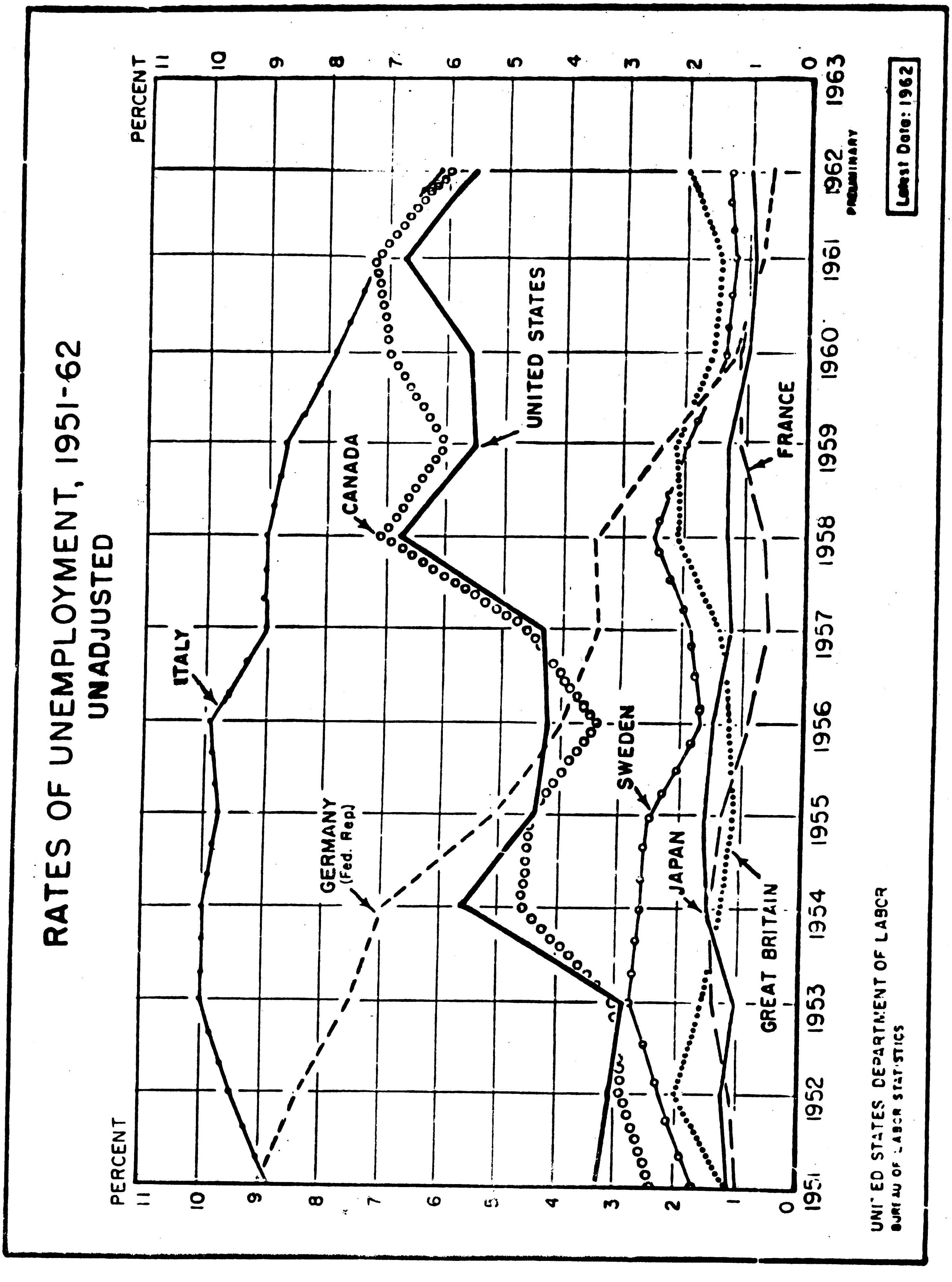
RATES OF UNEMPLOYMENT, 1951-62
UNADJUSTED
PERCENT
ITALY
GERMANY
(Fed. Rep.)
CANADA
UNITED STATES
SWEDEN
JAPAN
GREAT BRITAIN
FRANCE
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
PRELIMINARY
1963
Latest Data: 1962
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

Table 1. Number of Unemployed and Rates of Unemployment, as Published and Adjusted to U. S. Definitions, Eight Industrial Countries, 1960-62

Country	As published 1/						Adjusted to U. S. definitions				
	Number unemployed (thousands)			Rate			1960 Estimates			Preliminary rates	
	1960	1961	1962	1960	1961	1962 [2]	Labor force (millions)	Number of unemployed (thousands)	Rate	1961 [2]	1962 [2]
United States ..	3,931	4,806	4,007	5.6	6.7	5.6	70.6	3,931	5.6	6.7	5.6
Canada	448	469	391	7.0	7.2	6.0	6.4	448	7.0	7.2	6.0
France	131	112	122	1.0 [3]	0.9	0.9	19.1	370	1.9	1.7	1.8
Germany (FR) ...	237	161	142	1.2	0.8	0.7	25.2	245	1.0	0.5	(4/)
Great Britain ..	360	341	463	1.6	1.4	1.9	23.9	570	2.4	2.2	2.8
Italy	1,746 [3]	1,608	1,333	8.2 [3]	7.6	6.3	20.9	896	4.3	3.7	3.2
Japan	430	390	418	1.0	0.9	0.9	43.5	480	1.1	1.0	1.0
Sweden	19	17	19	1.4	1.2	1.3	3.7	56	(4/)	1.5	1.5

1 From ILO <u>Year Book of Labor Statistics</u> and <u>International Labour Review</u>, and from national publications.

2 Preliminary figures in some cases based on reports for less than full year.

3 Revised figure.

4 Not available.

unadjusted figures.[4] The average rate of unemployment among the five European countries was a little lower after adjustment to United States definitions than in terms of the regularly published data.

The foregoing comparisons relate, of course, exclusively to "western" nations. In the communist countries, where freedom from unemployment is generally accepted as dogma, it is not to be expected that similar figures will exist.

In this respect as in many others, however, Yugoslavia is an exception. That country regularly publishes the number of unemployed, from which can be computed unemployment rates not dissimilar in level from our own. The figures for the most recent three years are as follows:

Year	Number (thousands)	Rate
1960	159	5.2[5]
1961	191	5.7
1962 (9 mos.)	235	6.9

The USSR is still riding the crest of a vigorous postwar economic expansion. The State has unquestioned authority to assign workers to jobs and to direct plant superintendents to hire them. There is widespread evidence of labor shortage in skilled jobs and, in Siberia, in other jobs as well. Under these circumstances it might be expected that unemployment in that country would actually approach the zero level that is claimed in communist propaganda.

