87th Congress
2d Session

JOINT COMMITTEE PRINT

EMPLOYMENT AND UNEMPLOYMENT

REPORT

OF THE

SUBCOMMITTEE ON ECONOMIC STATISTICS

TO THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

WITH

MINORITY VIEWS

FEBRUARY 2, 1962

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
78617 WASHINGTON : 1962

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington 25, D.C. - Price 15 cents

LETTERS OF TRANSMITTAL

JANUARY 30, 1962.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the committee and other Members of Congress is a report of the Subcommittee on Economic Statistics entitled "Employment and Unemployment."

Appended also are the minority views of Representative Curtis.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JANUARY 29, 1962.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on Economic Statistics entitled "Employment and Unemployment."

In its "1961 Joint Economic Report," the committee directed the Subcommittee on Economic Statistics to make a study of "* * * the cyclical, secular, and structural character of unemployment, and the adequacy of our unemployment statistics for such analysis" (H. Rept. No. 328, 87th Cong., 1st sess., p. 48). In fulfillment of this directive, the subcommittee directed the preparation and publication of two volumes of study papers, entitled: "Unemployment: Terminology, Measurement, and Analysis," and "Higher Unemployment Rates, 1957–60: Structural Transformation or Inadequate Demand." Hearings were held on December 18, 19, and 20, 1961, and have been printed under the title "Employment and Unemployment."

The report is signed by Senator Douglas and myself. The minority views of Representative Curtis are attached. Senator Fulbright, Representative Bolling, and Representative Widnall did not participate in the preparation of this report and accordingly do not wish to be associated with its findings or conclusions.

Frank A. Sieverts, my legislative assistant, and James W. Knowles, economist of the committee staff, assisted in the preparation of this report.

Sincerely,

WILLIAM PROXMIRE,
Chairman, Subcommittee on Economic Statistics.

CONTENTS

Union Calendar No. ____

87TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. ——

EMPLOYMENT AND UNEMPLOYMENT

FEBRUARY —, 1962.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. PATMAN, from the Joint Economic Committee, submitted the following

REPORT

[Pursuant to sec. 5(a) of Public Law 304 (79th Cong.)]

INTRODUCTION

The Joint Economic Committee in early 1961 directed the Subcommittee on Economic Statistics to make a study of "* * * the cyclical, secular, and structural character of unemployment, and the adequacy of our unemployment statistics for such analysis" (1961 Joint Economic Report, 87th Cong., 1st sess., H. Rept. No. 328, p. 48). In fulfillment of this directive, the subcommittee directed the preparation and publication of two volumes of study papers as background materials for 3 days of public hearings, held December 18, 19, and 20, 1961. Ten witnesses testified, representing a wide range of views: Government agencies, the U.S. Chamber of Commerce, the National Association of Manufacturers, the American Federation of Labor-Congress of Industrial Organizations, various users of labor force statistics, and academic experts.

One volume of study papers, entitled "Unemployment: Terminology, Measurement and Analysis," was prepared for the subcommittee by manpower experts of the Bureau of Labor Statistics, U.S. Department of Labor. The subcommittee is deeply appreciative of this excellent contribution to its study by the Department. The other volume of background materials, "Higher Unemployment Rates, 1957–60: Structural Transformation or Inadequate Demand," was prepared by the committee staff.

In preparation for these hearings, three questions were posed which reflect the issues raised in public discussion of employment in recent years. These questions are:

(1) Are our statistics on employment and unemployment adequate to the Nation's needs in concept, coverage, consistency, accuracy, and amount of detail?
Are there legitimate criticisms which call for remedial action and, if so, what are they?

(2) Has the exceptionally high rate of unemployment, which has equaled or exceeded 5 percent since November 1957, been the result largely of structural changes which will make it a slow and difficult task to reduce unemployment to, say, 4 percent, or has the persistence of this high rate of unemployment been the result of inadequate aggregate demand?

(3) What are the implications of the answers to the first two questions for the choice of policies, public and private, over the coming year or two?

The hearings and study papers revealed wide areas of agreement on questions of fact and analysis, but sharp divergencies in views on policy implications. On the basis of these materials and previous related studies, the subcommittee reports the following findings and recommendations:

I. Statistics on Employment and Unemployment

Progress in improving the statistical data needed for public and private policy decisions comes in large part from a continuing flow of constructive criticism from the users. Our present system of statistics on employment and unemployment has been developed to its present state through this process, with an understandable tendency, previously noted by this subcommittee, for the volume of criticism to rise whenever the unemployment rate rises significantly. It is understandable, therefore, that the higher unemployment rates since 1957 have evoked not only debate as to possible remedies, but also critical comments on the statistics themselves, questioning the honesty with which they are prepared, their accuracy, reliability, completeness, and meaning.

VALIDITY OF THE STATISTICS

The main public attack on the honesty with which the unemployment data are prepared came in an article by James Daniel, in the September 1961 issue of the Reader's Digest, entitled "Let's Look at Those 'Alarming' Unemployment Figures." Mr. Daniel is listed as a roving editor of the magazine. Daniel charged that the Bureau of Labor Statistics has steadily altered the definitions and methods used to obtain the unemployment figures so as to "magnify the unemployment problem," using in his charges such words as "juggling" and "engineered" to discredit the validity of the Bureau's work and the integrity of the Government's technicians.

The subcommittee invited Mr. Daniel to testify at the December hearings. Although every effort was made to secure the presence of Mr. Daniel or a representative of his choice, these efforts failed to

produce either personal testimony or a written statement for the record to support his charges.

Without exception, witnesses representing all viewpoints at the hearings expressed complete confidence in the honesty, integrity, and devotion to objective, unbiased reporting of the Government's technicians who computed the employment and unemployment statistics. Furthermore, Mr. Daniel's specific charges were shown to be erroneous.

