

REDUCING UNEMPLOYMENT TO 2 PERCENT

HEARINGS
BEFORE THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-SECOND CONGRESS
SECOND SESSION

OCTOBER 17, 18, AND 26, 1972

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1972

86-554

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price \$1.50 domestic postpaid, or \$1.25 GPO Bookstore

Stock Number 5270-01692

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(II)

CONTENTS

WITNESSES AND STATEMENTS

TUESDAY, OCTOBER 17, 1972

	Page
Proxmire, Hon. William, chairman of the Joint Economic Committee: Opening statement.....	1
Eckstein, Otto, president, Data Resources, Inc., and professor of economics, Harvard University.....	3
Feldstein, Martin S., professor of economics, Harvard University, and economic consultant, Data Resources, Inc.....	14
Hall, Robert E., professor of economics, Massachusetts Institute of Technology, and consultant, Data Resources, Inc.....	28
Bergmann, Barbara R., professor of economics, University of Maryland, and director, Project on the Economics of Discrimination.....	37

WEDNESDAY, OCTOBER 18, 1972

Proxmire, Hon. William, chairman of the Joint Economic Committee: Opening statement.....	71
Goldfinger, Nat, director of research, AFL-CIO.....	72
Carter, Lisle C., Jr., professor of public policy, Graduate School of Business and Health Administration, Cornell University.....	84

THURSDAY, OCTOBER 26, 1972

Proxmire, Hon. William, chairman of the Joint Economic Committee: Opening statement.....	117
Stein, Hon. Herbert, Chairman, Council of Economic Advisers, accompanied by Ezra Solomon, member; Gary SeEVERS, special assistant to the Council; and Nicholas Perna, senior staff economist.....	118

SUBMISSIONS FOR THE RECORD

TUESDAY, OCTOBER 17, 1972

Bergmann, Barbara R.: Prepared statement.....	41
Eckstein, Otto: Prepared statement.....	8
Feldstein, Martin S.: Prepared statement.....	24
Hall, Robert E.: Response to Chairman Proxmire's question regarding the official unemployment rates for Chicago and New York in 1966.....	31
Prepared statement.....	33
Reuss, Hon. Henry S.: Article entitled "Nixon Plans To Kill Public Service Jobs in 1974 Budgeting," from the Evening Star and Daily News, October 16, 1972.....	68

WEDNESDAY, OCTOBER 18, 1972

Carter, Lisle C., Jr.: Prepared statement.....	87
Goldfinger, Nat: Prepared statement.....	74
Letter to Chairman Proxmire, dated November 1, 1972, with attached comments on unemployment compensation.....	107

THURSDAY, OCTOBER 26, 1972

Proxmire, Hon. William:

Table showing change in Consumer Price Index and unemployment
rate in West Germany, United Kingdom, France, Italy, and Japan,
1960-71 -----

REDUCING UNEMPLOYMENT TO 2 PERCENT

TUESDAY, OCTOBER 17, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1202, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire and Representative Reuss.

Also present: John Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, Lucy A. Falcone, and Jerry Jasinowski, research economists; Walter B. Laessig, minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

We meet at a time when it is difficult for members of either the press or the committee to attend, for obvious reasons; we are in the closing days of this session; many members are out of town. The other day we had a meeting of the Appropriations Committee, one of the most crucial meetings of the year, and it took us 6 hours to get a quorum. We didn't have a quorum of the Senate at all yesterday and we won't have one today, so it is very, very difficult under these circumstances to get the kind of attention that this subject deserves. I think the adoption of policies to reduce unemployment has the greatest potential for improving our economy and for doing something effective about poverty and substandard income, and do it in a more realistic and simple way than any other kind of approach we can foresee.

Certainly, unemployment is one of the most difficult economic problems facing our society. Although this Nation has been committed to full employment since the end of World War II, the average rate of unemployment has exceeded 4.5 percent over the past 20 years. That is a long way from an acceptable record and it is especially important to this committee because as you know, this committee was established in the so-called Full Employment Act of 1946 following the traumatic experience of the depression, we had unemployment ranging up to 25 percent of the work force and averaging 17 percent for 10 years and then the dramatic change in World War II, when unemployment dropped down to 2 percent, that change gave us by far the greatest improvement in income and a dramatic reduction of poverty during that period.

We had a price control system that worked well. It was with this experience in mind that the Full Employment Act of 1946 was enacted, and this committee was one of the institutions created to try to achieve that aim for our economy.

Well, the situation has improved a lot over what it was in the 1930's or even before that, but it still is a long, long way from anything like full employment.

Especially the average, 4.5 percent average over the past 20 years, conceals miserable unemployment ratios for blacks, and minority groups, and for teenagers. At the present time our unemployment rate of 5.5 percent which means 4.5 million people are out of work. As we all know, it has been even worse in the last 2 years.

As I indicated in announcing this study, unemployment is the central concern of this committee. I believe that a decent job for everyone who is willing to work should be our No. 1 economic priority. Unfortunately, a commitment to such a goal by no means insures its achievement.

As a first step in expanding the margins of knowledge in this critical area, we have asked Mr. Otto Eckstein and his associates at Data Resources, Inc., to undertake a study of how we might reduce unemployment to 3 percent and possibly to 2 percent—a level, I might add, that has been achieved in other great nations of the world, including Japan. As a matter of fact, in Germany it has been below 1 percent for a long, long time and if they had anything like our present unemployment level of 5.5 percent they would probably have a revolution.

I am glad to see that you reach a positive conclusion, that we can lower the permanent unemployment rate to a level substantially below the average of the postwar period, possibly down to 2 percent. As you put it, this can be a realistic goal for the next decade.

Your study also indicates clearly that there are large issues that must be resolved to achieve this.

As I view the subject, there are several broad avenues of inquiry where a great deal of work needs to be done. One is the structure of our market economy. We know that market is imperfect, that it is afflicted with many rigidities, some of them resulting from the policies of Government itself, that impede efforts to attain the best utilization of our economic resources.

A second major subject that lies largely unexplored is the effect of employment on increasing demand or changing its composition. It is obvious that if demand were increased and its nature changed, it could bring about dynamic changes in economic performance. But we have no idea of how these would work out in actuality.

A third major area concerns the structure of the job market itself. We know that there is a vast amount of work to be done in bringing jobs and workers together. Considerable waste of manpower results from deficiencies in our job markets.

Representing Data Resources, we have Mr. Otto Eckstein, who is president of that organization, a former member of the Council of Economic Advisers, and a former member of the Joint Economic Committee staff who helped on the landmark study on employment, incomes and prices in 1959 and 1960; Mr. Martin Feldstein of Harvard

who undertook the staff leadership for preparing this study; and Mr. Robert Hall of MIT who has consulted with Data Resources extensively on this study.

Later we will hear from Mrs. Barbara Bergmann, University of Maryland.

Mr. Eckstein, let me say at the outset of these hearings that I welcome your study as a stimulating and useful inauguration of our effort to explore the unemployment problem and the means that public policy should follow to reduce it.

There are parts of your study that, frankly, I felt didn't seem to go as far as I hoped they would and your model seems to rely very largely on the data of the 1960's with very little, if any, input, of course, from World War II experience which was salutary, or from the European experience which we had so much in mind when we wanted the study done; but I suppose it is very difficult to construct models that will take into account these useful experiences.

At any rate, will you and your associates proceed with your presentation in your own way and then we will call on you for questions.

Mr. Eckstein, please proceed.

STATEMENT OF OTTO ECKSTEIN, PRESIDENT, DATA RESOURCES, INC., AND PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. ECKSTEIN. Thank you, Senator Proxmire.

Let me proceed as follows: Let me make some introductory remarks, give you some more fleeting conclusions about the current situation and the current potential of aggregate policy and then turn it over to my colleagues.

Chairman PROXMIRE. Mr. Eckstein, let me say I don't know if it is necessary, but we follow the rule invariably; we have had trouble with some of the witnesses—Mr. Burns objected to it. We time witnesses and try to keep their remarks down to 10 minutes. There are three of you so it shouldn't be too difficult and any remarks that you cannot make you can put in the record or we will bring out in any questions with you.

Mr. ECKSTEIN. Well, of course, Mr. Feldstein has really done the largest part of the real direction of the study, so I will try to save as much time as I can for him. Perhaps I can transfer a few minutes of my time to him?

Chairman PROXMIRE. Yes.

Mr. ECKSTEIN. Let me only make a few very simple points.

First, I congratulate the committee and its chairman for reminding us that, as your predecessor, Senator Douglas used to say, that we really have to raise our sights every once in a while and that it is the job of people like ourselves and of this committee to look ahead to see if we can do better, rather than to lower our sights and resign ourselves to whatever the current state of the world may be.

In my part of the study I took our large DRI model to see how far we could get with demand policies alone before we make the structural changes which really are the heart of the study; these results are summarized in three tables at the end of my prepared statement that I have already distributed.

In table 1 which, of course, will be reproduced in the record, it is clear that something fundamental has happened to make the married male a smaller part of the labor force and, consequently his unemployment experience is now better than it used to be for given circumstances. This also means that you run out of that prime group of workers earlier than you used to and you can see that most evidently by comparing the period of, say, 1962, when unemployment was about what it is now and the married male rate was 3.8 percent, and the present time in which the same unemployment rate goes with a married male rate of 2.8 percent.

You can also see that the rate for women is essentially unchanged over the longer period of time, that the rate of teenagers has deteriorated as they have increased so greatly in numbers.

Now, how far can we get and what difference do alternative macro-policies make to the whole story? That can be seen very easily in tables 1, 2, and 3, all at the end of my prepared statement. Our outlook is something like this: If we stay on the present path, which would mean that the Federal Reserve continues to raise bank reserves by some reasonable rate, and the budget is not put through the wringer overnight in the next year, we would look forward to a continuing improvement, the rate of growth staying at 6 percent for a while longer and then settling down to somewhat less than 5 percent, and this would lower the unemployment rate ultimately to about 4.5 percent somewhere in 1974-75.

That seems to be roughly what has been the recent policy.

Now, on the other hand if we follow the script of table 3 in my prepared statement, which is a much tougher policy, that the budget all of a sudden is slashed in various ways and the Federal Reserve does not go back to its sins of 1966 through 1969 but gets quite a bit tougher than it is today, then, of course, this recovery is not as good and the unemployment rate would tend to hover around 5 percent or higher even in 1973 and 1974 and as far as the trained eye can see. If that happens, then, of course, the rate of black workers—which is unreasonable in any event—simply remains higher.