The Bureau of Labor Statistics is carrying on continuing research on the subject of manpower in the USSR.[6] Few solid conclusions have yet been formulated as a result of this research, but it is clear that that country has not been able to guarantee its citizens freedom from joblessness. On the one hand, the reversion from Stalinism has led to a partial abandonment of the policy of forced labor and reliance to a considerable extent on "inducements" and persuasion, which are not

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[4] Both Italy and Japan suffered from a considerable amount of "underemployment," not reflected in the unemployment rate.

[5] Revised.

[6] See Edmund Nash, "Recent Trends in Labor Controls in the Soviet Union," in Dimensions of Soviet Economic Power, Hearings together with compilation of studies prepared for the Joint Economic Committee, Congress of the United States, 87th Cong., 2d sess., December 10 and 11, 1962, pp. 391-407 and pp. 691-693. The writer has also profited from an opportunity to review an unpublished manuscript on manpower in the USSR by Dr. Emily C. Brown.

always effective in attracting workers or in holding them.[7] Labor turnover is thus a serious problem.[8] Incredible though it may seem, moreover, there is no coordinated system of placement agencies in the USSR, leaving job hunters and plant managers responsible for finding each other largely unaided. The job offered to a worker may be so unattractive in terms of duties, pay, housing, or transportation that the worker is unwilling to accept it. The time required to get into a new job may thus run to several weeks.[9]

Despite the strong authority of the State, therefore, the job-creating influence of a rapidly growing economy, and the unquestionable evidence of labor shortages in some areas, measurable unemployment undoubtedly exists in the USSR. My own tentative conclusion is that measured by American standards it would amount to appreciably more than in the faster growing western economies, such as Japan and Germany, although very substantially less than in this country.

Causal Factors

If my listeners are still with me, we have now satisfied ourselves that unemployment is, indeed, much lower among the industrial countries of Europe than in the United States, and that we will not be wasting our time if we ask how that comes about.

Growth of the Labor Force

To begin with, I think it is desirable to look at the characteristics of our labor force. Is it possible that peculiar disadvantages in rate of growth, or sex or age distribution make high unemployment

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7 See, for example, article by Edmund K. Faltermayer, "Labor Turnover, Cold Plague USSR Efforts to Develop Huge East," in Wall Street Journal, February 27, 1963.

8 See Arcadius Kahan, "Labor Turnover in the Soviet Union," Monthly Labor Review, January 1962. Kahan calls attention to Soviet materials suggesting that some 36 to 60 per cent of the workers in 232 industrial plants studied changed jobs in 1960, and suggests that the national average may have been near the lower end of this range. He estimates the average duration of unemployment for workers changing jobs at 28-31 days.

9 Displacement resulting from automation and increasing efficiency is also taking place constantly, although layoffs are often delayed until the worker can be transferred to another job. In such cases the result is a type of "underemployment" rather than unemployment, and the burden falls on the economy as a whole rather than on the individual worker.

almost inevitable? Our labor force has grown rapidly, calling for the creation of about 8 million new jobs between 1951 and 1960 if unemployment was to be held constant. The 12 per cent increase in our labor force in this period, however, compared with a similar figure in Sweden, 18 per cent in Germany, 23 per cent in Canada, and 25 per cent in Japan. Labor force growth was less in France, Great Britain, and Italy, perhaps making high employment more easily attainable. But there is little evidence here that labor force growth is an insuperable obstacle to reasonably full employment.

Women Workers

Our high proportion of women workers, now about one-third of the labor force, is another possible factor, for unemployment rates are almost invariably higher among women than among men. France, Great Britain, and Sweden have about the same proportion of women workers as we have, however, while women make up about 37 per cent of the labor force in Germany and about 40 per cent in Japan.

Young Workers

What about young workers? The unemployment rate for youngsters under 20 is nearly three times as high as for adults, and this group made up about 8 per cent of our labor force in 1960. But young people were equally important in the labor force of France. And in every single one of the other western countries they were relatively more numerous--13 per cent in Germany, for example. Not one of these countries had a higher proportion of its workers in the favorable age group 20-64 than we had.

Consideration of these demographic factors, therefore, yields little comfort and little help. There are a number of economic factors, however, that are somewhat more helpful in explaining our relatively high rates of unemployment.

Decline of Agriculture

One of these is the relatively minor importance of agriculture as a source of employment in this country. Unemployment is much less frequently associated with agriculture than with industry, partly because agriculture is less susceptible to cyclical change, but chiefly because a high proportion of the workers in farming are self-employed or unpaid family workers, who tend, in slack periods, to work part-time or withdraw from the labor force rather than seek another job with pay.

Agriculture has been declining relatively as a source of employment in all of the countries studied, and in our own country the decline has been absolute as well as relative. We must look back as far as the 1830's, when some of those who won this country's independence were still alive, to identify a period when as few of our workers were in agriculture as today. In 1960 about 1 worker out of 12 in our labor force was in agriculture, as compared with about 1 out of 3 in Italy and Japan, and 1 out of 4 in France. Only Great Britain, with 5 per cent, had relatively fewer workers in agriculture.

High Proportion of Wage and Salary Workers

Relatively more of our workers work for a wage or salary and are thus particularly susceptible to unemployment. This factor is, of course, closely related to the point just discussed, since only a few of those in the labor force associated with agriculture work for a wage or salary. Wage and salary workers in 1960 accounted for fully 84 per cent of our labor force, but only 77 per cent of the labor force in Germany and Sweden, 66 per cent in France and 62 per cent in Italy. Only Great Britain, with 90 per cent, had relatively more of its labor force working for a wage or salary.

If unpaid family workers made up about 30 per cent of our labor force and employers and the self-employed another 24 per cent, as in Japan, the change in weights alone, without any change in the unemployment rates for the various worker groups, would have reduced our overall rate to 3.7 per cent.

Level of Wages

I shall not deal here with another question, whose significance I wish, nevertheless, to acknowledge in passing. Are wages and salaries in the United States too high, relative to prices, to permit the expansion in production that is needed to absorb the unemployed? Have European countries managed to maintain a better balance?