The subcommittee, therefore, finds no basis whatsoever for doubt as to the integrity of the Bureau of Labor Statistics and the other Government agencies involved in planning and carrying out our employment and unemployment statistics programs. The Congress and the Nation can have complete confidence in the objectivity and honesty of the Government's statisticians. Furthermore, the employment and unemployment statistics are produced under an interagency program involving the Departments of Labor, Commerce, and Agriculture, with continuous surveillance and control lodged in the Office of Statistical Standards of the Bureau of the Budget, an agency within the Executive Office of the President. Changes can be made in these programs only after thorough study and review, including consultation with outside experts from business, labor, and the universities. These safeguards and the integrity of the Government's statistical personnel provide complete assurance that these data have not been, and will not be, "juggled," or manipulated to create biased measures of labor market conditions.

ADEQUACY OF LABOR FORCE STATISTICS

There is general agreement among experts that the United States possesses the most complete, accurate, and reliable statistics on employment and unemployment of any country in the world today. Many of the features of this system reflect past recommendations of this and other committees of the Congress. These data can be of great value in determining what types of programs—public and private—will contribute to achievement of the objectives of the Employment Act of 1946, that there should be created "* * * conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work * * *" (sec. 2). The benefits from sound programs are so great and the savings to be realized from avoiding policy mistakes are so large, that the Nation can well afford the small sums required to insure that our economic statistics are the best possible, and fully adequate for today's needs.

The subcommittee, therefore, fully aware of the high quality of existing programs, renews its past recommendations that Congress give sympathetic attention to appropriation requests of statistical agencies, with a view to providing the relatively modest additional resources needed to insure the further improvements needed in the years ahead in the field of economic statistics, particularly those on employment and unemployment.

The present status of these labor force statistics and possible improvements are now under study by a committee appointed by the President, consisting of six outstanding experts: Robert A. Gordon, University of California, Chairman; Robert Dorfman, Harvard Uni-

versity; Albert E. Rees, University of Chicago; Stanley Ruttenberg, AFL–CIO; Frederick F. Stephan, Princeton University; and Martin R. Gainsbrugh, National Industrial Conference Board. The subcommittee has arranged to provide the Presidential committee with information from its studies which would help in their deliberations. The subcommittee, under its mandate to keep economic statistics programs under continuous surveillance, will study thoroughly the report of this Presidential study group when it becomes available later in the year.

RECOMMENDATIONS

Certain recommendations are warranted without waiting for this report, since the subcommittee's hearings provided ample testimony on these points:

1. The most serious gap in our knowledge of unemployment concerns the nature and attitude of the unemployed. We need to know far more about their degree of aggressiveness in seeking work, as shown by registration and calls at employment offices and agencies, efforts to secure training or retraining, search of help wanted ads, travel to find jobs, willingness to move to accept jobs, and efforts at self-employment. We need to know more about the effects of income, especially unemployment compensation, relief payments, and social security benefits (described by one witness as the "social minimum wage") on the efforts and attitude of the unemployed in seeking work. We also need to know more about the relation of unemployed workers to family units—are they heads of households, second or third workers in households, or are they outside family units? More knowledge is also needed about the effect of poor health on susceptibility to unemployment.

The value of this information to effective policy cannot be overestimated.

The effectiveness of training programs and the mobility of labor, for example, depend above all on the willingness of those out of work to accept the discipline of training and the sacrifices involved in moving to new locations. There have been recent reports of lack of interest in training programs among the unemployed in one area of heavy unemployment, and of the failure of at least two substantial private retraining programs because of a lack of worker interest.

Some—but not all—of this material is now being gathered in a study being made by the Department of Labor. The study should be expanded and used as a basis for designing a regular, recurrent survey.

2. More use should be made of the wealth of information being produced under existing programs. Data are available on demographic characteristics of the labor force; on employment and unemployment by industry, occupation, experience; duration of employment; geographic location; etc. It is now possible to make studies of the factors affecting the demand for and supply of labor on a scale and in a detail not previously practical. Such intensive analysis could be of great assistance to the Congress and the public generally by exploiting this rich vein of information to the fullest. In this spirit, we recommend that—

(*a*) A means be developed to improve access to this mass of labor market data, particularly that from the monthly household

survey, perhaps in the form of an historical volume, including both data and necessary accompanying technical notes; and

(*b*) The Bureau of Labor Statistics in its monthly report on the labor force make increased use of the rich detail available to provide an integrated picture of labor market conditions, utilizing to a greater extent than at present the technique of combining at one place a chart, table, and text on a specific aspect, as is done in the Joint Economic Committee's monthly publication, Economic Indicators.

3. The nature, uses, and limitations of the Government's statistics on employment and unemployment should be explained in clear, nontechnical language in small booklet form that could be given wide popular distribution. This would go a long way toward clearing up much of the public misconceptions about these data. In this connection, we commend the Office of Statistical Standards for a fine example of this type of publication: "Unemployment Statistics: Meaning and Measurement," by Raymond T. Bowman and Margaret E. Martin, which was published in the record of the subcommittee's hearings.

4. Although the United States has the most complete information of any country on availability and utilization of labor resources, the official statistics do not yet include any overall measure of the extent to which the available labor supply is idle or being used each month. Since 1954, each month the staff of the Joint Economic Committee, at the request of Senator Paul H. Douglas, has had prepared for his use, and for that of others who request them, estimates of the full-time unemployment equivalent to the time lost by workers involuntarily on part-time schedules. This is only a partial solution. At the subcommittee's request, the Bureau of Labor Statistics this year experimented with some other alternative methods, the results of which were published in the paper by Gertrude Bancroft entitled "Some Alternative Indexes of Employment and Unemployment" in the joint committee print entitled "Unemployment: Terminology, Measurement and Analysis."

Further developmental work on this problem should be undertaken, leading to regular publication of one or more official indexes of the rate of labor force utilization.

In addition, to facilitate calculation of such an index as well as to provide supplementary data on unemployment, consideration should be given to obtaining each month, as part of the household survey, additional information on how many of the unemployed are interested only in obtaining part-time employment, and, if practical, which of the employed and unemployed are primary sources of income for the household and which are secondary workers.

5. More information on the nature and composition of the labor force is needed. The implications of the sizable movements in and out of the labor force need to be fully analyzed and understood. It was noted by several witnesses that at high levels of prosperity and economic activity many additional individuals are attracted into the labor force. It may be that the number of persons actively seeking work bears a fairly constant relation to the availability of job opportunities. As more jobs are created, more individuals enter the labor force to seek them.