For example, male black workers who, with a good recovery might get their unemployment rate down to 4 percent, would stay at 5 percent and might even be close to 6 percent for several years in a row. So a premature swing to conservative policies would be the biggest single mistake that we could make in trying to reach our employment targets. We are running the risk of a premature tax increase, I think the Brookings Institution has tended to do too good a job of persuading the country that a tax increase is inevitable; perhaps one will be needed but at the moment, with the outlook for 1973, there is no convincing case that it is needed for 1973. Perhaps 1974 is the right time but that is really not pertinent to a decision now.

The huge figure about enormous full employment deficits are now floating around—

Chairman PROXMIER. When you say no convincing case for a tax increase, what assumption does that make as to the size of the deficit and size of the budget?

Mr. ECKSTEIN. Well, in our estimate, the full employment deficit, which was in surplus until very recently, might be on the order of

\$5-\$10 billion in fiscal 1974 and there is no evidence now that it would be bad for the economy.

Chairman PROXMIRE. You don't think that is sufficient to warrant a tax increase?

Mr. ECKSTEIN. Not today.

Chairman PROXMIRE. Before 1974?

Mr. ECKSTEIN. No, that is right; there is no prospect that unemployment would drop much below 5 percent next year, even if our good forecasts come true. It has no prospect of dropping to 4 percent; it has no prospect of dropping in 1973 to 4.5 percent; when you raise those taxes you will slow down the advance in the economy and the economy needs not one more good year but at least two more good years to do for the employment targets what aggregate demand can do.

Similarly, on the expenditure side, I am sure there are many problems of efficiency and there is much waste in Government. But the general macro case does not require a tremendous slash in spending overnight. There may be cases in particular programs. Similarly, the conclusions are parallel for the Federal Reserve.

The goal of macro policy in the near term should be to lower the married male unemployment rate to 2 percent as quickly as it can. Once the married male rate is down to 2 percent and that is a figure which is higher than it was in the period of labor shortage in the mid-1960's, two structural improvements would have to be in place. By any method we can now use, 2 percent would be a situation which would be reasonably normal, in which labor shortages would be very peculiar and limited.

That would be goal No. 1 and until that married male unemployment rate is down to 2 percent, and I wish the criterion could be defined in terms of a comparable measure for women as well—

Chairman PROXMIRE. Again, in view of the fact the other members are not here, I am going to interrupt you from time to time. It seems to me, Mr. Eckstein, you put a tremendous amount of emphasis on a statistical relationship between the married male unemployment rate and these other unemployment rates. The experience in World War II, which we are referring to, the experience in Europe, as I understand it, is that once you get unemployment down below a certain level, employers change their employment policies; they hire minority groups in much greater numbers; they hire women; they hire teenagers, and they make an effort to train them. They do so because it is in their economic interest to do it and you have a far greater involvement of groups that have been heavily unemployed in the economy and a rapidly diminishing relationship between the unemployment rate of married males and the unemployment rate of others.

That was the experience of World War II; was it not?

Mr. ECKSTEIN. That is all very true and, of course, we have to be leery of interim targets. The last one was followed for 12 years and then we tended to retreat from it.

All I am saying is this: Until the married male rate is down to 2 percent there really is no argument. I don't think any of the structural considerations which will loom so large in this hearing really come into play, at least for people who are concerned with the employment target,

until you are to that point. And that point, with present policies, is 1½ or 2 years away at least.

Now, on the structural side, let me only add one point—one or two points—to the detailed study of Professor Feldstein.

Youth unemployment looks to be the toughest part of the problem. Their unemployment rates are astronomical as even these summary tables show. The case that impressed me and the only one that I really know about, in a realistic sense, is the West German case. In West Germany the youth unemployment rate is extremely low; all rates are low but the youth rate is also extremely low. Ours is 13 percent; theirs is on the order of 1 or 2 percent. They do not have the youth unemployment problem that we have and I think that the reasons are fairly clear:

First, West Germany has a very elaborate apprenticeship system which affects a reasonably large fraction of all the young workers who leave school and begin to enter the labor force. Apprenticeship means they are taken under the wing of a company. They are not well paid, they really are still like in school; they still live at home; they spend 3 or 4 years and at the end of the apprenticeship they have a trade; at the end of an apprenticeship they typically stay with a firm. With a good wage, they are then able to raise a family and escape the insecurity that our young people have.

Chairman PROXMIRE. This sounds as if the overwhelming proportion of young people are in blue-collar trades. Isn't there a great deal of employment? Aren't there a far greater number of them in service and other industries where an apprenticeship program is unnecessary, because the skill is not that great?

Mr. ECKSTEIN. Well, in the white-collar areas such as banking and fields like that, or retailing, they have something that resembles an apprenticeship system. It is typical for a bank to hire a bunch of young people, not to pay them very much in the beginning and teach them something. But in the service jobs, Germany has a peculiar situation. There are 1.3 million foreign workers who are typically in these service trades. Germany does so well for its own people partly by leaving the better blue-collar jobs with the real promotion potential for its own people. And, of course, the overall labor shortage means also the employers have an incentive to do their own training. Germany is also a less mobile society in which more people are content to go into blue-collar occupations and see this as a realistic way to progress.

Well, one other issue that I want to raise and then I will stop: That is the question of inflation.

The United States has a problem on inflation, no doubt about it. Some of it is the history, some of it is concentration of market power, protectionism, and all the rest.

I think for the purpose of this employment-focused hearing, the conclusion I would draw is this: We have a control program; it has its problems; it has some benefits. While unemployment is excessive by any reasonable definition, it is the job of the controls program to neutralize the bad effects of market power and protectionism. I would say we should scrap the controls at such a rate as we can see that the structural problems of market power and protectionism are solved and as the inflationary expectations generated in recent years abate.

I don't think we need the current level of controls forever. I don't believe the tradeoff is as bad as it has been in recent years, but one of the functions of the control apparatus—

Chairman PROXMIRE. You say then that the elimination of wage and price controls would depend on the solution to our structural problems. If that is the case, why shouldn't the controls be confined to those areas where there are clear structural rigidities such as in the health service area and in the construction area, and maybe in a few other areas with limited resources, maybe in lumber and so forth?

Mr. ECKSTEIN. That would be a very logical evolution of the control program.

Chairman PROXMIRE. If we move to a fuller level of utilization of our resources, which we all hope we can do, it is going to be harder and harder to get rid of controls. The time to do it is now; they expire April 30, not to renew them, but to change them to confine them more to those areas where you have the structural problem.

Mr. ECKSTEIN. I don't think we are ready to scrap the present controls. Our progress on inflation is not yet sufficient to make me feel confident that the end of controls would not lead to a renewed outbreak.

Chairman PROXMIRE. You are not confident with 5.5 percent unemployment; you are never going to do that.

Mr. ECKSTEIN. It is not the unemployment that is the problem. It is the fact that inflation itself, despite a few good months here and there, still has the wage-price spiral in a state that it is still self-perpetuating. Until we have established a consumer price record which makes it reasonable to go to labor and, say, the wage settlements should be—

Chairman PROXMIRE. I apologize for interrupting you but is it not true that on the average wage increases have been less, and significantly less, than the guidelines so that any effect of restraints on wages seems to be overwhelmed by the economic facts in holding wages down. As I understand it, the wage increases are around 4.5 percent.

Mr. ECKSTEIN. Well, there are figures that—

Chairman PROXMIRE. Guidelines, 5.5 percent.

Mr. ECKSTEIN. Some show that it is as low as that; others show that it is somewhat higher. This, of course, is a very quiet time for wages—I mean, the real testing on wages comes next year with the major calendar of new negotiations and, of course, that outcome will depend upon the price record that prevails going into them.

I think labor by this time thoroughly appreciates the effect of inflation on their pocketbooks and justly aims to get full compensation for the past inflation.

So I am leery of scrapping controls, even the rather general controls, at this particular juncture, although I recognize that you cannot keep them for very long because they do break down of their own accord; and I certainly agree with you that the logical evolution of controls is to confine them to the areas where the real structural problems are.

There will be some dispute about what that is. I have taken up too much of the committee's time, so let me ask Professor Feldstein to proceed.

(The prepared statement of Mr. Eckstein follows:)

PREPARED STATEMENT OF OTTO ECKSTEIN

THE NATION'S EMPLOYMENT TARGETS AND THE CHALLENGE TO ECONOMIC POLICY

Macroeconomic policy alone can barely bring us to a sustainable 4% unemployment rate, much less to any improvement from that 12 year-old "interim" target. Yet, any retreat to more conservative, unemployment targets of 4.5 or 5% has serious social implications. It would be foolish to over-stimulate demand to reach an unemployment rate far below 4%. It would be even more foolish to abandon the attempt to improve the economic structure so that such goals can be reached.

Professor Feldstein's extensive econometric study shows the basic character of the structural unemployment problem. My own task is this: (1) To identify the remaining potential of improving the unemployment situation through demand management and to assess the current economic outlook; (2) To show what difference the macro economy makes to the composition of unemployment in light of our employment targets; (3) To identify the magnitude of the task of structural reform that would make the achievement of these goals possible; and (4) To attempt to define new employment targets for macro policy as well as the targets for labor market policies.

THE POTENTIAL OF DEMAND MANAGEMENT AND THE CURRENT OUTLOOK

In September, 1972, the national unemployment rate was 5.5%, a half point improvement over the trough value of the recession. While everyone is pleased with the general progress of the economy, the unemployment picture is only at the beginning of its improvement. Even with an employment gain of 2.4 million over the last twelve months, unemployment has not dropped quickly. The labor force grew by 2.2 million, as workers who had been pushed out of the labor force by lack of job opportunity began to return. In the goods producing industries particularly, employers have been cautious. They still do not trust the solidity of the recovery and are preferring to use overtime as opposed to the hiring of new workers.

Economic policy has been expansionary, with major tax reductions and large expenditure increases. Monetary policy has raised bank reserves at an adequate rate. The economy has recovered. But how long will it be allowed to go on? This is the central question in the economic outlook.

A continuation of present fiscal and monetary policies would let the economy continue to expand as far as the trained eye can see. TABLE 1 shows the history and the current prospects for the growth of real GNP, the national unemployment rate and the unemployment rate for married males, an indicator of potential labor shortages. It can be seen that even with continued expansionary policies, the unemployment rate only drifts lower, reaching 4.5% no sooner than late 1974 or 1975. The married male unemployment rate which was 1.5% in the late 1960's and was 2.8% in September, would drop to 2.0% in 1975, a situation which could still not be described as one of overfull employment even with the present structural policies.