I could not deal with this complex topic in less than the total time period allotted to me. And certainly there are others much better qualified to discuss it than I am. One of these, Per Jacobsson,[10] has recently expressed doubt that unemployment in the United States can be substantially reduced without a wage freeze, or at least without a lesser increase in wages than in productivity. The President's Council of Economic Advisers, on the other hand, obviously considers that observance of its wage-price guidelines will permit us to reduce unemployment providing certain other necessary steps are taken. Other reputable economists feel that insufficient final demand is the major factor in our unemployment problem and conclude that aggressive steps, including a substantial rise in wages, must be taken to increase purchasing power.

As a somewhat related, but certainly less important, matter it may be mentioned that the relatively high wages of American workers, and the liberal unemployment benefits to which many of them are entitled, may make for more frequent and longer periods of unemployment. High

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[10] "The Role of Money in a Dynamic Economy," Arthur K. Salomon Lecture at New York University, delivered by Per Jacobsson, Managing Director of the International Monetary Fund, February 19, 1963.

wages facilitate voluntary job changes, which may involve a period of unemployment. They permit laid-off workers to hold out for jobs in which they can use acquired skills and maintain their customary wage. The typical European worker, whose real wage is probably half or less than that of his American counterpart, can scarcely risk changing jobs if the change will involve a period of unemployment. The Japanese worker who is so unfortunate as to lose his job can scarcely afford to remain unemployed at all, even though his new job carries low and irregular pay.

Structural Unemployment

Displacement of workers as a result of changes in demand, decline of occupations due to technological advance, the changing economic condition of specific localities, etc., is an important potential cause of unemployment in this country. It would be erroneous to conclude, however, that structural change is less prevalent or less far-reaching in Europe than here. To illustrate the powerful changes that have made themselves felt in Europe, it is only necessary to mention the decline of the coal mining areas of the Loire and the Cevennes in France, the immigration of hordes of escapees from communism into the Federal Republic of Germany, the virtual disintegration (at one time) of the economy of Southern Italy, and the impact of the Common Market on production patterns in all of Western Europe.

There is no adequate measure of the extent of structural change in the various countries, but it is instructive to take a look at the crude measures that are available to show relative changes in productive efficiency in the United States and other industrial countries. Although certainly inadequate, these may reflect structural change more reliably than any other available measures. Between 1951 and 1960 real GNP per capita in the United States, up 12 per cent, rose less than in any of the other seven industrial countries except Canada. The increase for Italy was 58 per cent, for Germany (F.R.) 70 per cent, for Japan 90 per cent. Manufacturing production per person employed in manufacturing rose less in this country than in any of the others.

Lagging Economic Growth

As a final and very important difference that may help to explain the different unemployment rates in the United States and the industrial countries of Western Europe, I would call attention to differences in their rates of economic growth. Economic growth, together with changes in productivity, largely determines the demand for labor. The expansion of the economy must be sufficient to offset gains in productivity and to absorb the growth of the labor force if unemployment is to be held at a given level.

Table 2 shows the average annual percentage increase in real GNP and in industrial production in eight industrial countries from 1951 to 1960, inclusive. It is apparent that all of the countries except Great Britain experienced a more rapid growth than the United

Table 2. Rate of Economic Growth, 1951-60

Country	Average annual increase (in per cent)	
	Real gross national product	Industrial production
United States	2.9	3.2
Canada	3.6	4.3
France	4.2	6.6
Germany (F.R.)	7.2	8.8
Great Britain	2.7	3.2
Italy	5.8	8.5
Japan	8.7	14.5
Sweden	3.7	3.7

Sources: OEEC, General Statistics, March 1961 and July 1961; Chase Manhattan Bank, New York, The New European Market; A Guide For American Businesmen, April 1961; and national sources. Rates for Canada and Japan were computed by author.

States.[11] The countries with the most rapid growth, Germany (F.R.) and Japan, were those that have recently shown the lowest levels of unemployment. The growth experienced in the other countries as a whole was about three-quarters greater than that for the United States. When it is considered that even the relatively modest economic growth experienced by the United States resulted in an employment increase of about 6 million, or 9 per cent, from 1951 to 1960, it is immediately apparent how quickly the number of unemployed (which averaged 3.9 million in 1960 and 4.0 in 1962) would dwindle with a growth rate as high as the average for the other countries.

Social Attitudes and Administrative Programs

The lessons we can learn from the foregoing have unfortunately little practical usefulness for us. They are, for the most part, lessons we can never hope to apply. They suggest that _if_ a larger proportion of our labor force were in agriculture, _if_ we had relatively fewer wage and salary workers, _if_ we could expect to have fewer young people in the labor force, and _if_ we could anticipate less structural change in the future then, other things being equal, we could expect to achieve a lower level of unemployment.

But these changes aren't in the cards. We know we're going to have fewer workers in agriculture, not more; relatively more wage and salary workers. Our position with respect to most of the factors we have been discussing is likely to become less favorable rather than more. And so, unfortunately, is that of our European neighbors whose unemployment record in recent years has been so embarrassingly better than our own.

The one area, among those mentioned above, in which we have a good chance of reducing our vulnerability to unemployment is the area of economic growth. I shall return to this topic briefly below. But first I wish to consider a number of other respects in which our economy contrasts with those of Europe, matters relating primarily to laws, social attitudes and administrative programs and clearly within our power to change.

Job Security

One of the differences that distinguish us from many other industrial countries is our attitude toward layoffs. The typical American employer is not indifferent to the welfare of his work force,

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[11] All of the countries exhibited marked seasonal fluctuations in production and employment, but only in the United States and Canada did economic growth show pronounced cyclical movements during this period.

but his relationship to his workers is often rather impersonal. The interests of his own employers, the stockholders, tend to make him extremely sensitive to profits and to costs. When business falls off, he soon begins to think of reduction in force, which in everyone's interest he hopes will be temporary. If it runs on for an extended period, however, there is little he can do about it until business picks up. His discomfort over the layoffs may be relieved somewhat by reflecting that his workers will receive unemployment benefits, perhaps supplemented by S.U.B., for which he helps to pay.

In many other industrial countries, specific laws, collective agreements or vigorous public opinion protect the workers against layoffs except under the most critical circumstances. Despite falling demand, the employer counts on retaining his permanent employees. He is obligated to find work for them to do, even if some inefficiency and rising costs are involved.

In Italy the position of the worker who is part of the regular work force is effectively protected by laws dating back at least 20 years, and by collective agreements. Although not impossible, it is both difficult and costly for an employer to accomplish a reduction in force. Regular workers have a high degree of job security. In Belgium under the law of February 14, 1961, the King is empowered under certain conditions to make layoffs, dismissals or short-time subject to prior authorization or declaration.