Employment statistics should also more clearly spotlight what sectors of the labor force are and are not prone to unemployment. Some 10 million individuals, or 15 percent of the labor force, are self-employed. Unemployment in the usual sense hardly affects these people. Other measures of their productivity, income, or welfare might reveal significant variations, but employment statistics as such do not. This suggests that the usual unemployment rates should perhaps be calculated on the basis of that part of the labor force subject to employment fluctuations—leaving out the self-employed.

Further study of these and other aspects of the supply of labor would be extremely useful.

6. Research should be undertaken directed toward development of a regular monthly survey of job opportunities or vacancies to illuminate the demand side of the labor market in the way the present series measures the supply of labor. Experience here and abroad indicates that substantial difficulties must be overcome before a statistical series on vacant jobs can become operational but past success in using survey techniques to solve some other difficult data-gathering problems suggests that a useful program may be practical. In any event, the data from such a survey would be so useful in analyzing labor markets, in operating employment services, and developing practical worker training and retraining programs, that expenditure of some funds on research into this problem would be warranted.

II. Higher Unemployment Rates Since 1957

Unemployment averaged 4.2 percent of the civilian labor force over the 11 postwar years, 1947 through 1957 inclusive. This period included two recessions (1949 and 1954) as well as the 1951–53 period of low unemployment associated with the Korean conflict. Since 1957 the record seems to have deteriorated dramatically: The unemployment rate, seasonally adjusted, has equaled or exceeded 5 percent continuously since November 1957, resulting in a 4-year average of over 6 percent. At the cyclical peak in 1960 unemployment was still 5 percent compared to slightly over 4 percent from mid-1955 to mid-1957.

In this century, there seems to have been only two other periods, 4 years or more in length, during which unemployment both averaged 6 percent or more and continuously equaled or exceeded 5 percent: the first was 1908–12 and the other was 1930–41.

This experience with higher rates of unemployment, accompanied by a higher percentage of long-duration unemployment (over 15 weeks) and widespread diffusion through all major occupations and industries, has led to extensive debate over both causes and remedies. Explanations as to the causes are quite varied but can conveniently be grouped into two broad cateogries: structural transformation and inadequate demand.

The structural transformation theory explains the recent unemployment experience in terms of technological and other changes which have made it more difficult than before to match unemployed workers with unfilled job opportunities; that is, to move labor from industries, occupations, or locations where it is displaced, to those where it could be employed.

The inadequate aggregate demand theory explains recent unemployment as the result of too weak a rise in total demand after the 1957–58 recession.

The structural transformation theory leads to the prediction that an unemployment rate of 4 percent or less, typical of previous prosperous years, can be achieved without serious inflation only if these increased labor market frictions are reduced by specific policies aimed at each source of increased friction.

The aggregate demand theory leads to a prediction that a 4-percent unemployment rate can again be achieved, and without significant inflation, by means of public and private policies to stimulate total demand for goods and services; that is, by fiscal and monetary policies, etc.

At all times there is some amount of unemployment which represents various types of short-run and long-run friction in labor markets due to turnover between jobs, technological change, shifts in prefences and demands, and other such structural considerations.

The subcommittee did not attempt to reach a judgment as to the precise magnitude of this "minimum," noninflationary unemployment rate. Rather it has sought to weigh the evidence as to which of the two theories outlined above best explain the higher unemployment rates of recent years since these seem clearly to be above any reasonable estimate of what the minimum rate was in previous high employment periods.

If unemployment in excess of this minimum level developed after 1957 because of the increased impact of structural changes, then there should be some evidence of significant structural change. In particular: (1) the relationships between unemployment rates in specific occupations and industries of last previous attachment and the overall unemployment rate would be different after 1957 than before. Unemployment would be greater in some occupations or industries and less in others than occurred at similar overall rates of unemployment before 1957. (2) The rate of increase in output per man-hour should be significantly higher in the period after 1957 than before. (3) Either the level of unfilled job vacancies would be larger in the period after 1957 than during earlier prosperity periods or increases in the size of the labor force and the length of the workweek would have been unusually large.

On the other hand, if inadequate aggregate demands were the cause of higher unemployment after 1957, then the rise in unemployment would have affected workers in each occupation and industry in much the same manner as it usually does during recessions. Furthermore, the number of unfilled job vacancies would have been considerably lower during the expansion phase in 1959–60 than in 1955–57.

Detailed materials testing these alternatives were presented in the background materials referred to at the beginning of this report. Additional materials were obtained in the committee hearings. In summary, unemployment has been widespread, affecting all industries and occupations in about the same proportion, as was true in past periods of weak overall demand, such as the recessions of 1949 and 1954. Increases in output per man-hour have been generally in line with periods of similar general economic characteristics. Help-wanted advertisements and public employment service records of unfilled job vacancies in interstate clearance, although not as good

measures of unfilled jobs as we need, do not reveal any evidence of an unusual piling up of unfilled jobs compared to earlier experience, though labor shortages do exist in some job categories.

Thus the symptoms of growing unemployment resulting from unusual structural changes in recent years have not been found. A small part of the rise in unemployment—perhaps two- or three-tenths of 1 percent of the labor force—may have been due to structural changes, but the bulk of the increase over 4 percent in recent years reflects a failure of demand forces to keep pace with the rise in the Nation's potential output at full employment which reflects increases in the labor force, in capital stock, and in productivity. This conclusion was supported both by the data and the analyses of the experts whose views were obtained.

III. Policy Implications

The persistence of heavy unemployment as the economy has moved ahead during the past year is the most perplexing and troublesome domestic economic problem that confronts our Nation. In the light of our obvious domestic needs and the immense international challenge of the Communist movement, the inability of 4 to 5 million American workers to find jobs in a period of prosperity cannot be tolerated.

Unemployment cannot be viewed simply as a consequence of dips in the business cycle. The experience of the past 4 years, in which our economy underwent two down-and-up swings, while unemployment stayed above 5 percent, averaging 6.1 percent over a period of 50 months, provides confirmation for this. Merely damping the downswings and upswings of the cycle is not enough.