The reasons for the slowness of the improvement in unemployment are not far to seek. We are in a period of exceptionally rapid labor force growth. The number of people in the working age brackets and the long-run trend of increasing participation of women alone increases the number of available workers by 1 $\frac{3}{4}$ million a year over the next 5 years. Productivity per worker is advancing by 3% per year as the rate of investment for modernization remains high. The military services, which have already shrunk by over 1 million people may shrink a little further, and in any event will not absorb any of the growing labor force.

The economy itself shows no signs of generating an exceptionally strong burst of growth for any extended period. At the moment, virtually all sectors of demand are advancing in a healthy, balanced way. But the housing sector is likely to falter within the next year or two. Hopefully, recovery of our export surplus will at least partly substitute for this weakening demand component. Business investment in plant and equipment is advancing well, though the real rate of advance is moderate by historical business cycle standards. The behavior of inventories gives every sign of continuing in an exceptionally modest way.

The structural unemployment that would accompany this growth pattern is also described in TABLE 1. The unemployment rate for adult white males would

drop below 3%, still far above the levels reached in the second half of the 1960's, but lower than in the period of slow growth in the late 50's and early 60's.

The unemployment rate of adult male blacks would drop to 5%, again higher than in the second half of the 1960's, but a relative improvement in the job experience of this group which has suffered from much higher unemployment even in good times in previous decades. Professor Feldstein shows, however, the participation rate of this group, i.e., the fraction in the labor force, has dropped considerably.

The unemployment rates for adult white women show a pattern of improvement which is slightly worse than the pattern for white men. The projected unemployment rate of 4.2% in 1975 is much higher than the experience of the second half of the 1960's, but lower than in the slow growth years of the late 50's and early 60's. The number of white women in the labor force has risen very sharply as more and more wives seek work. The ability of the economy to absorb this number without a deterioration in the relative structure of unemployment of this group is a very considerable achievement. On the other hand, it must also be recorded that there has been no improvement whatsoever in the relative wages of white women as compared to white men as shown in the study prepared for this Committee by Professor Thurow.

The unemployment rate for black adult women shows a somewhat more favorable path than for black adult men. It is projected to drop to 6.3%, a figure not much higher than in the second half of the 1960's, and substantially better than in the earlier period of slow growth.

The job prospects for teenage workers remain poor. The unemployment rate for white teenagers is not likely to drop below 13%, a substantially higher rate than prevailed in the 1950's. The unemployment rate for black teenagers stays close to 30%.

THE STRUCTURE OF UNEMPLOYMENT UNDER CONSERVATIVE ECONOMIC POLICIES

There is much talk of a sudden swing toward more conservative economic policies. While I believe it is impossible to achieve the proposed \$250 billion budget ceiling without extensive gimmickry, the Administration certainly could take several billion off the estimates of military spending and could cut back on various civilian programs, particularly the older grants-in-aid. Furthermore, the Federal Reserve System could decide to reduce the rate of increase of bank reserves available for private deposits.

The resulting impact of conservative policies on the structure of unemployment can be estimated by alternative simulation with the DRI model. TABLE 3 shows the results of a budget reduction of \$5 billion in fiscal 1973 and \$10 billion in fiscal 1974-75 from our base line forecast, and a reduction in the rate of expansion of bank reserves from 7% to 5%. As a consequence, unemployment stays above 5% throughout the forecast period. The unemployment of every group is higher, of course. The adult rates show only a small improvement over the recession levels. The teenage rates also remain somewhat higher, but it is evident that the major causes for the poor teenage unemployment experience are on the structural side.

The unemployment rates only show the fraction of individuals among the active job seekers who are unable to find a job. They do not show the attrition in the labor force and consequently understate the total impact on employment. Of all the people likely to abandon the labor force and go on the welfare rolls the unemployed are a particularly high risk category. Already without a job and trying to make ends meet with some government help from unemployment insurance, it is only one further step to stop the job search and go on welfare. Millions of people go through the experience of unemployment each year and thus are exposed to this risk. When the job situation is strong, unemployment is brief, confidence by the job seeker remains high. With more conservative policies, not only are more people exposed to unemployment, but they go through it for a larger number of weeks and with a lesser degree of confidence of becoming successfully reemployed.

THE STRUCTURE OF UNEMPLOYMENT WITH A STRONGER RECOVERY

To show both the possibilities and the limitations of the benefits of strong macro performance on the structure of unemployment, a simulation has been run in which unemployment drops more quickly and to a lower level over the next

few years. Such a development could originate with a stronger private economy or more expansionary fiscal and monetary policies.

As table 4 shows, all groups experience lower unemployment rates although there are large remaining structural problems. The teenage unemployment rate remains astronomical. The rates for black men and women remain substantially higher than the corresponding rates for whites. And the rates for women generally remain higher than for comparable groups of men.

STRUCTURAL IMPROVEMENTS NEEDED TO REACH A NATIONAL 2 PERCENT UNEMPLOYMENT RATE

This Committee has rightfully focused our attention on the long-run task of achieving the kinds of full employment goals that other advanced countries seem able to reach. What is there about the American economy that seems to require us to deliberately seek to maintain unemployment rates of 4 to 5%, rates which we know produce hardships for millions of families and which we understand to disrupt the work ethic and stable family structure?

I think the answer lies essentially in two areas: first, our economic structure is inferior in generating so great a dispersion of unemployment rates for different groups. This is the upshot of the findings of Feldstein, Hall, Perry, Gordon and others. Second, the economy itself has an inflationary bias at any reasonably defined level of unemployment and the United States is less tolerant of inflation than other countries. Let me take up these issues in turn.

STRUCTURAL UNEMPLOYMENT

Apparently the American economy functions well when the unemployment rate of married males is about 2%, or perhaps even if it is even a bit less. But under contemporary conditions a married male rate of 2% coincides with a national unemployment rate of 4.5%. Why are the rates of the other groups so much higher? Is this an inevitability?

Professor Feldstein has used the theory of human investment to help explain the high rates among teenagers. Let me add only these observations: in the major European countries the teenage unemployment rate is not dramatically higher than for other workers. In one way or another, these societies have found an institutional structure which guides the young person from school-leaving to a job in which he or she is content to build his/her work career. In the United States, on the other hand, as the Feldstein, Perry and Hall data show, the first several years after school-leaving are marked by long periods of job search, dissatisfaction with the initial jobs and short periods of work experience interspersed with unemployment. The typical youngster does not achieve job stability until he is well into his twenties.

What is different in other countries? In Western Germany, where there is virtually no unemployment in any demographic group, the secret appears to lie in the prevalence of the apprenticeship system which applies to a very large fraction of all occupations. The typical youngster works as an apprentice for several years. During this period he receives little more than pocket money and lives at home with his parents. He takes some formal schoolwork which is necessary to the particular trade. He is normally not expected to marry, and he will only have a car if his parents can provide it. He has to pass his apprenticeship tests before being accepted as a recognized member of his planned occupation. If a student has made the wrong choice, he is still able to switch to another program. Once apprenticeship is completed, he earns a regular wage which is sufficient to begin a family. In the fully employed society of West Germany, an individual then enjoys a degree of job security which is rarely found in the United States for blue-collar workers. No doubt, there are many reasons why the system succeeds in West Germany. Professor Feldstein has already developed at length the reasoning of the theory of private investment in human beings: it only pays employers to invest in on-the-job training of inexperienced workers if there is a reasonable probability that the worker will stay with the firm and if the total cost, including the wage paid to the trainee, does not exceed the value of the product created by him. Besides this factor, the West German economy also operates in a condition of permanent labor shortage. With unemployment at 0.5% and 1.3 million foreign workers filling many of the unskilled

jobs, it is to the self-interest of employers to create their own skilled labor force.

No doubt there are important differences in the comparable systems in France, England, Japan and other advanced Western countries. It would be good for the United States to make a major study of other systems, since clearly our own institutions are a failure.

The greater geographic, occupational and social mobility in the United States helps to produce a high teenage unemployment rate. Universal ownership of a car and the availability of casual jobs make it more possible for youngsters to experiment with one occupation or another. The looser class structure, in which a college education is a realistic possibility for the majority of all youngsters, also induces job turnover which produces high unemployment rates. Lack of respect for blue collar work creates the desire to try various other alternatives before settling into a well-paid, highly secure blue collar occupation.

In the last ten years, the Federal government has launched a number of programs designed to ameliorate the teenage unemployment problem. Such programs as the Job Corps and Neighborhood Youth Corps have affected millions of youngsters. These programs have mainly been aimed at the disadvantaged, where the need is greatest, but where the chance of success is limited so long as the society has not solved the problem for youngsters with fewer disadvantages. The Federal efforts have not seriously attempted to create a permanent institutional structure that would provide a successful transition for the typical youngster from leaving school to settling into a satisfactory occupation. Vocational education generally remains a backward field in this country.

The unemployment rates of blacks and other disadvantaged groups should benefit from the Equal Opportunity policies adopted in the 1960's and increased investment in human resources. If the United States is to achieve full employment targets comparable to other advanced countries, this process must be quickened. At the moment there is a considerable risk that the mighty force of the Federal government is being called off and that our progress will slow down.

In the case of women, the job problem is less a question of unemployment as of opportunities for promotion and of equal wages. Women are traditionally more willing to take whatever jobs they can get and so the inequality of opportunity has mainly manifested itself in wage differentials rather than employment rates. The current demands of the women's movement for equal pay, maternity leaves, access to all types of jobs, and for an end to discrimination in promotion come amazingly late in our historical process. As these demands are realized, the differentials in the unemployment rates can also be expected to shrink.

THE INFLATIONARY BIAS OF THE ECONOMY

It was a major finding of my recent study (with Roger Brinner) for this Committee that the long-run trade-off between unemployment and inflation is inadequate. Apparently, the wage-price spiral is turned loose when the national unemployment rate reaches the 4 to 4.5% area, and even with somewhat higher unemployment there is a mild degree of inflation. This inflationary bias, which would not exist if the economy were truly competitive, originates in the concentrations of market power in the hands of large companies and unions and in a long list of government policies which work hand-in-glove with producers interests, including the quotas and tariffs to keep out foreign competition, agricultural price-support policies, cost-plus procurement, and an anti-trust policy which is timid, erratic, and politicized.