In the United Kingdom, France, and Germany, and certain other countries, the law goes less far in assuring job security than in Italy but social pressure makes employers feel a very strong sense of responsibility for permanent workers--even if sales and production are falling off. This social attitude was behind the feeling of indignation and of outrage recently expressed in France when the branch factories of certain American employers abruptly announced layoffs of many French employees when business began to decline.

There is probably no country in the world where the worker who has attained permanent status has greater job security than in Japan. Many such workers enter their jobs directly from school and stay there until retirement, benefiting from promotions under an established schedule, and with never a moment's concern about unemployment throughout their lives.

These arrangements are certainly effective in holding down unemployment. But they involve a very heavy cost. They partly explain the traditionally lower productivity and lower income levels in other countries than here. Here is something we can learn from our neighbors, therefore, but are we quite sure we want to learn it? Aren't there better ways to reduce unemployment?

Unemployment Insurance

I need deal but briefly with unemployment insurance, separation payments and similar benefits, which are palliatives rather than remedies. We began to learn this part of our lesson later than some other countries, but we have learned it pretty well. The vast majority of our workers are now protected by such insurance, including both obligatory and voluntary systems. The liberality of unemployment insurance is extremely difficult to judge, and I have not been able to conclude whether benefit payments here are generally more liberal than in other countries, relative to average rates of pay. Beyond question, however, many workers in this country receive a higher income during periods of unemployment than fully employed workers are paid in some other countries. Broad unemployment insurance is an indispensable requirement in a high-productivity economy in which employment fluctuates with business conditions.

Training and Retraining

We have much to learn with respect to training and retraining for jobs. This is particularly important in relation to new workers preparing to enter the labor market and to experienced workers whose jobs have disappeared as a result of technological change. The training programs of such countries as Sweden, the United Kingdom, and France play an important part in preparing workers for jobs. Not only training in public facilities is involved, but a great deal of training in private industry, which differs from our own training in industry in that it is often part of a public program, and may be subsidized through payments to employers.

Higher unemployment among American youths seems to be an important factor in accounting for our higher over-all unemployment rate than that in Great Britain. Zeisel has found that the comprehensive national vocational guidance system, formal apprenticeships, and other training programs for youths in Great Britain help explain the difference.[12] In a recent year about 35 per cent of the boys and about 10 per cent of the girls getting out of school in that country were apprenticed to skilled crafts or undergoing training for recognized subprofessional occupations. The apprenticeships generally guarantee employment for a period of several critical years. In this country apprenticeships among teenagers seem to be relatively about one-tenth as numerous. This despite the fact that the number of apprentices appears to be nowhere near adequate to supply our future needs for skilled workers--they will supply only about 31 per cent of the electricians needed, for example, 45 per cent of the tool and die makers, and only 10 to 25 per cent in most other trades.

Fortunately, we can claim that we are learning a great deal in the area of training, and may soon be in position to do a bit of teaching on our own. The Area Redevelopment Act of 1961 and the Manpower Development and Training Act of 1962 provide for short-term training and retraining under certain circumstances, and substantial training programs are already under way as a result of these Acts. But there is much yet to be done in this important field.

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[12] See Zeisel, op. cit.

Effective Placement

We are not newcomers in the field of placement. Our Federal-State system has great accomplishments to its credit. However, this system must overcome obstacles in the form of state boundaries with which most Europeans need not contend. These impede the transfer of workers from labor surplus areas to labor shortage areas in another state. We have made some progress toward overcoming these obstacles.

From another point of view, it appears that the personnel in some of our placement offices do not have as high a degree of professional competence as the personnel in certain foreign placement offices, such as those in Sweden, for example.

Placement is an area in which the USSR is quite ineffective, as has been seen, and experiences a good bit of unemployment as a result. In a rather negative sense, therefore, we are able to learn something even from our chief cold war adversary.

Relocation of Industry and of Workers

Many European countries, including particularly Great Britain and France, have done a very effective job in inducing industry to locate or expand in surplus labor areas. A number of countries, including Sweden and the members of the Coal and Steel Community, have achieved considerable success in assisting workers to move from areas of heavy unemployment to other places where job prospects are better. A great variety of inducements may be offered, including payment of moving expenses, aid in disposing of a home owned in the community being vacated, aid in locating a new home, and so forth. Although acceptance of the aids to worker mobility is entirely optional on the part of the worker, the persuasion applied to industry frequently goes much further, involving selectivity in extension of credit, the granting of building permits, making energy available, etc.

In this country, we have made a beginning toward the relocation of industry through our policy of awarding government contracts and in the Area Redevelopment Act and the Public Works Acceleration Act, both enacted into law last year. All of these, of course, observe the principle of positive inducement, with acceptance on a strictly voluntary basis. Because of political opposition by communities reluctant to lose citizens and legislators unwilling to lose votes, we have made virtually no progress in encouraging geographic shifts on the part of workers stranded in economically stagnant communities.

Public Planning and Information

Many economists feel that the European countries could not have been as effective as they have in combating unemployment without a considerable degree of public planning and control. The Plan de Modernisation et d'Equipment in France, the National Economic Development Council (NEDDY) in the United Kingdom, and the Royal Labor Market Board in Sweden are examples of different types of economic planning agencies that exercise a great deal of influence in channeling the national product into investment or consumption, determining the scope of public works and services, stimulating or restricting production in particular industries, establishing policy in vocational guidance and worker training, and so forth. The State itself is a very important employer in some countries and as a matter of policy can do much to offset fluctuations in employment in private industry. Thus in Sweden many workers in highly seasonal trades such as forestry and construction are enabled to enjoy practically full-time employment.

I shall leave aside the highly controversial question of whether we should learn to do more planning. Let us agree that we shall move in that direction very slowly if at all. Our own approach is to give to individuals a very high degree of discretion as to what they will produce, and how and where they will produce it. We have, therefore, responsibility to develop effective information as to what is going on in our economy, to forecast to the very best of our ability the changes that can be expected to occur in the future. Statistics and research are highly important in a planned economy, but are even more essential in one that is not planned.

As a nation we are not laggards in this area. In our public and private research agencies we do more than most countries--perhaps more than any others--in assessing our resources and our needs, in anticipating the supply and demand for products and services, and in guiding our youth as to the future prospects of major occupations. But we realize better every day how much more we need to know about our economy.

Stimulating Economic Growth

The factors I have been discussing, however, can offer relatively little toward the solution of our unemployment problems as compared with increased economic growth. Some of them are bound to look pretty effective when the economy is rising rapidly, but all of them put together will not hold unemployment within bounds if our growth rate is lagging.