How far we are from beginning to solve this problem can only be appreciated as we examine its dimensions fully.

One of the most troublesome obstacles in hammering the unemployment rate down is the elastic stretch of the labor force as business improves. As new jobs open up, housewives, retirees, and students by the hundreds of thousands come back into the labor force, swelling the total jobs needed to provide work for the unemployed far beyond that indicated by the statistics.

A sharp increase in the labor force can be expected each year in the coming decade. On the average, well over 1 million new jobs must be found each year for new workers simply to prevent the present level of unemployment from becoming even worse. This does not count those who would come back into the labor force in a period of peak prosperity. By 1970 it is predicted that well over 80 million jobs will be required to employ our labor force usefully and gainfully.

Furthermore, the pace of rising productivity (including automation) that enabled some American industries—especially in steel, autos, and mining—to turn out far more by the end of the fifties than at the beginning with fewer men can be expected to continue and probably increase. We can expect automation to increase widely in the clerical and service fields as well.

None of the widely representative witnesses appearing before this subcommittee advocated arresting or even slowing down automation and other forms of technological progress. Indeed, there was a widespread recognition of the paramount importance to national survival and progress of encouraging the use of human ingenuity to make machines serve our needs.

There are no obvious, widely accepted answers to our unemployment problem. Almost every proposal that might significantly relieve unemployment by increasing demand or decreasing the supply of labor is hotly controversial. Each proposal has had its efficacy questioned and its adverse effects emphasized. The unemployment problem remains a nagging economic failure because the difference over approaches has been deeply felt within the Government and the Congress, as well as in labor, industry, and other private groups. The result has been a paralysis of economic and political action.

For these reasons, it is felt that the most useful contribution this subcommittee can make is to state the major approaches to the problem, indicating the effect on unemployment and significant side effects elsewhere in the economy. The subcommittee reiterates that it is not taking a position but is exploring possibilities and giving arguments pro and con.

In doing this, the subcommittee observes that the persistence of this high level of unemployment through up-and-down swings in the cycle suggest that the usual cyclical approach to unemployment: i.e., a temporary increase in Government outlay or the stimulation of a temporary spurt in private spending or investment, may not provide the answer to what appears to be a basically long-range problem. Policies appropriate to a cyclical problem may actually be perverse if applied to long-range unemployment, particularly if they are applied for the purpose of a temporary reduction in unemployment during the expansionary phase of the business cycle.

As a framework for consideration, this report examines first the adequacy of total outlay to reduce long-term unemployment. It considers this from the standpoint of the contribution increased transfer payments and other Government outlays can make to the reduction of unemployment through increasing demand.

It then examines the stimulus by Government of private outlays to increase demand and employment by tax reduction and credit ease.

The possibilities of restraining the increase in the supply of labor by increased transfer payments that enable oldsters to leave the labor force in retirement and some youngsters to remain in school is considered, along with the possibility of sharing available demand for labor with more workers by reducing the hours worked.

Finally this report discusses the so-called structural and frictional factors which, as stated above, play a small but significant part in the increased level of unemployment.

1. ADEQUATE TOTAL OUTLAY

Employment depends on outlay, defined as the laying out of money as demand for the products and services of industry.

Increases in Government and private outlay both tend to increase employment. When unemployment is high these outlays have little if any inflationary tendencies. As unemployment diminishes, increased outlays may tend to push prices up.

Government outlays affect employment through transfer payments, which are generally outside the conventional budget, as well as through expenditures in the conventional budget.

(*a*) *Transfer payments*

A characteristic of all modern industrial societies is the sharp increase in benefit payments to those who are not working: unemployment compensation, social security and other retirement benefits, relief and other aid programs.

In this country, these payments, generally classified as "transfer payments," constitute the most rapidly rising element of personal income during the past decade. Between 1952 and the final quarter of 1962, transfer payments rose by more than 150 percent, a full $19 billion, to a rate of more than $31 billion each year.

As these payments increase they tend to reduce unemployment by increasing effective demand. Increased benefits to people receiving social security or those on relief or on unemployment compensation are likely to be spent quickly and completely. Because transfer payments constitute a substantial share of total personal income (about 8 percent), and are continuing their sharp rise, this could have a significant effect on employment.

Rapidly rising transfer payments also play a significant part in retarding the growth of the labor force and the supply of labor. This will be discussed later.

The vast increase in transfer payments also has a helpful and widely recognized anticyclical effect on unemployment. Unemployment compensation increases sharply and rapidly in times of recession. The heavy secular rise in other transfer payments further helps counteract the cyclical drop in virtually all other kinds of income.

Transfer payments have been primarily justified for their humanitarian benefit. Unquestionably they do tend to diminish human misery and increase the opportunity for well-being, in addition to important anticyclical and employment effects.

Adverse effects of transfer payments.—Transfer payments clearly constitute automatic, concomitant costs as well as benefits. Unemployment compensation benefits, for example, are paid out of a payroll tax. Accordingly, as benefits are increased, labor costs tend to increase. As labor costs increase, the incentive for hiring labor diminishes. This has a tendency to increase unemployment.

What is true of unemployment compensation is largely true of social security, which is a half payroll and half income tax. It is true of other transfer payments since each involves an increase in cost equal to the increase in benefit.

Accordingly, any increase in demand resulting from transfer payment increases tends to be balanced by an increase in cost and price though not necessarily in the same time period. Whatever beneficial cyclical and humanitarian effects can be claimed for increased transfer payments, the long-term, secular effect on employment through increasing demand would seem to be minimal.

As previously mentioned, the beneficial effect of transfer payments on the employment situation through its effect on the supply of labor will be discussed later.

(*b*) *Other Government outlays*

Increased Government spending, exclusive of transfer payments, also stimulates demand, and, unlike transfer payment increases, incurs no automatic concomitant cost to provide a balancing diminution in demand.

Government ship building, home building, dam building, missile building puts workers to work. Government loans to borrowers unable to borrow elsewhere directly increase demand and push up employment.