It is not the purpose of the present study to dwell on these warts on the face of our economic system. What is critical is this: whatever the sources of this inflationary bias may be—private monopoly or public protectionism—it should not be allowed to defeat our progress toward achieving our full employment goals. The President wisely imposed a set of wage and price controls a year ago. These controls serve to separate the inflation and unemployment problems. This separation should remain effective as long as the economy remains short of excessive aggregate demand. As the cost distortions and price expectations engendered during the Vietnam war become weaker, the degree of inflationary bias of the economy will decline of its own accord. The extent and severity of the price control system that is needed to allow the country to move toward full prosperity may therefore weaken. But so long as problems of inflationary bias exist in the economy short of full-employment, some need for controls remains. Thus, from

the point of view of reaching over our employment goals, the controls should be dismantled no faster than the improvement of expectations and of economic structure.

THE GOALS OF EMPLOYMENT POLICY

The analyses presented here today imply a set of policy prescriptions which respond to the original questions asked by this Committee. These policy conclusions are simple, and can, I believe, command the support of a broad range of opinion. They are:

1. It is the task of demand management policies to promote the expansion of the aggregate economy at least until the unemployment rate of married males has dropped to 2.0%. Even with the current demand policies, it will take several years to reach this point. Any early, sharp swing in fiscal and monetary policies toward restraint would stop the recovery far short of this interim goal.

2. It is the task of structural policies to lower the unemployment rates of groups other than married males from their current levels toward 2%, and ultimately to reach 2%. As a nation we should draw on the experience of other countries. We should reexamine the already costly manpower policies and devise programs which will improve our labor market structure so that a 2% unemployment rate for inexperienced workers, for women and for minority workers becomes a realistic and attainable goal.

The marco element in these policies is easy to pursue. All that is required is a set of budget and Federal Reserve policies that do not get in the way of expansion. The difficulty lies on the structural side. It will take political courage and great skill in institution-building to bring the United States up to the unemployment standards already reached by Western Europe and Japan.

While these tasks are difficult, the rewards are enormous. We saw in the period of slow growth of the 50's and early 1960's that 5% unemployment is not a socially desirable condition. Unemployment does put people on welfare; it creates a climate of uncertainty for the worker and his union which destroys the progressive attitude toward technological change and efficiency which has created our historical success. There is no need for a new defeatism on our employment goals and I commend your Committee for reminding us that it is the challenge of economic policy to reach for better goals as an expression of our national purpose.

TABLE 1.—THE ECONOMY AND THE CHANGING STRUCTURE OF UNEMPLOYMENT

[Percent]

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Growth of real GNP.....	1.5	-1.1	6.4	2.5	1.9	6.6	4.0	5.4	6.3	6.5	2.6	4.7	2.7	-0.5	2.7	6.4	5.8	4.7	4.2
Rates of unemployment:																			
All civilian workers.....	4.3	6.8	5.5	5.5	6.7	5.6	5.6	5.2	4.5	3.8	3.9	3.6	3.5	5.0	6.0	5.5	5.0	4.9	4.5
Married males.....	2.8	5.1	3.6	3.8	4.6	3.6	3.3	2.8	2.3	1.9	1.8	1.6	1.5	2.6	3.2	2.8	2.4	2.2	2.0
Workers 20 years and over:																			
Male white.....	3.2	5.6	4.0	4.2	5.1	4.0	3.9	3.4	2.9	2.2	2.1	2.0	1.9	3.3	4.0	3.6	3.1	3.0	2.7
Male nonwhite.....	7.6	12.8	10.4	9.6	11.7	10.0	9.1	7.6	5.9	4.9	4.3	3.9	3.7	5.7	7.3	6.6	5.6	5.3	5.0
Female white.....	3.8	5.6	4.7	4.6	5.7	4.7	4.8	4.6	4.0	3.3	3.8	3.4	3.4	4.5	5.3	4.8	4.4	4.4	4.2
Female nonwhite.....	6.4	9.5	8.3	8.3	10.6	9.6	9.4	9.0	7.4	6.6	7.2	6.3	5.8	6.9	8.7	8.1	7.0	6.7	6.3
Workers 16 to 19 years:																			
White.....	10.6	14.4	13.2	13.5	15.3	13.4	15.5	14.9	13.5	11.1	11.0	10.9	10.7	13.6	15.2	14.8	14.3	14.1	13.8
Nonwhite.....	19.0	27.4	26.3	24.5	27.7	25.6	30.2	27.1	26.6	25.4	26.5	24.8	24.0	28.9	31.8	32.8	30.2	29.8	28.7

TABLE 2.—THE STRUCTURE OF UNEMPLOYMENT IN A STRONGER ECONOMY

	[Percent]				
	1971	1972	1973	1974	1975
Growth of real GNP.....	2.7	6.4	7.9	4.6	4.2
Rates of unemployment:					
All civilian workers.....	6.0	5.5	4.4	4.2	3.9
Married males.....	3.2	2.8	1.9	1.6	1.5
Workers 20 years and over:					
Male white.....	4.0	3.6	2.6	2.4	2.2
Male nonwhite.....	7.3	6.6	4.9	4.3	4.1
Female white.....	5.3	4.8	4.0	3.8	3.7
Female nonwhite.....	8.7	8.1	5.8	5.2	4.7
Workers 16 to 19 years:					
White.....	15.2	14.8	13.2	12.7	11.8
Nonwhite.....	31.8	32.8	28.5	27.8	26.8

TABLE 3.—THE STRUCTURE OF UNEMPLOYMENT UNDER MORE CONSERVATIVE POLICIES

	[Percent]				
	1971	1972	1973	1974	1975
Growth of real GNP.....	2.7	6.4	3.6	4.8	4.9
Rates of unemployment:					
All civilian workers.....	6.0	5.5	5.6	5.5	5.0
Married males.....	3.2	2.8	2.8	2.8	2.4
Workers 20 years and over:					
Male white.....	4.0	3.6	3.6	3.6	3.0
Male nonwhite.....	7.3	6.6	6.4	6.3	5.7
Female white.....	5.3	4.8	4.9	4.9	4.6
Female nonwhite.....	8.7	8.1	7.8	7.9	7.2
Workers 16 to 19 years:					
White.....	15.2	14.8	15.2	15.2	14.2
Nonwhite.....	31.8	32.8	31.8	31.7	30.0

Chairman PROXMIRE. Professor Feldstein, please proceed.

**STATEMENT OF MARTIN S. FELDSTEIN, PROFESSOR OF ECONOMICS,
HARVARD UNIVERSITY, AND ECONOMIC CONSULTANT, DATA
RESOURCES, INC.**

Mr. FELDSTEIN. Thank you.

As you know, at the committee's request I prepared a rather long study that examines the sources of current unemployment and the prospects for achieving a substantially lower rate of unemployment.

Chairman PROXMIRE. That is an excellent study and without objection, the entire study will be put in the record.¹

Mr. FELDSTEIN. This morning I want to concentrate on reviewing the general conclusions and the policy recommendations of that study. The specific details, the caveats, and the technical analyses are in the study itself.

Let me first summarize my basic conclusions:

I believe that we probably can lower the permanent unemployment rate to a level substantially below the average of the postwar period without inducing an unacceptable rate of inflation. An average unemployment rate significantly less than 3 percent for those seeking permanent full-time employment, and possibly close to 2 percent, is a realistic goal for the next decade.

¹ The study referred to is printed separately under the title "Lowering the Permanent Rate of Unemployment."

Second, I believe that the economy—

Chairman PROXMIRE. Right there, could you translate that into what that means as far as the unemployment rate would be? You are not talking about a 2 percent unemployment. You say for those seeking permanent employment.

Mr. FELDSTEIN. Permanent, full-time employment.

Chairman PROXMIRE. What does that mean? This would mean about 3.5 percent permanent unemployment rate, 4 percent or what level?

Mr. FELDSTEIN. I am not exactly sure but 3 percent wouldn't translate much above 3.5.

Chairman PROXMIRE. And that would translate into 2.5 percent?

Mr. FELDSTEIN. Yes, two and a half. We are essentially talking about teenagers and others looking for part-time work.

Second, I believe the economy is not likely to achieve such a goal or indeed to perform any better than it did in the past two decades without significant changes in employment policy.

Third, and this is the point you have already been discussing with Professor Eckstein, expansionary macroeconomic policy alone cannot be relied upon to achieve the desired reduction in unemployment. Any possible increase in aggregate demand that does not have unacceptable effects on the rate of inflation would leave a high residue of unemployment.

Chairman PROXMIRE. Are you assuming there are no controls, or the controls are too weak? We had a colossal increase in demand, as you know, in World War II; we had little or no inflation until after the controls were dropped, and we did get unemployment down sharply.

Mr. FELDSTEIN. If you have sufficiently strong controls, if you are willing to really control all prices very carefully, to prevent black-markets from developing, both on the labor side and in the goods markets, then you can continue to increase demand.

My basic point is simply that you would have such pressure on demand that those controls would have to be very tight indeed and that if controls begin to slacken off, or even are maintained at their current level, trying to drive the unemployment rate for prime age males down below 1.5 percent is not a feasible way of dealing with our overall unemployment problem. Even at 1.5 percent for prime age males, the overall unemployment rate would remain rather high—3.5 percent or above.

Chairman PROXMIRE. What is wrong with the World War II experience, or the German experience, or the Japanese experience, or the French experience, or the Swiss or Italian—everybody else except us?

Mr. FELDSTEIN. I would be happy to answer that now or come back to it later, whichever you prefer.

Chairman PROXMIRE. No; all right, that is what concerns me about your study; it was a study showing a great deal of professional expertise, but what concerned me was because you looked into the data of the 1960's; you didn't seem to come to grips with the failure, the fundamental failure of the 1960's in this country in providing jobs.

Mr. FELDSTEIN. It actually looked at "good" years in the 1950's as

well as "bad" years. Let me give a short answer to the issues you raised about the Germans, the Japanese, and the British.

One explanation is the immigrant worker. In Sweden 5 percent of the labor force consist of temporary immigrants. The same thing in Germany. Migrants leave when unemployment rates get high. They lose their jobs, don't have their families with them, often are not entitled to collect unemployment compensation and other social benefits. They leave the country to go back to their homes.

Chairman PROXMIRE. That answer does not satisfy me at all because all these other countries have lower migrant unemployment. Where do they come from?

Mr. FELDSTEIN. Italy, Yugoslavia, Greece, Spain—these are the major sources of migrant workers.

Chairman PROXMIRE. Even Italy has a better record than we have.