Every country tries to create the conditions favorable to economic growth. But there is no assurance that the policies that have worked in some European countries can be applied or would succeed here. We suspect, moreover, that two important factors that help to account for the recent rapid growth of the European economies are conditions we would not want to see any closer at hand--gradual recovery from a devastating war and the delayed attainment of industrial maturity.

This is certainly not to suggest that a relatively mature industrial economy, unaffected by war's destruction, cannot maintain a sufficiently rapid rate of growth to utilize its manpower resources. But we have reason to doubt whether particular economic policies that have been applied in Europe would bring equally good results here under our very different circumstances. How much have they actually had to do with recent favorable economic trends in Europe?

Our own approach to economic policy for growth can take good advantage of Europe's experience, but our own policy must be made to measure. I believe an early, substantial cut in business and consumer taxes will constitute a highly important forward step in the direction we should be moving.

Unemployment has been a much less serious problem in the industrial countries of Europe in recent years than here, but the lessons we can learn from their experience--and put to practical application--are distinctly limited.

Some of the problems we have faced have been present in Europe as well, but have not prevented the countries of Europe from achieving relatively full employment. Some of the advantages enjoyed by European countries, in the struggle against unemployment, are clearly unattainable here. We shall want to take a long, hard look at some of Europe's defenses against unemployment, which we suspect may carry too high a price tag.

We have a good deal to learn, on the other hand, from Europe's experience with administrative programs, such as training and retraining programs, the relocation of industry, aids to worker mobility, and some aspects of labor placement. These programs are particularly effective in contending with structural unemployment. We need to know much more about these programs than we do, and to be prepared to adapt them to American conditions.

In the area of economic growth, too, we can profit from European experience, particularly from the courage and steadfastness with which some countries have followed an economic policy once it has been adopted. We will find, however, no convenient formula for economic growth. In that most important area of all we must work out our own salvation.

Robben W. Fleming

When Professors Ross and Gordon invited me to comment on the papers which you have heard this morning I reminded them that I was a lawyer rather than an economist, that I was clearly not competent to comment with any degree of sophistication on the economic content of the papers, and that anything I had to say would tend to emphasize the political aspects of the problem. They professed agreement with this approach--whether from conviction, weariness with the administrative chores of arranging the conference, or old friendships I do not know. In any event, I am delighted to be here and to have the opportunity to benefit from this discussion of a problem which all of us feel is so serious.

Perhaps I should disclose my bias at the outset. It is my conviction that the problem of reducing unemployment in the United States is more political than economic, and that economists tend to give this fact too little attention. To illustrate the point, economists seem to agree that manipulation of the tax level is a far more effective weapon against unemployment than are public works or youth corps projects. Yet public works programs are politically viable, so far as Congress is concerned, while an effective tax program may not be.

But I am getting ahead of myself. Let me revert for the moment to some preliminary comments.

If the day ever comes when we conclude that we have nothing to learn from the experience of other countries, particularly the democracies of the West with which so much of our history is intertwined, it will be a sad day indeed. Having said that, however, let me join with the authors of these two papers in recording my conviction that it is not easy to transfer European experiences to this country. If anything, I would go a step further than they do in stressing not only our larger population and area, but more significantly, our heterogeneity. This, coupled with the problems of federalism which make it so difficult, for instance, to have effective labor market controls on the Swedish pattern, should not be underestimated. As a teacher of labor law I am continually impressed with the fact that our difficulties in that field are multiplied by our efforts to apply a single national law to situations which are different in kind. I do not suggest that a regional or local approach would be preferable, but rather that it is enormously difficult to construct a national law which must apply to dissimilar situations. In short, I agree with, and probably go beyond, Dr. Downie when he points out that, "The problem of reconciling the conflicts of different interest groups, which is what government is about, comes near to being different in kind when the population in question is raised by a factor of four and the area by one of fifteen."

Dr. Myers has in his paper cleared away many of the collateral questions which tend to distract our attention from the more important and difficult questions of comparative unemployment. He has pointed out that a comforting statistical explanation of our relatively higher unemployment will not hold water. And he washes away such other easy explanations as different rates of growth in the labor force, more women or young people in the American than in the European labor force, and differences in structural unemployment.

On the purely informational level there are two points in Mr. Myers' paper about which I wish to raise questions. The first relates to the issue of differing national attitudes towards job security, particularly layoffs. Myers concludes that the greater job security which is assumed to attach to the European worker is achieved at a very heavy cost. Some of us who have given a little attention to his problem doubt that the European worker does, in fact, enjoy more job security than his American counterpart. And if he does, we are not at all sure that a close analysis would prove that this is achieved at a "very heavy cost." Professor Frederic Meyers of UCLA has been researching this point in Western Europe, and he tells me that his studies would not support a finding that workers in Western Europe enjoy more job security. Perhaps this is an area in which we need more information before any firm conclusions can be drawn.

As a footnote to this job security comment, may I add a note of caution on Japan. With respect to Japan Dr. Myers says:

> There is probably no country in the world where the worker who has attained permanent status has greater job security than in Japan. Many such workers enter their jobs directly from school and stay there until retirement, benefitting from promotions under an established schedule, and with never a moment's concern about unemployment throughout their lives.

The Myers statement is one which I confess I had long supposed to be true. However, two of my colleagues at the University of Illinois, Professors Levine and Karsh, have in recent years devoted an increasing amount of their time to the study of labor in Japan. They tell me that Americans are misinformed on the degree of job security in Japan, and that jobs are no where near as secure as most American students of Japan seem to think. I do not pretend to any expertise on this point. I simply pass on their observation with the suggestion that all of us may have to take another look at Japan.

The other point in the Myers paper which may be worth some elaboration has to do with training and the relatively higher rate of apprenticeships in Europe than in America. He notes, for instance, that in Great Britain in a recent year about 35 per cent of the boys and 10 per cent of the girls getting out of school in that country were apprenticed to skilled crafts or undergoing training for recognized subprofessional occupations. I do not quarrel with the statistics, indeed I accept them though I have no independent knowledge on the point. The question which I wish to raise is in another area. It has always been my impression, and I confirmed the accuracy of this so far as Great Britain is concerned by checking it with a Scotch economist who is a visiting professor this year at the University of Illinois, that many European countries pay an extremely low apprenticeship rate during the early years. Such a rate is, as I understand it, not one which would permit the person to live on his income, much less to support a family. This leads me to a question. How does one compare youth employment if the traditions of the countries are entirely different with respect to apprenticeships? Put another way, if 35 per cent of the boys in Great Britain are apprenticed on getting out of school, but such apprenticeships are so low paying that the individual is not self-supporting, how does one compare this with the United States?