With a more than $90 billion budget (transfer payments excluded), Government spending constitutes a massive 17 percent of the gross national product. (With transfer payments it is 23 percent.) This constitutes the one outlay segment of the economy over which our society through Government has direct, comprehensive control. A sharp increase in this Government spending can be translated into a massive and certain increase in employment.

In his "Full Employment in a Free Society," William Beveridge refers confidently to "the human budget"—that level of outlay necessary to utilize fully the human resources.

Adverse effects of Government spending.—Government spending constitutes a sure burden sooner or later on the private sector of the economy. If increased spending is met with increased taxes and a balanced budget, the effect of Government spending on demand and employment is largely offset by a diminution in funds available for private spending and private demand.

If taxes are not increased to balance spending, the private sector of the economy must bear an immediately increased debt service cost and, unless an indefinite increase in the debt is posited, an eventual restriction in demand when the debt is retired.

Increased Government spending without a balancing increase in taxes as a cyclical device would tend to cushion the bottom of a recession or depression. But as a method of meeting the current, stubborn secular unemployment that has remained high through upswings as well as downswings in the economy, Government spending has its apparent shortcomings.

As a way to relieve specific pockets of localized unemployment or to combat business cycle recessions, Federal programs of spending for public works have other weaknesses. They are difficult to schedule with the precision needed for countercyclical fiscal policy. Aside from the uncertainty of economic forecasting, which makes it difficult to know when such policies should go into action, the technological and planning requirements of public works programs (post offices, dams, roads, etc.) inherently result in unpredictable delays which further reduce their usefulness as efficient instruments of flexible fiscal policy. Furthermore, while unemployment is heavily concentrated in industrial regions, a major part of public works spending goes to other parts of the Nation. Thus the direct beneficial effect on serious localized unemployment is lost.

In a period of sustained high unemployment such as we have experienced since 1957, these questions of timing and location may be less important, since higher total Government outlays stimulate demand generally. But the beneficial effects on cyclical or localized unemployment will be weak, since much of the money will be spent at the wrong time at the wrong places.

(*c*) *Federal taxation* (*affecting private outlays*)

Decreased taxes stimulate employment by increasing private demand. As taxes are reduced corporations and persons have more spendable income available. They will obviously tend to spend it or much of it.

With Federal taxes yielding some $90 billion, this is a quick, sure way of increasing employment. It has the advantage in a free society of increasing the individual citizen's freedom to spend more of his own income as he freely wishes.

Selective tax reduction, through increasing depreciation allowances or permitting investment credits, may increase demand and employment in two ways. Like any tax cut, more spendable income is made available to the private sector. More significant and substantial, a specific incentive is provided for an additional outlay of private savings for new plant and equipment as a means of increasing realizable income by reducing taxes. Because the investment constitutes an expenditure to be consumed over time—often years—the increased investment can be expected to have an especially beneficial effect on employment.

Rapid depreciation or investment credits are most stimulative in periods of rising demand and prosperity, since they are a means of translating excessive demand into investment. They are less effective in a recession, when industry is already failing to make full use of existing plant and equipment.

In a slump the most effective stimulant is probably a tax cut in the lowest bracket. Adherents of this view argue that this money is quickly spent and respent with a minimum of leakage via savings so that a high multiplier effect is achieved in time to be most effective.

A recent study by Simon Kuznets reveals what appears to be a deficiency in private investment in recent years in this country both compared with our historical experience and contrasted with current European investment. This is consistent with the view expressed by some witnesses that one reason for recent heavy unemployment might be the failure of industry, allegedly because of the discouragement of current tax laws, to keep pace with competitive plants in Europe and with expanding investment needs.

Adverse effects of tax reduction.—Unless paid for completely out of growth, increasing demand and employment by cutting tax revenues below spending levels simply postpones the day when taxes have to be brought back up to recoup the deficit—unless a permanent increase in the size of the national debt is assumed. Such an increase in the debt burden even if heavy and prolonged can probably be borne by the economy. But if deficit spending through tax reduction is used this year as the economy crests toward its peak to reduce the secular unemployment that plagues us, the size of the debt burden of the future will be heavy indeed.

(*d*) *Monetary policy* (*affecting private outlays*)

Federal Reserve action to make borrowing easier and reduce the cost of money—interest—by increasing the money supply tends to increase private spending and especially private investment.

Demand is stimulated without increasing the burden of taxes or the national debt. Actually the lower interest rates tend to ease the burden of the debt.

With the major consumer expenditures—for home construction particularly—financed on time, the level of interest rates directly and very importantly affects consumer costs. Given any significant elasticity of demand for goods financed over time, a cut in the time cost of money will increase these large consumer expenditures with a substantial stimulus to employment.

Monetary policy may help alleviate long-term unemployment arising from inadequate capital formation (lack-of-demand) from cycle to cycle. It may do so to the degree it contributes to monetary ease which stimulates additional investment that would not occur under a more neutral cyclical policy.

Adverse effects of expansion of money supply.—Monetary policy operates within cycles and not primarily from a longer term viewpoint. The Federal Reserve Board has taken a "total" view of the economy recognizing unemployment as an important but not as the exclusive determinant of monetary policy. The trend of prices, of business activity, production, and currently the balance of international payments also enters into the calculations of monetary policy. Accordingly, the noncyclical, secular unemployment problem that currently bedevils the economy in a period of adverse international payments finds monetary policy restrained if not paralyzed.

Some have argued for a heavier emphasis on the purchase of long-term bonds and sale of short-term bonds. This would keep short-term interest rates high, while lowering long-term rates, and thus could neutralize the adverse effect on our balance of payments of lower interest rates, because so much of international capital movements are concentrated in short-term obligations.

Just as spending or tax reduction in relatively good times not only reduces the power to act fully and forcefully in recession lows but actually "borrows" employment from the next recession period, so credit ease in the cycle's expansionary period to cope with long-term unemployment may tend to aggravate the next recession plunge.

The effectiveness of monetary policy in stimulating employment through business investment is empirically questionable. A notorious contradiction was the experience of 1955–57. The Federal Reserve Board tightened credit, interest rates rose, but the country enjoyed one of its biggest and fastest periods of expansion of business investment in plants and equipment.