Mr. FELDSTEIN. I am not certain that that is true. Italy also has a much larger agricultural sector. There is a tendency for people to return to agriculture when unemployment is high and not to leave the farms as rapidly during those times. I think another part of the "short answer" is the problem of youth. I think that a substantial fraction, about a third of our unemployment rate could be cut—from 4.5 percent to 3 percent—if we could bring youth unemployment down to the level of our adult population. That is essentially what England has done, what Germany has done, and what other countries have done. They have done it by a combination of policies in dealing with school leavers, and with young workers that we have not adopted. I will come back to this in detail as I go along.

My fourth conclusion, as I have just been saying, is that lowering the overall rate of unemployment will require new types of policies aimed at increasing the stability of employment among young workers and at eliminating unnecessary seasonal and cyclical fluctuations in labor demand. Again, our economy has much more of this type of fluctuating demand than the other countries. It is not just higher level of unemployment but that we fluctuate more. I think I can give some reasons for that as we go along. Finally, we must increase the speed with which the unemployed return to work.

Let me stress that by lowering the unemployment rate through structural changes we should be able to do it without creating inflationary pressures.

Most macroeconomic analyses of unemployment are based on ideas about the causes of structural unemployment that are now inappropriate and out of date. The conventional view of postwar unemployment might be described as follows:

The growth of demand for goods and services does not always keep pace with the expansion of the labor force and the rise in output per man. Firms therefore lay off employees and fail to hire new members of the labor force at a sufficient rate. The result is a pool of potential workers who are unable to find jobs. Only policies to increase the growth of demand can create the jobs needed to absorb the unemployed.

This picture of hard-core unemployed workers who are not able to find jobs is an inaccurate description of our economy and a misleading basis for policy. A more accurate description is an active labor market in which almost everyone who is out of work can find his usual type of

job in a relatively short time. The problem is not that these jobs are unavailable but that they are unattractive. Much of the unemployment and even more of the lost manpower occurs among individuals who find that the available jobs are neither appealing in themselves nor rewarding as pathways to better jobs in the future. For such individuals, job attachment is weak, quitting is common, and periods without work or active job seeking are frequent. The major problem to be dealt with is not a chronic aggregate shortage of jobs but the instability of individual employment. Decreasing the overall rate of unemployment requires not merely more jobs, but new incentives to encourage those who are out of work to seek employment more actively, and those who are employed to remain at work. As I shall explain in a moment, an important part of these incentives is a change in the kind of jobs that are available.

I think it is difficult to replace our old notions about demand determined unemployment by this new view. Let me therefore describe briefly, but in more detail, some of the characteristics of American unemployment during the past decade.

First, the typical duration of unemployment is quite short. Even in a year like 1971, with a very high unemployment rate, 54 percent of those unemployed had been out of work for less than 5 weeks. Second, job losses account for less than half of total unemployment. In 1971 only 46 percent of the unemployed had lost their previous jobs. The remainder are those who voluntarily left their last jobs, are reentering the labor force or never worked before.

Third, the turnover of jobs is extremely high. Data collected from manufacturing establishments show that total accessions and separations have each exceeded 4 percent of the labor force per month since 1960. Moreover, the number of quits has consistently exceeded layoffs during the past 5 years. Even with the high unemployment rate of 1971, more workers quit manufacturing jobs than were laid off.

This structure of unemployment implies that the long-run unemployment rate probably cannot be reduced significantly below 4 percent by expansionary fiscal and monetary policies. A study of alternative policy simulations with an econometric model developed by Data Resources indicates that the overall rate of unemployment would remain high, even in extremely tight labor markets that pushed the unemployment rate for mature men below historic lows.

These conclusions are also supported by a detailed statistical examination of the relation between the unemployment rate for mature men and the unemployment rates in other demographic groups. As I mentioned before, if increases in aggregate demand reduced the unemployment rate for men over 25 years old to only 1.5 percent—lower than we have ever seen in the postwar period—the rate for teenagers would probably remain over 10 percent, and the overall rate for the economy 3.5 percent. In short, while there is a serious cyclic excess of unemployment today, the long-run problem is not a lack of adequate demand.

Although the potential efficacy of macroeconomic policy is therefore very limited, the prospect for lowering unemployment without raising inflation by using specific employment policies is much more optimistic. In particular, substantial progress should be possible in

dealing with the special problems of young workers who contribute so much to our unemployment.

In 1971, male teenagers had an official unemployment rate of 16.7 percent, more than three times the rate for adults. In contrast, the teenage unemployment rate in Britain is absolutely very low and less than 50 percent higher than the adult rate. In the early 1960's, it was around 2.5 percent for teenagers and people in their early twenties; there was nothing like the sharp age gradient that we have in America.

Youth unemployment is not primarily due to inadequate demand. There are two main sources of the chronic high unemployment in this age range: (1) unnecessarily slow absorption of new entrants, and (2) low job attachment among those at work. Because of the slow absorption, a very significant part of the unemployment of young workers is among new entrants to the labor force, and others who are seeking their first full-time job. Among teenagers, new entrants contributed 6.7 percent to the unemployment rate; new entrants therefore accounted for 40 percent of total teenage unemployment.

In the study I suggest that a special Youth Employment Service, firmly linked to the schools, and primarily concerned with the transition from school to permanent employment, could have a major impact on unemployment in this group. I believe that the use of such a placement service has been of great value in Britain and in Germany.

The problem of unstable employment among young workers is both more serious and more difficult to solve. Much of the unemployment among experienced young workers occurs not because jobs are unavailable, but because they are unattractive. For many young workers, the available entry level jobs are also deadend jobs. They offer neither the valuable training nor opportunities for significant advancement within the firm. Since employers have made no investment—

Chairman PROXMIRE. Do you make that assertion based on any kind of statistical support? Have you studied want ads or how do you determine the relationship between job vacancies on the one hand, and those seeking jobs on the other, and make the assertion that jobs are available but not attractive?

Mr. FELDSTEIN. The average time that it takes people to get back into work, to find a job, is very short. If one looks at those who are out of the labor force who respond to the question, "Why are you not actively seeking a job?" Very few of them—less than 10 percent—say that they think they couldn't find a job if they looked.

Chairman PROXMIRE. That does not prove it.

Mr. FELDSTEIN. It does not prove it.

Chairman PROXMIRE. The fact is we still have a shockingly high percentage of those who say they are looking for work, and have looked for work in the past week but who have been unable to find it.

Mr. FELDSTEIN. One of the examples that I give in the report provides some direct statistical evidence. I would say most of the evidence in this area is based on interviews, surveys with firms and survey of employment services. But one of the statistical facts that I give in the report, is concerned with one of the programs in Boston a few years ago. I don't remember the figures exactly offhand but, if I remember correctly, they found that 70 percent of the referrals were offered jobs,

that of these, half turned down the work, and that of those who took the work, half had quit or been laid off within a month.

Chairman PROXMIRE. Now, all this would suggest to me there is something wrong with the economic system. If those jobs are not filled it means they are unattractive or difficult or dirty; and it especially means that they just don't offer any compensation to make up for it.

Mr. FELDSTEIN. I agree. I would want to say one reason why I think, particularly for young people, we can deal with this—

Chairman PROXMIRE. Let me pursue this further. You know in the census study that was released a few days ago, the State which has the highest number of people employed as maids is Mississippi, the poorest State in the Union. New York has one of the lowest percentage per capita. What does that tell us? That tells us that the people of New York—

Mr. FELDSTEIN. The people who would be maids in Mississippi can find better jobs in New York.

Chairman PROXMIRE. Exactly. It tells us that but it also tells us, it seems to me, that the people in New York who might want maids would have to pay so much that they don't want to pay that much to get somebody to come in and do their dirty work for them so they don't hire maids. They do their own maid work and the jobs disappear.

In Mississippi, the jobs are taken because people are so poor.

That means there is a different dimension of unemployment when we say that jobs are unattractive. You could also say the jobs aren't filled because the jobs simply don't pay enough, and that they are in some cases not sufficiently economically viable to survive if we reduce poverty.

Mr. FELDSTEIN. But the key to raising that pay is to change the skills of those young workers and I think that, as I discussed at some length in the report, our current system fails to do that.

I think there is another problem particularly with young workers that for many of them full-time employment is not what they really want, that with today's high wages, even for the entry level jobs, they would rather have more leisure than they can get from a full-time job. If the content of the job or the opportunities for training and advancement don't outweigh this, their job attachment is weak and they are liable to quit.

Chairman PROXMIRE. Are you telling us if they were trained you still would not need increased demand? You are telling us, on the one hand, we don't have a demand problem?

Mr. FELDSTEIN. I think what we need is supportive demand. I think as more workers are seeking work, we will have to maintain macro-economic support for that. Without doing anything on the supply side, without doing anything to change the incentives of these workers and the kind of jobs they can get, but simply putting pressure on the economy, will not have much of an effect on the unemployment rate.

Chairman PROXMIRE. It had a dramatic effect in World War II.

Mr. FELDSTEIN. Yes, I think World War II—

Chairman PROXMIRE. I think it should have the same effect now. What I am saying is that the overwhelming amount of training has

been done by the private employer when he needed help. He would go out and he would set up a training program, if necessary, because the market for his product, the demand was that inviting. If the demand for his goods are sufficient, then he will be in a position where he can pay more so that the jobs will be more attractive; he would be in position where he would set up a training program although at the present time the demand is not enough to warrant that kind of extraordinary effort.

Mr. FELDSTEIN. He has to be able to pass on the extra costs of that training in the form of higher prices.

Chairman PROXMIRE. That may well be the case, or his increased volume may lower unit costs and make the price increase unnecessary.

Mr. FELDSTEIN. Now, the military demand during the war made that possible and the tremendous excess civilian demand with rationing held down the costs.

Chairman PROXMIRE. Are you taking the position that you can't justify increasing employment when it might result in higher prices?

Mr. FELDSTEIN. No; I am not saying that. I am saying that I think we can achieve the same goal in a much more direct way, that to try to tighten the economy so much in order to deal with a problem which is really a problem of incentives and structure, and training, is using a very crude tool to do a very specific job.

Chairman PROXMIRE. I think the smoothest and most efficient tool we have is the market system, including the market system that would employ people.

Mr. FELDSTEIN. Yes.

Chairman PROXMIRE. You see the idea in back of my mind, if we set up a system of manpower training or youth training, or something of that kind, and then expect when we train a certain number of people as plumbers or aircraft workers or mechanics, that then somehow the jobs will be there in sufficient quantities, it seems to me it is a far less efficient method than simply increasing demand so that the employer will employ his own training as we have done in the past when we have had a diminution in unemployment.