Finally, with respect to what we can learn from training experiences in Europe, I would note that one of our most difficult and persistent problems has no real parallel in those countries. I refer to the race problem. Some of us who have experimented with retraining efforts in the South in private industry know the difficulties which are encountered when one tries to arrange for educational programs for Negroes if the available facilities happen to have been used for whites only.

For understandable reasons, Dr. Myers has chosen to leave aside the controversial question of planning. On that score he says, "Let us agree that we shall move in that direction very slowly if at all." I am a little reluctant to drop the subject so quickly unless it can be said that there is no relationship between economic growth and planning, for it is my understanding that most economists say that economic growth is the sine qua non of full employment. With the exception of West Germany, where it is arguable that a high rate of growth was inevitable in any event in the postwar years, it has been my impression that most of the other Western European countries have engaged in one form or another of planning. I am, of course, aware that "planning" is a very naughty word in this country. But, if it is in fact essential to improvement of our situation, can we ignore it simply because it is controversial? Incidentally, my colleague Murray Edelman, who is presently in Italy on a research mission, reports that the Italians are as allergic to their counterpart of the word "planning" as we are, but that they have found a wonderful way out. The same thing can be discussed with complete equanimity if it is called "programming." Apparently computers have made that word completely respectable. Is this something which has been overlooked in considering what we might learn from Europe?

Let me now turn to Dr. Downie's paper. I have already indicated my lack of competence to deal with the economic questions which he discusses. Throughout the paper, however, is exhibited an awareness of the problem which any government has in making its economic policies operative. It is in this area that I wish to comment, and it is here that I am inclined to think Dr. Downie underestimates the nature of the political problem in the United States.

Early in his paper Dr. Downie says:

> ...there can be two quite different reasons why the performance of a government is responding inadequately to the demands of the

> situation with which it is faced. The government may be wrong or in doubt about what it ought to do. Or, knowing what it ought to do, it may be unable to do it because the governed do not accept that such action would in fact be "in the national interest."

There is, I would argue, a third reason why the response of a government is inadequate, and the third reason is in our case the real reason. The government may fail to respond because it is wrong or in doubt, or because the governed do not accept such action, but it may also fail despite the fact that the government may know perfectly well what it wants to do and have the acceptance of the governed towards doing this. It may fail in the United States because the governmental machinery is such that the initiative of the Executive and the support of the people do not meet a response in Congress. I am referring to what James MacGregor Burns has discussed with such lucidity in his new book entitled, The Deadlock of Democracy. Says Mr. Burns:

> We have been captured by [a] model which requires us to await a wide consensus before acting, while we have neglected, except furtively and sporadically, the Jeffersonian strategy of strong leadership, majority rule, party responsibility, and competitive elections. Hence, government action has been unduly delayed, whether measured by the progress of other comparable nations, such as Britain; or by the ascertainable needs of people, such as the jobless of the 1930's or civil rights of minorities today; or by what the voters wanted or would accept, as reflected in the national platforms of both major parties and in the campaign promise of their presidential candidates.

Later in his paper Dr. Downie says:

> Having concluded that European countries had no pre-eminent advantages in respect to the task they faced [i.e., bringing about full employment] or the capacities at their disposal, I am led to conclude, by exclusion, that the major reason why most of them have done better than the United States is that Europeans have been more determined that governmental capacities should be used. On this view, what European experience has to teach people in the United States is that you tend to get whatever it is that you want most.

It is in the area of what we want most that I suspect Dr. Downie and I see the problem somewhat differently. Perhaps because my most recent reading has included the Burns book, to which I have already referred, and Emmet John Hughes, The Ordeal of Power, which is a memoir partly devoted to the difficulties between the Executive and the Congress during the Eisenhower years, I am impressed and depressed with the difficulty of getting what either the Executive or the people want through the Congress of the United States. Thus, when Dr. Downie says, "...while it may be argued that the United States Administration has constitutional constraints on its freedom of maneuver to a degree unknown in Europe, experience suggests that these limitations are not decisive in practice when some course of action commands wide support," I think he takes the problem much too lightly. Does experience really suggest that the limitations of our present deadlock between the Executive and Legislative branches of our government are not decisive when some course of action commands wide support? I think it does not. Despite his unquestioned popularity with the people, Franklin D. Roosevelt fought the Congress with only limited success after that first fateful 100 days. General Eisenhower, an enormously popular president, had relatively little success with Congress. The newspapers are not leading one to believe that President Kennedy is going to score any momentous victories in this session of Congress. Is this because presidents have not known what they wanted, or because they were not backed by the people? Or is it because our party structure and the way in which we organize the Congress continually thwart the Executive and the majority of the people? I am inclined to think the evidence is quite clear that it is the latter.

In conclusion, may I say just a word about the concern in Western Europe with an incomes policy. This was discussed by Dr. Downie.

American economists focus at the moment on aggregate demand as it relates to full employment, but at a second stage they express concern about stability of wages and prices. Europeans have not had to be concerned with full employment, but they are concerned with wages and prices. This is reflected in President De Gaulle's recent clash with the coal miners, in Vice-Chancellor Erhard's efforts to persuade Volkswagen not to raise prices, and in the British resort to a National Incomes Commission. It is, as Dr. Downie said, too early to tell whether the variety of measures which are being taken will prove effective. They nevertheless raise fascinating questions for the political scientist as well as the economist. It would appear that in every single instance the government is concerned with obtaining a consensus on economic policy through consultation with interest groups. One wonders to what extent the institutional framework within which such groups must operate will permit collaboration towards a so-called "national interest," and whether if such cooperation is forthcoming the institutions will, in fact, be able to satisfactorily implement such commitments as they may make. At stake is the capacity of a democratic government to deal effectively with economic problems which are of vital concern to it. The outcome of those experiments will be of great interest here in the United States.

William H. Miernyk

The two excellent papers we have heard show clearly that the governments of Western Europe have grasped some of the fundamental lessons of modern economics which have had little impact as yet on the United States. They have learned how to maintain a full employment level of effective demand--or in current terminology an acceptable rate of economic growth. And they recognize that labor markets function imperfectly; that while an adequate level of effective demand is a necessary condition for full employment it is not sufficient. European governments have taken positive action to bring jobs to workers, or in some cases to move unemployed workers to job surplus areas.

The authors of these papers are not in agreement about the nature of the problem in the United States. Dr. Downie takes the position that the United States does not have a growth problem, but only an employment problem. Commissioner Myers, however, finds little in the growth rate or composition of our labor force--except an above-average proportion of wage and salary workers--which would suggest that we have an employment problem. But he is convinced that we have a problem of economic growth. These are not simply two ways of looking at the same problem. The differences in point of view are fundamental, as the discussions of the past two days have clearly demonstrated.