(*e*) *Productivity*

High unemployment represents a loss of production which our Nation can ill afford. Idle workers constitute a waste of an important productive factor. In theory, the lost output occurs as long as the marginal productivity of unemployed workers exceeds the wages required to attract them into the labor force.

If wages rise more slowly than productivity, then labor costs per unit of output fall. As long as employment keeps pace with our growing population, the result of our ever-rising productivity per worker will be a greater and greater abundance. But there is no evidence that this rising output cannot be put to good use by the people of our Nation, for private and public purposes, at home and abroad. Of course, the laws of supply and demand will continue to operate, so what is produced must reflect actual demands for goods and services, as expressed by outlay of money by Government, private citizens, or other consumers. But the view that the sheer volume of output is in some sense becoming so large that demand is "saturated" appears to have little foundation in fact or logic.

To the degree productivity increases hourly output and reduces labor costs per unit, under competition this would be reflected in reduced prices. If demand is elastic, this would cause a more than

proportionate increase in quantity demanded and hence an increase in employment in the same line.

If the demand were inelastic, then people would be squeezed out of the industry but there would also be a transfer of purchasing power elsewhere, increasing demand for and employment in other lines. This is what has been happening in agriculture for a century or more and in manufacturing as a whole during the last 10 or 15 years.

If there is monopoly or quasi-monopoly, then prices will not be increased correspondingly and profits will increase. If these are invested or spent by those who receive them, this will give employment. But if they are not invested and pile up in idle funds in banks, etc., then these will not be an adequate compensatory influence and there will be a net increase in unemployment.

2. SUPPLY OF LABOR

Unemployment is obviously a result of the supply of labor exceeding the demand for labor. There has been immense attention focused on the problem of solving the equation by increasing demand to meet the supply. As the preceding discussion demonstrates, there is great difficulty in reducing unemployment by a conscious Government policy to provide a long-term, secular increase in demand.

The other side of the equation—the supply side—has been relatively ignored. Strictly from the standpoint of reducing unemployment, a reduction of the supply of labor can be as effective as an increase in the demand for labor.

This is especially important in the light of indications that the labor force may grow rapidly at high levels of prosperity. Workers discouraged by the lack of job opportunities who have left the labor force (for statistical purposes, at least) will resume looking for work: housewives, students, and retired persons may join the search for jobs. The potential elasticity of the labor force at high levels of industrial activity may be substantial.

This may have important implications for the idea of an unemployment "target." The goal of a given low percentage figure for unemployment may turn out to resemble the pot of gold at the end of the rainbow, receding with the swelling of the labor force at higher levels of prosperity. Clearly, the seriousness of a given level of unemployment depends on a number of additional considerations, especially why people are in or not in the labor force.

(a) Effect of increased transfer payments on entry into labor force

The massive increase in transfer payments reported earlier may have its principal effect in retarding the increase in unemployment through restraining the increase in the labor force.

Increases in demand as a result of stepped up transfer payments have been balanced at least in part by corresponding increases in taxes and costs to pay them. But the 150-percent rise in transfer payments since 1952 has tended to make it less necessary or desirable for some who would otherwise be constrained to seek work to do so.

Transfer payments have increased proportionately nearly 3 times as fast as wages in the past decade and more than 10 times faster than prices.

These increased transfer payments indirectly help to keep students in school and out of the labor market. Otherwise they might abandon

their education and seek work rather than leave their families without the necessities of life. Transfer payments persuade housewives to stay at home by making it less necessary to search for work to support their families. Improved social security and other retirement benefits tend to give millions of older persons an opportunity to stop work, drop out of the labor market and retire.

The level of income of half of the 17 million individuals in our Nation over 65 is less than $1,000 per year. Obviously many of these elderly are compelled to stay in the labor force and to seek whatever work they can find, against heart-rending odds in view of their age.

There is little doubt that the future opportunities for restraining the growth of the labor force through continuing increases in transfer payments are substantial.

(*b*) *Age for leaving school and entering labor force*

The future growth of the labor force, of course, depends primarily on the young people who will be leaving school and looking for their first full-time job. These young people constitute a serious part of the unemployment problem now. In recent months, when the national unemployment rate was near 7 percent, unemployment among youths under 21 was 17 percent, nearly two and one-half times as high. These of course are young people who are not in school and who are actively seeking work.

In his monograph on secondary education "Slums and Suburbs," former Harvard President James Conant suggests one of the big reasons for this heavy concentration of unemployed youths. In one big city slum area of 125,000 people, mostly Negro, some 70 percent of the boys and girls between the ages of 16 and 21 were out of school and out of work. The unemployment rate among school dropouts was substantially higher than among high school graduates.

Conant found a pathetic lack of skills adequate to secure employment among these young people. An intensive increase in vocational education tailored to meet the skill needs of the local community combined possibly with an increase above the standard 16-year-old mandatory school attendance requirement might help. It would be particularly important in restraining the size of the labor force for school guidance officials to work closely with local employment services to persuade students to remain in school until adequate skill had been developed to qualify the student for permanent employment.

Dr. Conant observes that this problem of unemployed youth is rare in smaller cities where there has been this kind of close relationship between trade unions, employers and school officials so that the youth who leaves school is qualified to do a job and has a job waiting for him.

(*c*) *Limitation on hours of work*

In the course of the hearings, Mr. George Meany, president of the AFL–CIO, said:

> It is obvious to me, and this has been given a lot of thought and study by everyone on our side * * * that if this accentuated trend toward automation and technological improvement with displacement and greater and greater displacement all the time, if that continues, we have got to shorten

> the hours. I do not know of any other approach. (Hearings on Employment and Unemployment, December 18–20, p. 173.)

In fairness to Mr. Meany, the whole thrust of his testimony was in support of increasing demand through expanding private and Government outlays, but if increased outlay doesn't do the job, Mr. Meany would consider reducing hours.

Mr. Meany had little company in the hearings for this approach. Neither the business spokesmen nor the academic experts proposed the method. When questioned about it, they flatly opposed it.