Mr. FELDSTEIN. But I think if you look in detail at the problem of youth unemployment, it is not that there are not jobs for them, it is not that if you could tighten up the economy that somehow they would get hired. Why would a firm hire and train a young worker who could then leave that firm and go elsewhere with his skills? The only reason they would train him would be that he would produce enough in addition to whatever training he is getting to justify his wages.

Chairman PROXMIRE. The answer to that is either they would hire him or train him if they felt the demand was sufficient to justify expanding their production.

Mr. FELDSTEIN. But the cost to train him would be borne by that firm.

Chairman PROXMIRE. That's right.

Mr. FELDSTEIN. Right.

Chairman PROXMIRE. It might be passed on to the consumer ultimately, but it would not be passed on if the additional production lowered unit cost and the market was competitive.

Mr. FELDSTEIN. Only if they were able to raise their prices sufficiently.

Chairman PROXMIRE. Possibly, or lower their unit cost.

Mr. FELDSTEIN. But it is not a question of being able to raise all prices. It is not simply a question of inflation. It is a question of being able to raise the price for their particular goods relative to the wages that they are going to have to pay in order to hire those workers.

Chairman PROXMIRE. Go ahead.

Mr. FELDSTEIN. I think that the key to this problem, as we have just been discussing, is better on-the-job training for young workers but I think now, unfortunately, the current minimum wage law prevents many young people from accepting jobs with low pay but valuable experience. Those who come to the labor market with substantial skills and education need not be affected by the minimum wage. They are productive enough to permit employers to pay at least the minimum wage while also providing further training and opportunities for advancement.

But for the disadvantaged young worker, with few skills and below average education, producing enough to earn the minimum wage is incompatible with the opportunity for adequate on-the-job learning. For this group, the minimum wage implies high short-run unemployment and the chronic poverty of a life of low-wage jobs. Reducing the minimum wage for young workers might be useful but it would not be sufficient.

A more effective policy would emphasize youth employment scholarships that temporarily supplement earnings and allow young workers to buy on-the-job training. The concept of youth employment scholarships is developed further in the background report. An employee investment tax credit could provide specific incentives to employers to reduce turnover and to develop opportunities for internal advancement for these young workers.

What I am saying basically is that the usual problem that one hears about the minimum wage may or may not be relevant. There is no solid evidence that the minimum wage is stopping young people from obtaining jobs. What I think it is doing is forcing the least skilled young people into bad jobs, jobs with no on-the-job training, without opportunities for advancement. But getting rid of the minimum wage would still not really help them because they couldn't afford to take jobs which pay very little but provide on-the-job training. Essentially, that is what people do who go to commercial training schools or on to further education. What we need is some way of supplementing their income while they learn on the job. We can either do that or as some foreign countries have done, by treating them as students, letting them live at home with their families, or we can do it by providing scholarships for them as we do for those who go on to formal education.

Although for adults, macroeconomic policy has a more important role to play, it is nevertheless still limited. In the background paper I analyzed several reasons why our adult unemployment rate is so much higher than in foreign countries. Let me expand on each of these.

The American unemployment rate is not only higher than the rates observed in foreign countries, but also much more cyclically volatile. A comparison with British postwar experience shows that most of the greater U.S. volatility reflects the more sensitive response of American unemployment to changes in aggregate demand. The seasonal variation in employment is also substantially greater in the United States than in Britain. This contrast in the cyclical and seasonal variation in labor demand is not well understood. It may reflect a number of institutional differences between the two countries. Within the American context, however, the current system of unemployment compensation is likely to increase substantially the extent of cyclical and seasonal unemployment.

Some of the adult unemployment can be described as weak labor force attachment. Not all of that, however, is undesirable. The ability of married women and of older students to enter and leave the labor force is a positive feature of our economy. The really serious problems are associated with low skill workers. In this group, nonparticipation rates are much higher than unemployment rates. These nonparticipation rates have continued to increase during periods of rising wages and tightening labor markets. This indicates that expansionary macroeconomic policy is not likely to reduce the current high rates of voluntary unemployment. The solution lies instead in combining manpower policies that can improve the quality of available jobs with changes in our system of incentives to encourage workers to accept full-time employment in the jobs that are available.

There are, of course, more severe problems for some workers with major physical, psychological, or mental handicaps. Because of their very low productivity, these workers cannot obtain permanent employment at the minimum wage that is currently established by law and custom. Two forms of job creation for these permanently disadvantaged workers have been suggested: subsidies to firms and direct permanent public employment. Both of these are examined in detail in the background paper.

On the basis of this analysis, I have concluded that if earnings in the subsidized employment are limited to the prevailing minimum wage and if the wage subsidy is attached to the individual rather than to the specific job, the system of wage subsidies would be a more effective and efficient method of dealing with the problem of the very low skilled worker.

There is also a third possible option—integrating the minimum wage law with income maintenance policy. By including both the market wage and an appropriate fraction of the annual public income maintenance payment in the definition of the minimum wage, the administrative problems of direct wage subsidies to employers could be avoided while still permitting those with very low skills to find permanent employment. Such an integration of the minimum wage and income maintenance would reinforce the desirable features of a negative income tax.

The final source of our high adult unemployment rate is the unnecessarily long average duration of unemployment. An individual's delay in returning to work generally does not reflect an inability to find employment. Instead, the period of employment may involve

searching for a better job, waiting to be recalled to a previous position without taking alternative temporary employment, or merely using the time for activities in the home.

Unfortunately, the current system of unemployment compensation encourages excessive delays in returning to work. For many lower- and middle-income families, the combined effect of unemployment compensation and personal taxes is to reduce greatly and often almost eliminate completely the cost of remaining unemployed for an additional 1 or 2 months. For example, the background study shows that for most of the insured unemployed in Massachusetts, the effective marginal tax rate on the wages earned by returning to work is probably over 80 percent. Moreover, the analysis developed there also demonstrates that it is not difficult to have a marginal rate over 100 percent; that is, to receive a higher net income by remaining unemployed than by returning to work, especially in a family with two earners.

Our current unemployment compensation system also provides both employers and employees with the incentive to organize production in a way that increases the level of unemployment. It makes the seasonal and cyclical variation of employment too large and makes temporary jobs too common. These important adverse incentives arise because, for all types of unstable work, the unemployment compensation system raises the net wage to the employee relative to the net cost to the employer.

There is statistical evidence to support the common observation that these disincentives have an important economic effect. The average duration of unemployment is more than 50 percent longer among the insured than among the uninsured. In 1971 the insured were unemployed for more than 14 weeks on average while the uninsured had an average unemployment of only 8 weeks.

It is also noteworthy that when the British introduced earnings related unemployment benefits in 1966, their unemployment increased substantially and the previous relation between unemployment and vacancies broke down.

The exact magnitude of these disincentive effects is unclear but even small changes in the sources of unemployment could have a big cumulative effect. For example, a decrease of only 2 weeks in the current average duration of unemployment of 3 months would lower the overall unemployment rate by three-quarters of 1 percent. I think in total the disincentive effects of our unemployment compensation system may increase the overall permanent rate of unemployment vis-a-vis that in other countries by $1\frac{1}{4}$ percent.

I suggest in the report, but won't take the time now to talk about, several methods of strengthening the good features of our current unemployment compensation system, while at the same time removing these bad disincentive effects.

Let me summarize very briefly: I think that we can achieve a much lower permanent rate of unemployment without an unacceptable rate of inflation. I don't think we can achieve this by macroeconomic policy. I believe that specific policies aimed at young workers, at those with severe permanent disabilities and at restructuring our unemployment compensation system are the key to changing the structure of our unemployment and lowering its rate.

I don't think there is any reason for us to continue to tolerate the 4.5 percent unemployment that has prevailed in the postwar period. (The prepared statement of Mr. Feldstein follows:)

PREPARED STATEMENT OF MARTIN S. FELDSTEIN

POLICIES TO LOWER THE PERMANENT RATE OF UNEMPLOYMENT

By holding these hearings, the committee emphasizes the importance of lowering the permanent rate of unemployment from the high 4.5 percent average that has prevailed during the postwar period. At the committee's request, I have prepared a report that examines the sources of our current unemployment problem and the prospects for achieving a substantially lower rate of unemployment through specific public policies. In my remarks this morning, I will concentrate on reviewing the general conclusions and policy recommendations of that study. The specific details, the appropriate caveats and the technical analysis will be found in the background report itself.

A BRIEF SUMMARY

My basic conclusions can be summarized briefly:

First, I believe that we probably can lower the permanent unemployment rate to a level substantially below the average of the postwar period without inducing an unacceptable rate of inflation. An average unemployment rate significantly less than three per cent for those seeking permanent full-time employment, and possibly close to two per cent, is a realistic goal for the next decade.

Second, the economy is not likely to achieve such a goal, or indeed to perform any better than it did in the past two decades, without significant changes in employment policy.

Third, expansionary macroeconomic policy cannot be relied upon to achieve the desired reduction in unemployment. Any possible increase in aggregate demand that does not have unacceptable effects on the rate of inflation would leave a high residue of unemployment. I believe that this is true even if one is very optimistic about the possibility of increasing aggregate demand without accelerating the rate of inflation. The structure of unemployment and the current functioning of our labor markets imply a high overall rate of unemployment even when the labor market is extremely tight. Better management of aggregate demand has a role to play, but it cannot do the entire job.

Fourth, lowering the overall rate of unemployment will require new types of policies aimed at increasing the stability of employment among young workers, at eliminating unnecessary seasonal and cyclical fluctuations in labor demand, and at increasing the speed with which the unemployed return to work. Several such policies are examined in the report and will be described in this testimony. Let me stress again that lowering the rate of unemployment in this way can be achieved without creating inflationary pressures.

THE LIMITED EFFICACY OF INCREASING DEMAND

Most macroeconomic analyses of unemployment are based on ideas about the causes and structure of unemployment that are inappropriate and out of date. The conventional view of postwar unemployment might be described as follows: "The growth of demand for goods and services does not always keep pace with the expansion of the labor force and the rise in output per man. Firms therefore lay off employees and fail to hire new members of the labor force at a sufficient rate. The result is a pool of potential workers who are unable to find jobs. Only policies to increase the growth of demand can create the jobs needed to absorb the unemployed."

