

UNIV  
SHELF

C.2  
INSTITUTE OF INDUSTRIAL  
RELATIONS LIBRARY  
MAR 23 1983  
UNIVERSITY OF CALIFORNIA  
BERKELEY

# LABOR CENTER REPORTER

BERKELEY, CA 94720  
(415) 642-0323

UNIVERSITY OF CALIFORNIA, BERKELEY  
CENTER FOR LABOR RESEARCH AND EDUCATION  
INSTITUTE OF INDUSTRIAL RELATIONS

Number 75  
November 1982  
(2)

## REMEMBER FULL EMPLOYMENT?

By David Stern

Sustaining full employment without accelerating inflation will require changes in the way business operates. These changes are most likely to occur when the unemployment rate is low and businesses have to compete in tight labor markets. Current high unemployment rates are slowing down this process of change and therefore postponing the time when sustained full employment will be possible.

Since the Employment Act of 1946 national economic policy has had as one goal the legislated commitment to "maximum employment." During the 1960s and 1970s, this goal was usually interpreted to require policies which would reduce unemployment to the 4% range. Less than five years ago, the 1978 Full Employment and Balanced Growth Act (Humphrey-Hawkins) set a target of 4% unemployment for the United States in 1983. In spite of that specific goal, the Carter administration in its final two years felt compelled to give higher priority to inflation-fighting policies than to full employment policies. Now, in the second year of the Reagan administration, the full employment target set in 1978 has been all but forgotten.

### How Employers Adapt to Low Unemployment

When unemployment rates are lower, employers usually find it more difficult to recruit and retain qualified employees. In addition, some managers report difficulty in maintaining motivation and productivity. As one complained, during a time of low unemployment the company "lost" too many people who were still on the payroll.

During the 1966-79 period, employers adapted to lower unemployment rates by developing new ways to attract, retain, and motivate employees. Their adaptations included the redesign of jobs and task groups to make the work more interesting, and the introduction of programs to provide more monetary and psychological inducements to improve productivity.

"Flexitime" is an example of the employment practices that evolved during the 1966-1979 period. By 1980 the U.S. Bureau of Labor Statistics reported more than 12 million employees had formally been given some discretion over their daily or weekly work schedules. This kind of accommodation to employees' preferences often does not cost employers very much to implement, and it pays off in reduced turnover.

Other examples include many "quality-of-worklife" programs that evolved in this period, of which some have also involved employees in deliberate efforts to keep improving productivity. It has been observed that employees tend to be more willing to participate in such efforts when they share in the monetary gains, and when their own job security is not being jeopardized. Some employers have responded to this concern about job security by offering explicit guarantees that no one will be laid off as a result of programs to improve quality of worklife or productivity.

### How High Unemployment Deters Progressive Change

Commitments by employers to protect job security are severely tested in times like the present. Massive layoffs have now pushed unemployment up over 10%. Companies that announced no-layoff policies five or ten years ago are either reversing those policies or paying a larger price than they expected. When they



are forced to cancel those policies, they risk destroying their programs to involve employees in improving productivity and quality of worklife. Perhaps major damage can be averted, but no new progress is likely to be made, and no additional innovations are likely to be attempted. With the unemployment rate over 10%, there is simply no incentive for most employers to try even relatively simple, low-cost innovations like flexible working hours.

In short, employment practices developed as specific adaptations to lower levels of unemployment become more costly and less useful to employers when unemployment rates are as high as they are now. But if such practices are abandoned or not developed further, employers will continue to encounter high quit rates and slower growth of productivity whenever unemployment rates do go down and stay down for a while. Since the practices that are now threatened are employers' and employees' own efforts to make higher levels of employment more sustainable, national policies that undermine those efforts are likely to make full employment more difficult in the future. If national economic policy-makers appear to forget full employment, we may all be forced to do the same.

#### The Policy Dilemma

The basic dilemma for national economic policy, of course, is how to move toward full employment without accelerating inflation. Recent policies have demonstrated that double-digit inflation can be stopped--by wreaking double-digit unemployment. This is a good time, now that the momentum of inflation has temporarily abated, to develop a plan for stand-by controls on prices (including interest rates), wages, and profits. The plan should be developed in concert with labor and business, and should call for controls to be imposed only if inflation again threatens to get out of hand. Adopting a stand-by plan now could serve as a threat against re-inflation when real recovery begins. And there is little danger in the current economic climate that public consideration of controls would prompt many companies to raise prices "before it's too late"--as might happen if controls were discussed after a recovery is already under way.

Of course, controls alone would not be sufficient to bring about sustained full employment. But controls can restrain inflation while monetary and fiscal policy are used to bring about a recovery and reduce unemployment. Then active labor market policies, including public support for retraining and relocations, can help the labor force adapt to technological change. Similarly, active credit market policies can then be more effective in helping to direct capital to the most productive industries. Government can also be more effective in promoting quality of work-life programs that help businesses remain productive when unemployment rates are lower.

The point is that national economic policy must quickly reaffirm its long-standing commitment to full employment. Then business and labor can continue the evolution of employment practices that are not only consistent with lower unemployment, but can actually help to achieve it.

- David Stern

This article does not necessarily represent the opinion of the Center for Labor Research and Education, the Institute of Industrial Relations, or the University of California. The author is solely responsible for its contents. Labor organizations and their press associates are encouraged to reproduce any LCR articles for further distribution.