In a world in which we have the immense and rapidly growing challenge of communism to meet, a world in which human needs vastly outreach the maximum production of this country for generations to come, and in a country in which the need for schools, hospitals, homes, and a myriad of other products is still enormous, it would seem to be a confession of defeat to reduce the hours of labor, when no case has been made that present hours involve an excessively exhausting burden or are destructive of useful leisure time.

On the other hand, a significant part of the pattern of American progress has been the steady increase in leisure and reduction in hours of labor for American workers. Only 50 years ago steelworkers worked a 12-hour, 7-day—an 84 hour—week, including a 24-hour stint once every 2 weeks when the shift changed.

Twenty-four years ago, the Fair Labor Standards Act established 40 hours as the standard workweek. In doing so it materially assisted in reducing the impact of future unemployment. If Americans generally worked a 60-hour workweek today, the unemployment problem would undoubtedly be far more serious.

An amendment to the Fair Labor Standards Act to reduce hours to 35 or 32 per week could result in sharing the available work and open jobs to some presently out of work. The hearings amply documented the contention that there is no significant present contribution to a lack of jobs from workers holding more than one job. With a 32-hour workweek, however, this might become serious. An alternative or supplementary approach might provide for longer vacations. In terms of hours worked per year, the vacation approach would have the same effect as a reduction in hours.

The arithmetic of the shorter workweek should be clearly understood. If people on a 40-hour week receive $2.25 an hour, or $90 for a standard week's work, then if the hours are reduced to 32 but the weekly wages maintained, then the hourly rate will have to increase to $\frac{\$90}{32}=\$2.81$. A decrease of 20 percent in hours of work will, under these conditions, require an increase of 25 percent in hourly wage rates.

A shorter workweek or longer vacations would either reduce the standard of living of millions of wage earners as their weekly or annual pay dropped, or there would be a sharp increase in labor costs. With increasing productivity, these losses and costs might be temporary. But they would also be real and serious.

In view of the expected continued increase in productivity, the American tradition of increasing worker leisure, and the tough, long-term nature of present unemployment, the question of hours, and, along with it, longer vacations, deserves careful consideration.

But to solve the problem, increasing demand by constructive Government and private outlays and restraining the labor force through effective opportunities to retire and secure adequate education, deserve higher priority.

3. STRUCTURAL FACTORS

As discussed in part II of this report, it was the conclusion of witnesses as well as staff studies that recent high levels of unemployment are the result mainly of a deficiency of demand, rather than significant increases in structural or frictional factors. Nonetheless, a basic core of joblessness due to structural causes continues to exist. It has not risen sharply in the past few years, so the higher levels of unemployment from 1957 to 1960 are chiefly the result of insufficiency of effective demand. But the core of structural unemployment remains, and clearly accounts for a substantial part of past and present joblessness.

Structural factors affecting unemployment can be divided into two categories: location of industry and flexibility of the labor force.

(a) Location of industry

There has been a growing awareness in recent years that the location and movement of industry can have highly significant repercussions on employment and unemployment. Decisions in industry location are affected by a variety of factors, including availability of resources and labor, climate, availability and suitability of transportation, taxes, and other public policies. These decisions are normally conscious, and are based on a rational evaluation of the various tangible and intangible considerations involved.

While the location or relocation of an enterprise may not affect the overall total of employment, it can have the effect of aggravating or alleviating joblessness in a particular area. A significant effort is now underway to channel productive enterprises into pockets of localized unemployment through the Area Redevelopment Administration. By providing loan and capital incentives, technical assistance, and by stimulating local initiative, this undertaking seeks to bring industry to workers. While it is too soon to judge its overall effectiveness, it is hoped that this program will relieve some of the most serious chronic unemployment in our Nation.

Increasing interest has been evident recently in the possibility of channeling U.S. Government expenditures for goods and services to achieve more beneficial effect on employment. Specifically, the multibillion dollar defense outlays provide a potential for constructively and consciously locating industry where it will help alleviate chronic unemployment. The fact that there are serious difficulties in the path of doing this on a large scale in our free economy should not deter a thorough examination of this possibility. It is highly desirable to allocate defense contracts to the lowest bidder. But since only one-seventh of direct defense procurement is on a competitive bid basis, for the other $6 out of $7, availability of surplus labor can be a prime consideration wherever it would not significantly increase Government cost. A full-scale review of this subject is required, involving the cooperation of the Departments of Labor and Defense and other Federal agencies.

Location of industry cannot be discussed without some consideration of the basic theory of resource allocation. Traditionally certain

factors are considered fixed: land, minerals, water, climate. Others, such as transportation, energy, and people, are less fixed. These basic considerations have been somewhat altered in recent years. We now recognize that the social and economic costs of uprooting large numbers of people may be considerable: population has become a more fixed resource. With the development of new energy forms, modern structures, temperature control, etc., industry location is less subject to weather and geography, though it must be recognized that artificially surmounting adverse conditions adds to costs.

(*b*) *Flexibility of the labor force*

All witnesses agreed that much can be done to assist workers to adapt to new employment opportunities resulting from structural shifts in production. It has been observed that even during peak unemployment periods considerable numbers of job vacancies exist because those seeking work either do not know about them, do not possess the requisite skills, or live long distances away from where the jobs can be found.

A study prepared for the subcommittee by the Bureau of Employment Security indicates that there are labor shortages in a number of job categories. Almost without exception these are jobs requiring considerable skill and training, in industries that have experienced rapid growth in the past few years. Efforts to train and relocate workers to fill these vacancies should, of course, be encouraged. The BES study notes that the total number of job vacancies is small relative to the high numbers of unemployed persons seeking work in recent years. Even if this type of frictional unemployment were reduced to the vanishing point, high overall unemployment would continue to exist.

The specific public programs supported by witnesses included—

(1) A manpower training and retraining program—now pending in the House of Representatives, having passed the Senate.

(2) A program to help workers relocate where work is available.

(3) Improved and enlarged U.S. Employment Service activities—to inform those seeking work where jobs exist, to coordinate retraining and mobility assistance, and to survey job opportunities.

Private efforts in these areas also deserve strong encouragement.