This picture of a hard core of unemployed workers who are not able to find jobs is an inaccurate description of our economy and a misleading basis for policy. A more accurate description is an active labor market in which almost everyone who is out of work can find his usual type of job in a relatively short time. The problem is not that these jobs are unavailable but that they are unattractive. Much of the unemployment and even more of the lost manpower occurs among individuals who find that the available jobs are neither appealing in

themselves nor rewarding as pathways to better jobs in the future. For such individuals, job attachment is weak, quitting is common and periods without work or active job seeking are frequent. The major problem to be dealt with is not a chronic aggregate shortage of jobs but the instability of individual employment. Decreasing the overall rate of unemployment requires not merely more jobs but new incentives to encourage those who are out of work to seek employment more actively and those who are employed to remain at work. As I shall explain below, an important part of these incentives is a change in the kinds of jobs that are available.

It is difficult to replace our old notions about demand determined unemployment by this new view. Let me therefore describe in more detail some of the characteristics of American unemployment during the past decade. First, the typical duration of unemployment is quite short. Even in a year like 1971 with a very high unemployment rate, 45 per cent of those unemployed had been out of work for less than five weeks. Second, job losses account for less than half of total unemployment. In 1971, only 46 per cent of the unemployed had lost their previous jobs. The remainder are those who voluntarily left their last jobs, are reentering the labor force or never worked before. Third, the turnover of jobs is extremely high. Data collected from manufacturing establishments show that total accessions and separations have each exceeded 4 per cent of the labor force per month since 1960. Moreover, the number of quits has consistently exceeded layoffs during the past five years. Even with the high unemployment rate of 1971, more workers quit manufacturing jobs than were laid off.

This structure of unemployment implies that the long run unemployment rate probably cannot be reduced significantly below four per cent by expansionary fiscal and monetary policies. A study of alternative policy simulations with an econometric model developed by Data Resources indicates that the overall rate of unemployment would remain high even in extremely tight labor markets that pushed the unemployment rate for mature men below historic lows. These conclusions are also supported by a detailed statistical examination of the relation between the unemployment rate for mature men and the unemployment rates in other demographic groups. For example, if increases in aggregate demand reduced the unemployment rate for men over 25 years old to only 1.5 per cent—lower than we have ever seen in the postwar period—the rate for teenagers would probably remain over ten per cent. More generally, the statistical analysis predicts that the overall unemployment rate would then be approximately 3.4 per cent. In short, while there is currently a cyclical excess of unemployment, the long-run problem is not a lack of adequate demand.

UNEMPLOYMENT AMONG YOUNG WORKERS

Although the potential efficacy of macroeconomic policy is therefore very limited, the prospect for lowering unemployment without raising inflation by using specific employment policies is much more optimistic. In particular, substantial progress should be possible in dealing with the special problems of young workers. In 1971, male teenagers had an official unemployment rate of 16.7 per cent, more than three times the rate for adults. In contrast, the teenage unemployment rate in Britain is absolutely very low and less than 50 per cent higher than the adult rate.

Youth unemployment is not primarily due to inadequate demand. There are two main sources of the chronic high unemployment in this age range: (1) unnecessarily slow absorption of new entrants and (2) low job attachment among those at work. Because of the slow absorption, a very significant part of the unemployment of young workers is among new entrants to the labor force and others who are seeking their first full-time job. Among teenagers, new entrants contributed 6.7 per cent to the unemployment rate; new entrants therefore accounted for 40 per cent of total teenage unemployment. A special Youth Employment Service, firmly linked to the schools and primarily concerned with the transition from school to permanent employment, could have a major impact on unemployment in this group. I believe that the use of such a placement service has been of great value in Britain.

The problem of *unstable* employment among young workers is both more serious and more difficult to solve. Much of the unemployment among experienced young workers occurs not because jobs are unavailable but because they are unattractive. For many young workers, the available entry level jobs are also

deadend jobs. They offer neither valuable training nor opportunities for significant advancement within the firm. Since employers have made no investment in these workers, they do not hesitate to lay them off whenever demand falls. Since comparable jobs are easy to find, these young workers do not hesitate to quit. The growth of our economy during the past few decades now permits relatively high wages even for those with entry level jobs. Among the young and single, these high wages encourage an increased demand for leisure. If the content of the job and the structure of the firm's employment policy do not outweigh this, job attachment will be weak and quit rates high.

The key to this problem is better on-the-job training and experience for young workers. Unfortunately, the current minimum wage law prevents many young people from accepting jobs with low pay but valuable experience. Those who come to the labor market with substantial skills and education need not be affected by the minimum wage. They are productive enough to permit employers to pay at least the minimum wage while also providing further training and opportunities for advancement. But for the disadvantaged young worker, with few skills and below average education, producing enough to earn the minimum wage is incompatible with the opportunity for adequate on-the-job learning. For this group, the minimum wage implies high short-run unemployment and the chronic poverty of a life of low wage jobs. Reducing the minimum wage for young workers might be useful but it would not be sufficient. A more effective policy would emphasize Youth Employment Scholarships that temporarily supplement earnings and allow young workers to "buy" better on-the-job training. The concept of Youth Employment Scholarships is developed further in the background report. An Employee Investment Tax Credit could provide specific incentives to employers to reduce turnover and to develop opportunities for internal advancement for these young workers.

SOURCES OF ADULT UNEMPLOYMENT

Better management of aggregate demand has a more important role to play in lowering adult unemployment than in improving the teenage employment situation. Nevertheless, even here macroeconomic policy can achieve only a small part of the total possible reduction in unemployment. The background study analyzes the implications of four different sources of adult unemployment: (1) the high cyclical and seasonal volatility of the demand for labor; (2) the weak labor force attachment of some groups of workers; (3) the particular problem of finding permanent employment for persons with very low skills and specific occupational handicaps; and (4) the unnecessarily long average duration of unemployment among job losers.

The American unemployment rate is not only higher than the rates observed in foreign countries but also much more cyclically volatile. A comparison with British postwar experience shows that most of the greater U.S. volatility reflects the more sensitive response of American unemployment to changes in aggregate demand. The seasonal variation in employment is also substantially greater in the United States than in Britain. This contrast in the cyclical and seasonal variation in labor demand is not well understood. It may reflect a number of institutional differences between the two countries. Within the American context, however, the current system of unemployment compensation is likely to increase substantially the extent of cyclical and seasonal unemployment.

Some of the adult unemployment that can be described as weak labor force attachment is actually desirable. The ability of married women and of older students to enter and leave the labor force is a positive feature of our economy. The really serious problems are associated with low skill workers. In this group, nonparticipation rates are much higher than unemployment rates. These nonparticipation rates have continued to increase during periods of rising wages and tightening labor markets. This indicates that expansionary macroeconomic policy is not likely to reduce the current high rates of voluntary unemployment. The solution lies instead in combining manpower policies that can improve the quality of available jobs with changes in our system of incentives to encourage workers to accept full-time employment in the jobs that are available.

There are more severe problems for some workers with major physical, psychological or mental handicaps. Because of their very low productivity, these workers cannot obtain permanent employment at the minimum wage that is currently

established by law and custom. Two forms of job creation for these permanently disadvantaged workers have been suggested: subsidies to firms and direct permanent public employment. Both of these are examined in detail in the background paper. On the basis of this analysis I have concluded that if earnings in the subsidized employment are limited to the prevailing minimum wage and if the wage subsidy is attached to the individual rather than to the specific job, the system of wage subsidies would be a more effective and efficient method of dealing with the problem of the very low skilled worker. There is also a third possible option: integrating the minimum wage law with income maintenance policy. By including both the market wage and an appropriate fraction of the annual public income maintenance payment in the definition of the minimum wage, the administrative problems of direct wage subsidies to employers could be avoided while still permitting those with very low skills to find permanent employment. Such an integration of the minimum wage and income maintenance would reinforce the desirable features of a negative income tax.

The final source of our high adult unemployment rate is the unnecessarily long average duration of unemployment. An individual's delay in returning to work generally does not reflect an inability to find employment. Instead, the period of unemployment may involve searching for a better job, waiting to be recalled to a previous position without taking alternative temporary employment, or merely using the time for activities in the home.

IMPROVING THE INCENTIVE EFFECTS OF UNEMPLOYMENT COMPENSATION

Unfortunately, the current system of unemployment compensation encourages excessive delays in returning to work. For many lower and middle income families, the combined effect of unemployment compensation and personal taxes is to reduce greatly, and often almost eliminate completely, the cost of remaining unemployed for an additional one or two months. The background study shows that for most of the insured unemployed in Massachusetts the effective marginal tax rate on the wages earned by returning to work is probably over 80 per cent. Moreover, the analysis developed there also demonstrates that it is not difficult to have a marginal rate over 100 per cent; i.e., to receive a higher net income by remaining unemployed than by returning to work, especially in a family with two earners.

Our current unemployment compensation system also provides both employers and employees with the incentive to organize production in a way that increases the level of unemployment. It makes the seasonal and cyclical variation of employment too large and makes temporary jobs too common. These important adverse incentives arise because, for all types of unstable work, the unemployment compensation system raises the net wage to the employee relative to the net cost to the employer.

Statistical evidence supports the common observation that these disincentives have an important economic effect. The average duration of unemployment is more than 50 per cent longer among the insured than among the uninsured; in 1971, the insured were unemployed for more than 14 weeks on average while the uninsured had an average unemployment of only 8 weeks. It is also noteworthy that when the British introduced earnings related unemployment benefits in 1966, their unemployment increased substantially and the previous relation between unemployment and vacancies broke down.

The exact magnitude of the disincentive effect of our unemployment compensation system is unknown. It is clear, however, that even rather small changes in the duration of unemployment, the cyclical and seasonal fluctuation in labor demand, and the frequency of temporary jobs can have a very important cumulative effect on total unemployment. For example, a decrease of only two weeks in the current average duration of unemployment of three months would lower the overall unemployment rate by 0.75 per cent. Estimates of the potential reductions in cyclical and seasonal unemployment suggest that the current unemployment compensation disincentives may increase the overall permanent unemployment rate by at least 1.25 per cent.

The current system of unemployment compensation should be reformed in a way that strengthens its good features while reducing the harmful disincentive effects. Eliminating the maximum and minimum limits on the rate of employer contribution and taxing unemployment compensation benefits in the same way as other earnings would substantially improve the incentive effects of the cur-

rent system. A much more important reform could be achieved by shifting the basis of experience rating from the firm to the individual. This would have the advantage of making the individual consider properly the costs of a longer duration of unemployment and of a job with a greater risk of unemployment. The higher wages that would result for jobs with unstable employment would encourage employers to limit the seasonal and cyclical variations in labor demand. Because the switch to individual experience rating would significantly reduce the tendency to draw excessive benefits, it would be possible to strengthen the protection provided by unemployment compensation through raising the benefit rate and increasing the maximum level of benefits.