Neither of the speakers is highly optimistic that the United States will learn much from European experience. I would suggest, however, that we have already learned a great deal from Europe about labor market policy. There are European prototypes for the programs discussed by Commissioner Myers. The Area Redevelopment Act is similar to the British Local Employment Act of 1960. The Manpower Development and Training Act has a counterpart in Sweden. Efforts by the U. S. Employment Service to increase interstate labor mobility are similar to the cooperative programs of the European Coal and Steel Community and of other Western European countries to encourage the movement of workers across national boundaries.

Mr. Myers thinks Europe has had as much structural unemployment as we have had, or possibly more. But the governments of Western Europe started to do something about it long before we did, and they have gone farther than we in attacking the problem. The labor market policies launched in the United States during the past two years have not been operating long enough to show conclusively how much they will contribute to a solution of the unemployment problem. My own view, based on what has happened in Western Europe, is that they will make an important contribution if we can also meet the necessary condition of a full employment level of effective demand.

Dr. Downie finds little difference in the technical capacities of the United States and European governments to influence economic developments, and little difference in the ratio of taxes to national income on the two sides of the Atlantic. But while the United States has the same capacity as Western Europe to achieve full employment, Dr. Downie concludes, it lacks the will to do so. This is because of a difference in priorities. We are much more concerned about price stability than full employment in this country. Why is this so? Possibly it is because price increases affect all of us while unemployment is distinctly a minority problem, and we do have a strong Benthamite bias in this country. But when Jeremy Bentham urged governments to seek the greatest good for the greatest number the poor and disadvantaged constituted a substantial majority. Rigid adherence to the Utilitarian postulate in the affluent society, however, could perpetuate the culture of poverty recently dramatized by Michael Harrington in The Other America.

On the question of relative price stability versus full employment, Dr. Downie's analysis is not reassuring. His data show that consumer price increases in Europe have exceeded those in the United States and Canada--both high-unemployment economies--in every period for which he has made comparisons. And Dr. Downie feels that given our present institutional constraints, price stability and full employment are incompatible--or at least very difficult to achieve. This, of course, is a rather widely accepted view. The Samuelson-Solow thesis (American Economic Review, May 1960, p. 192) that average price increases and unemployment rates in the U. S. are inversely related suggests that we are faced with an ineluctable choice between creeping inflation or relatively high unemployment rates. The historical evidence seems to support this thesis, but I do not believe it has yet achieved the status of an inexorable economic law. Certainly, as Downie points out, price stability can be maintained only by constant and strenuous effort. But would it not be possible through judicious injections of funds to create employment in those sectors of the economy which have been hit hard by unemployment without unleashing general inflationary tendencies? Also, as Albert Rees said yesterday, a modestly rising price level is not too high a price to pay for fuller utilization of our human resources--if it is necessary to make a choice.

We know quite a lot about the anatomy of unemployment in the United States thanks to the unremitting efforts of the Department of Labor. The first Manpower Report of the President contains detailed data on unemployment by age groups, sex, color, occupation, industrial attachment, location, labor force status, and duration. I doubt that any other country can match the quality of our labor statistics. But knowledge does not always lead to action. We have not gone as far as the countries of Western Europe in applying selective remedies. And we can still learn much from a country such as Sweden which, in spite of the problem of "wage drift," has kept price increases within tolerable limits while maintaining one of the lowest unemployment rates in the free world.

Commissioner Myers has summarized the major points in the report of the President's Committee to Appraise Employment and Unemployment Statistics. There can be no reasonable doubt that our unemployment rates are higher than those in Europe. But despite the report of the

President's Committee the charge is still heard with discouraging regularity that America's "high" unemployment rate is a statistical mirage. Not only do many of our policy-makers lack the will to do anything about unemployment, some of them are unwilling to accept it as a reality. If a few legislators continue to insist that unemployment is simply the result of erroneous definition of the labor force--or of unemployment--others will feel less inclined to support the policies needed to ensure full employment.

Americans have not learned, as Europeans have, that unemployment is costly. Myers feels that we are sacrificing $40 to $50 billion in goods and services annually by our failure to match European unemployment rates. Only a fraction of this amount would have to be spent on a selective basis to reduce unemployment substantially. And there would be immediate and direct savings involved. Last year we spent over $3 billion on unemployment compensation alone. This would be cut in half if the unemployment rate in the United States could approximate that of Great Britain. There is not much point in suggesting that we try to match the rates found in Sweden, France, or West Germany.

If we are to achieve full employment there will have to be some fundamental changes in attitudes. We will have to worry a little less about the "greatest number" in our society and a little more about the unemployed minority. The moral indignation of Americans has always been aroused by inflation--the traditional enemy of widows, orphans, and the prudent members of society who are able to accumulate savings. Recent events in Great Britain suggest that Europeans can become equally aroused by rising unemployment. In the United States, however, there is a vast indifference to unemployment among most of those not directly affected. We will not solve, or significantly mitigate, the unemployment problem in this country until there is more popular support for effective solutions.

I am not sure that I agree completely with the conclusion expressed in both papers that the lessons we can learn from Europe are limited. Perhaps we cannot learn much in terms of specific economic techniques or policies. But there are too many unanswered questions to convince me that we have little to learn from Europe. Why are European governments more responsive to the needs of a minority in the labor force than our own? Why are Europeans less timid than we about pursuing expansionary fiscal policies? What differences in political processes and institutional arrangements permit European governments to pursue the goal of full employment without restraint while similar efforts in this country are regularly thwarted by the conservative coalition in Congress? What factors have contributed to the greater degree of understanding and cooperation between governments and business in Europe than in the United States? These questions deal less with economics than with social psychology and political behavior. Both Commissioner Myers and Dr. Downie have touched on them. But we need to know much more about these issues.

Surely the world's wealthiest nation can find ways to overcome present obstacles to full employment. And if we do, many who now resist them might be surprised at the soundness of measures which would add to our gross output while reducing the cost of maintaining the unemployed. And such measures would have the useful side effect of restoring dignity to the minority group which has paid such a steep price for helping to maintain the rest of us in a state of relative affluence and apathy.

Richard A. Lester

Since we received both papers well in advance I have no excuse for ignoring them and, therefore, my comments stem directly from the generative powers of Dr. Downie's and Dr. Myers' words.

What general lessons can be drawn from the contents of the two papers?