(Signed) WILLIAM PROXMIRE.
PAUL H. DOUGLAS.

NOTE.—Senator Fulbright, Representative Bolling, and Representative Widnall did not participate in the preparation of this report, and accordingly do not wish to be associated with its findings or conclusions.

MINORITY VIEWS OF REPRESENTATIVE CURTIS

I regret that I cannot join in the subcommittee's report.

I concur in Section 1, "Statistics on Employment and Unemployment." I believe that good hearings were conducted and a good report has been made of this subject.

I am in disagreement with the basic premise that underlies the syllogisms developed in section 11 and section 111.

It is necessary to point out that the second and third questions posed do not, as the report contends, "fairly reflect the issues raised in public discussion of employment in recent years." Question 2 is pregnant with unestablished conclusions, each of which should be the subject for study.

Question 3 being based upon question No. 2 begs the same questions.

There are many other theories or possibilities that explain the rate of unemployment since 1957 beside the two theories posed in question 11.

Is 5 percent an "exceptionally high rate of unemployment"? If it is, what are we to consider the following rates of unemployment to be: 1933, 24.9 percent; 1934, 21.7 percent; 1935, 20.1 percent; 1936, 16.9 percent; 1937, 14.3 percent; 1938, 19 percent; 1939, 17.2 percent? Superduper exceptionally high?

I am not being unfair to list these unemployment figures of the 1930's when the theory of increasing aggregate demand was being employed unsuccessfully to meet the problem of unemployment. Obviously, it is necessary to remind the authors of the majority report of the enormity of these 1933–39 figures inasmuch as the report relates the 5 percent unemployment figures of 1957–60 to them.

It is important that we study with care the problems of employment and unemployment in our dynamic economy if we are to come up with solutions which will meet the problems that confront us.

Essentially we lack data. The committee studies were helpful, if properly interpreted, to show us how little information we have. It is insufficient information to draw any broad conclusions, let alone to beg them.

It is true that there are two lines of thought, among others, in this matter. One line of thought concludes that rapid economic growth produces added pressures to create frictional unemployment which if unidentified and untreated by training and retraining will freeze into structural unemployment. The more rapidly an economy is growing the greater are these pressures. This school of thought also suggests that rapid technological advancement creates more jobs than it displaces. However, these jobs require higher skills and are frequently far removed both geographically and in different economic endeavors from the jobs that have been rendered obsolete. An unfilled job does not cry out like an unemployed person. I believe part of the reason for our morbid concentration on the failure side, unemployment, at the sacrifice of the success side, unfilled jobs, lies in this human and politically potent fact of life.

Frictional and structural unemployment of this nature will be found predominantly among the unskilled and semiskilled workers because it is these workers that automation tends primarily to displace. It also will be found predominantly in the less educated of those coming into the work force. And so we do find our unemployment today dominated by the semiskilled, the unskilled, and the high school dropouts.

Rapid technological advancement should show marked shifts in employment. And indeed we have witnessed marked shifts in employment out of the agricultural sector and out of the manufacturing sector into the sectors of distribution and service. Within the manufacturing sector itself we see a marked shift from blue collar workers to white collar workers.

Even during some of the four post-World War II recessions we have seen employment in the service and distributive sectors continue to rise. In 1961, State and local governmental employment rose by 200,000 and Federal employment by 75,000.

There has been no comprehensive or meaningful study of skills that are in demand that remain unfilled. The majority report typically devotes its efforts to pointing up unemployment and pays only passing attention to the unfilled needs in our economy for skills. From 1860 until 1920, a study of our dynamic economy reveals a constant labor shortage filled by immigrants many times already skilled and people from our farms. I am satisfied that if an objective study were made of our post-World War II economy we would find a comparable labor shortage being met by further shift of people from the farms and by automation releasing people from manufacturing to distribution and service enterprises, from blue collar jobs to white collar jobs. We do know of many professions and skills where we have shortages—nurses, teachers, technicians, engineers, doctors, tailors, and other laborers in many of the higher skills. A subjective test of reading the want ads in any metropolitan newspaper gives the student some idea of the extent of the demands for workers which are going unfilled. Many skills are in such short supply that businesses do not even advertise for them. Automation and economic advancement has been so rapid that many new skills in demand do not even rate nomenclature to identify them. Reclassification of skills has become a constant job for labor leaders and business managers.

The other school of thought—and as I have stated, the differences of opinion are not limited to two schools by any manner or means—argue that the unemployment results from lack of aggregate demand. This theory advocates increasing demand by increasing aggregate consumer purchasing power through massive Federal expenditure and transfer programs.

Aside from the fact that this never solved the truly serious unemployment of the 1930's, which remained over 10 million unemployed until World War II broke out and the United States became the "arsenal for democracy," the fact is that during all of the post-World War II recessions consumer purchasing power and government spending—Federal, State, and local—remained high. Indeed, in the recent recession of 1960 consumer purchasing power actually increased during the year and only receded slightly in one quarter. This is rather compelling evidence that aggregate purchasing power through massive Federal spending is hardly the answer to our present

situation of filling the need of our economy for skills or to relieve the relatively mild unemployment of 5 percent.

The demands for certain skills and services are present and going unfilled. Surely no one advocates producing more wheat, corn, and cotton? Or thinks that increasing consumer purchasing power will make a dent in the surpluses we already have of these products? So it is with other specific goods and services. We have enough, and the plenty is widely distributed among our people. However, there are shortages—in health care—and the prices and demand for labor in the area reflects this. There are shortages in education and training, in research and development, and the prices and demand for labor in those areas reflect these shortages. There are many shortages if one seeks to identify them; e.g., plumbers, TV repairmen, and household help.

However, the studies upon which this report has been based, though helpful in further picking at unemployment, are of little use in analyzing employment and the shortage of skills. The committee report follows the negative approach of the papers and testimony of the witnesses selected.

I trust that the subcommittee will now conduct the much needed study into employment in our dynamic economy and lay aside, temporarily, picking at unemployment. In this pursuit of the positive, the committee will find, I believe, the solution to unemployment, the negative.

THOMAS B. CURTIS.

○