The first is that the different experience in Europe to a significant extent rests on a difference in economic philosophy. As Downie explains, the European countries are less afraid to use governmental action in economic affairs and, in doing so, they put more stress on full employment and less on price stability than has been the case in this country. However, an active labor market policy and manpower planning, with stress on training, relocation allowances, and other programs to adapt labor supply to developing demand, generally uses persuasion and other voluntary means and is not subject to the implied objection in Myers' paper that an element of dictation or control is involved.

Actually, in this country we seem to have at least as much pressure or control exercised by government in the labor market, in such forms as state legislation on hours, equal pay, anti-discrimination in employment, etc., but our action generally is piecemeal and uncoordinated, partly perhaps because of our 50 state divisions spread over a continental area. In Europe, on the other hand, they have national programs that are more clearly focused and better coordinated.

The second general conclusion to be drawn from the European employment experience of the past decade is that many of the explanations of our unemployment problem set forth by critics seem highly questionable in the light of European experience.

One explanation has run in terms of distortions in our wage structure. Lloyd Reynolds in his elaborate study of The Evolution of the Wage Structure (1956) clearly demonstrates that the wage structure in countries like England, France, and Sweden are more subject to the charge of distortion (based either on job evaluation or market criteria) than is the case in this country. The so-called "wage drift" in England and Sweden has not overcome the force of ideas of "wage solidarity" or traditional differentials.

Another explanation widely offered in this country also seems highly dubious in the perspective of European experience. It is the claim that "labor monopoly," and especially national or industry-wide bargaining, have resulted in an increase in wages faster than productivity has gained, thus "pricing labor out of the market." Actually, national or industry-wide bargaining is the general practice in most European countries.

Still another claim is that our system of unemployment compensation is responsible for a significant volume of unemployment. That is particularly surprising since our system of experience rating in unemployment insurance was originally justified on the grounds that it would help to prevent unemployment. Professor Eckstein even proposed to make the range of tax rates more extreme than the present spread of from 0 to 4 per cent or .1 to 4 per cent of payroll. In a number of states the maximum tax rate is 10 to 20 times the minimum rate; to propose to make the spread any greater on grounds of unemployment prevention is most questionable both in theory and on the basis of past experience. We seem to overlook the fact that autos, steel, rubber, etc., have supplemental unemployment benefit programs on top of the state benefits. However, the result of elaborate benefit programs has not so much been less unemployment as the encouragement of variation in hours (especially overtime) rather than the hiring of new employees. The burden of the payroll tax or benefit expense is per employee. Pressures to prevent expansion of work forces when the nation's labor force is expanding so rapidly clearly operate in the wrong direction so far as the unemployment problem is concerned. That is also why, assuming Myers' statements about much greater responsibility of employers in European countries for maintaining employees is true (which is questionable), the results may not be so helpful in reducing unemployment as he implies. A basic problem with our unemployment compensation system is that all the burden rests on employers' payrolls; that particular tax on employment rests on mistaken notions about prevention.

Also, Myers' argument about our unemployment benefits is based on absolute levels rather than benefits relative to wage levels in the country, which is the relevant relationship. On that score, it is clear that our benefit levels are relatively low and are not such as to cause workers to prefer to remain unemployed.

It should be clear that unemployment compensation would add to the total volume of unemployment only if it increased unfilled job openings by so restricting the supply as to expand the sum total of vacancies.

Turning now to the question of whether our task of overcoming unemployment is essentially more difficult than that of European countries, the data in the papers seem to indicate that it isn't. For example, on the demographic side, Myers points out that, in terms of growth in the labor force, women in the labor force, and young workers in the labor force, our situation is as favorable as or more favorable than that of most European countries. Also, the rate of productivity increase, and probably the rate of increase in the application of technological change, has been as rapid in Europe as here. Only the marked decline in our agricultural employment and the acute minorities problem would seem to be significant structural factors that aggravate our unemployment problem compared with European countries.

There are some specific differences between this country's economic arrangements and those of European countries which, as the papers bring out, may merit more emphasis and analysis than they have heretofore received. They would seem to be fruitful avenues of research.

One of these is tax structure. Downie's paper shows that the central government in the U. S. obtains six times as much tax revenue from direct taxes on households and corporations as it does from direct taxes. By contrast, the U. K. and Sweden derive about equal amounts from direct and indirect taxes, and Germany and France get more than twice as much from indirect as they do from direct taxes.

A second item for further investigation is why our economy is more recession-prone than European economies, why recessions are more numerous here.

A third question that Downie's remarks on ignorance of the national debt in Britain raise is whether some ignorance may not be an advantage. Maybe we too frequently compare minute changes in the thermometer. It would, I believe, be a good thing if we could debunk the retail price index so as to show that small fractions of a point change are often meaningless and that quality changes may be enough to offset price changes. In any case, to make one-tenth of a point change in this index the subject of front page newspaper comment seems to exaggerate the figures out of all relationship to their actual importance or reliability.

Another difference that we might seriously consider is why our more favorable situation in terms of education in economics has not resulted in more enlightened action. Compared to Europe, we have a much higher proportion of the adult population who have had college courses in economics and a much higher proportion of academic economists per 100,000 population. Has education in economics made much difference, or has it been frustrated in terms of policy application by our fear of central government and our traditional notions about finance?

Essentially, then, what can we learn from foreign experience?

One clear-cut lesson is that the mental barriers stemming from our political philosophy and from our economic priorities are severe obstacles to efforts to solve our unemployment problem. As Downie says, we seem to prefer price stability to reduced unemployment, in contrast to European countries which, because of recent experience with inflation, might have more reason to stress price level stability.

Our mental barriers have also affected our willingness to plan for the labor market area. We seem to fear government intervention there, too, even though such intervention may be designed to make the market operate more effectively by improving mobility, by adapting supply to developing demand, and by eliminating discriminations that block the most effective use of resources.

Clearly, there is a relationship between manpower planning and the rate of economic growth. And one of the lessons from abroad is that manpower planning is not something that can be done overnight. It is a long-term program, involving guidance in the secondary schools, developing qualified personnel in the public employment service, reducing some of the barriers to labor mobility, etc. Partly, it is a matter of influencing people's thinking and attitudes.

Basically then, the difficulties in solving both the aggregate demand and the structural aspects of unemployment in this country are largely educational. We have to improve economic understanding and to stimulate action based on that understanding.

Perhaps we economists, including the labor economists, have been failing in our job. Perhaps we have not clearly discerned and stressed the lessons already learned. Perhaps we need to be a loud, clear voice forcefully explaining what needs to be done and how it can and should be accomplished.

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