All of the analysis of the current study supports the conclusion that our permanent rate of unemployment can be lowered substantially without inducing an unacceptable rate of inflation. It is important to recognize, however, that macroeconomic policy is unlikely to lower the permanent rate of unemployment much below the 4.5 per cent that has prevailed during the postwar period. Nevertheless, a series of specific policies could reduce the unemployment rate for those seeking permanent full-time employment to a level significantly below three per cent and perhaps closer to two per cent. Speeding the absorption of young workers into employment and stabilizing their employment through better on-the-job training could lower the overall unemployment rate by at least one-half per cent. A restructuring of the unemployment compensation system could reduce the unemployment resulting from cyclical and seasonal instability and from unnecessarily long durations by an addition 1.25 per cent or more. Further desirable reductions in unemployment could be achieved by subsidizing wages or incomes for handicapped workers and others with very low skills. There is, in short, no reason to allow the high average rate of unemployment that has prevailed in the postwar period to continue in the future.

Chairman PROXMIRE. Thank you, Mr. Feldstein.
Mr. Hall, please proceed.

**STATEMENT OF ROBERT E. HALL, PROFESSOR OF ECONOMICS,
MASSACHUSETTS INSTITUTE OF TECHNOLOGY, AND CONSULTANT,
DATA RESOURCES, INC.**

Mr. HALL. Thank you, Chairman Proxmire. What I would like to do in my remarks is to provide scientific background for the testimony of the others here.

I will be addressing the topic of turnover in the labor force which I think we will find is the key to understanding of the problems of labor markets today. I will try to emphasize the role of employers in the turnover in the labor market in contrast to many other writers who concentrate on the role of the worker. In other words, I will discuss layoffs where other authors might discuss quits. I think it is important to keep in mind the role of employers in the excessive turnover that we observe in the labor market.

Now, a major theme of recent thinking among economists about unemployment is precisely that it is a problem of turnover as much as one of duration; that is, its difficulty in keeping jobs as much as difficulty in finding them that causes some groups in the labor force to have unacceptably high unemployment rates. Let me review, very briefly, first a study by George Perry who analyzes published data on the duration of unemployment.¹ He finds that essentially all of the very substantial adverse change in the unemployment rate among teenagers and young adults is the result of increased frequency of unem-

¹ George L. Perry, "Unemployment Flows in the U.S. Labor Market," *Brookings Papers on Economic Activity*, 2:1972.

ployment. That is, it doesn't take teenagers any longer to find work than it did 16 years ago, in 1956, but the frequency of looking for work is up 60 percent. That, I think, very much confirms the kind of view that Professor Feldstein indicated is the real problem of teenagers in the labor market.

Now, let me talk about some research of my own.

The study that I report on here deals with the related problem of comparing the frequency and duration of unemployment among different groups in the labor force at the same point in time. I have examined data on the number of weeks and number of spells of unemployment suffered by individuals in 1966 and attempted to estimate the probability that an unemployed individual with given characteristics will become unemployed in a given week and the probability of an unemployed individual to leave unemployment. One of these is a measure of flow, frequency of unemployment, and the other is a measure of duration; it is inversely related to the duration of unemployment.

Now, what I find, basically, is that it is differences in turnover, differences in the frequency of unemployment, much more than differences in the duration of unemployment that account for the very substantial differences we find in unemployment rates by age, race, and sex.

One of the most interesting comparisons is between blacks and whites. We know that the ratio of black to white unemployment rates is generally around 2 to 1. My results show that black males are 73 percent more likely to become unemployed than white males, and if unemployed 21 percent less likely to find work each week than whites; so that means that really most of the 2-to-1 ratio, 94 percent if you add together these two figures, is related to the frequency of unemployment. It is the instability of jobs held by blacks, the fact that blacks, everything else held constant, are laid off more frequently, that accounts for the much higher unemployment rate among blacks.

Now one finds, I think, again consistent with the kind of view of the operation of the labor market that Professor Feldstein has advocated that workers with few skills are 27 percent more likely to become unemployed and 19 percent less likely to find work each week, so, again, rather more than half the difference in unemployment rates is associated with higher turnover, higher frequency of unemployment.

If we look at age effects, it is difficult in the study that I am reporting on to say a great deal about teenagers because of the nature of the data, so I will pass over that rather critically important point. If one looks at young adults in comparison to the control group here, which is 30-year-old males, one finds that 22-year-olds are 45 percent more likely to become unemployed and 21 percent more likely to find work each week of unemployment. So the difference in the unemployment rate understates the difference in the rate of turnover among young adults relative to 30-year-olds. One finds just the opposite in looking at the older adults; 45-year-old adults are 27 percent less likely to become unemployed and, again, 12 percent less likely to find work.

Taken together, the results that I have reported on seem to confirm the view that differences in turnover, as measured by the frequency of unemployment, are if any thing more important than differences in the duration of unemployment in explaining the substantial adverse

experience of some groups in the labor force. At this point I should emphasize that high turnover is not necessarily evidence that unemployment is somehow voluntary and therefore not a burden on those experiencing it. In fact, my results suggest that the frequency of unemployment may be somewhat lower for individuals with higher incomes, while a theory of voluntary turnover would presumably suggest that frequency would rise with income.

I would like to make a few remarks, again based on the same study, about the geographical dimension of unemployment and turnover. It is well known there are substantial differences among cities in their unemployment rates and these differences are stable over time. The study, which breaks down the differences in unemployment rates into the differences in turnover, on the one hand, and duration on the other hand, says something about what exactly is going on in comparing one city to another and I think it is quite revealing.

Cities with low unemployment rates have low duration of unemployment as expected but they also have low frequencies of unemployment. A worker in Chicago is 32 percent less likely than one in New York to become unemployed, and an unemployed individual 54 percent more likely to find work each week.

Now, it turns out in examining other data that workers in Chicago are hardly ever laid off. The layoff rate in Chicago is consistently a very small fraction of the national average, very much less than it is in high unemployment cities of the United States. Really, it is going too far almost to compare the United States to Western Europe. We have an example right in the United States, the city of Chicago, where very similar things can be said about the comparison of Chicago's consistently low unemployment rate, consistently higher stability of employment.

On the other hand, an individual in San Francisco—

Chairman PROXMIRE. Could you give us the statistical record, that is what unemployment is in Chicago as compared with New York?

Mr. HALL. I will refer you to the last column of table 2 of my prepared statement. A fraction of the year unemployed is what I am able to measure. This is a study covering men and basically this refers to adult men where a fraction of the year unemployed is almost synonymous with the unemployment rate. In Chicago, workers spent seven-tenths of 1 percent of the year unemployed compared, say, to New York, where the comparable figure is 1.6 percent.

Chairman PROXMIRE. My question was not referring to that. There is no question about the point you made. I am just asking how this is reflected in the overall unemployment rate? What is it, 4.5 percent in Chicago and 6 percent in New York? Or what is the difference?

Mr. HALL. Well, referring to—

Chairman PROXMIRE. You said No. 1, the duration is less in Chicago—

Mr. HALL. Right.

Chairman PROXMIRE (continuing). No. 2 as I understand it, let's see, the duration is less, the layoff rate is a great deal less.

Mr. HALL. Right.

Chairman PROXMIRE. I wonder how these two factors would be reflected in the actual unemployment?

Mr. HALL. Well, they both go in the same direction; they cause the unemployment rate in Chicago to be well under half what it is in New York.

Chairman PROXMIRE. So, what are those figures 4 and 8 or 3 and 6 or what?

Mr. HALL. Well, it depends on how we measure the unemployment rate. I am afraid I forgot to bring with me the official figures but what I remember is something around 2 percent in—this is 1966—Chicago, and 3.5, almost 4 percent in New York. I would have to check it.

(The following information was subsequently supplied for the record by Mr. Hall:)

I was unable to give the exact figures for the official unemployment rates for Chicago and New York in 1966. The figures are 2.6 percent and 4.2 percent, respectively.

Chairman PROXMIRE. Two percent being the overall unemployment rate?

Mr. HALL. Yes; that is the overall—

Chairman PROXMIRE. Including blacks, women, teenagers?

Mr. HALL. Yes, that is correct; that is the official area.

Chairman PROXMIRE. Two percent in 1966; it is quite astonishing.

Mr. HALL. Yes; it is an aspect of the national labor market that has not nearly received enough attention.

Chairman PROXMIRE. You see, what astonishes me, I am familiar with the unemployment rate in Wisconsin in various cities, and Milwaukee and Chicago are fairly similar; our unemployment rate is less in Milwaukee than it is in the rest of the country. I am sure it was not 2 percent in 1966.

Mr. HALL. I am talking about 1966, the overall unemployment rate in the country is 3.6 percent.

Chairman PROXMIRE. But it still was not 2 percent in Milwaukee; it was 3 percent.

Mr. HALL. I have never studied Milwaukee because it is not identified in the data, so I am afraid I cannot comment on that.

To continue the comparison of cities, west coast cities seem to be high unemployment cities. An individual in San Francisco is 73 percent more likely to be unemployed and 9 percent less likely to find work than in New York. It is higher layoffs in San Francisco almost exclusively that are causing the trouble. Layoff rates—

Chairman PROXMIRE. We exempted Mr. Feldstein from the bell because of the request of Mr. Eckstein. We shouldn't have been discriminatory but we were.

Mr. HALL. Layoff rates in the low unemployment cities, in the study, which are Chicago, Washington, D.C., and Houston, Tex., are really very close to zero. There is just a remarkable difference in the way that employers respond to conditions in the labor market that they operate in. Where one has a chronically tight labor market as in the cities I have named, it does not make sense for an employer to lay a worker off; rather, workers are kept on through a dip in demand because of the difficult of recruiting, the need to maintain a stable labor force in a tight labor market.

Let me say just a bit about the implications of findings about turnover for manpower programs.

I think the first thing to be said is that manpower programs have consistently had problems with turnover even within the programs themselves. It is surprising what a small fraction, sometimes only half of those enrolled in manpower training programs, actually complete the program, that in trying to deal with high turnover workers one finds a discouraging experience even as an operator of a training program.

Not very much is known about the impact of training programs on reducing turnover. It is a very, very difficult subject to study statistically. I have looked into it in some detail and have found that I really cannot say with confidence that the kind of training programs that were tried by the Federal Government had much success in reducing turnover. On the other hand, I cannot say that they have not. I think that is a subject that deserves a great deal more study. As a matter of fact, I plan studies of that sort myself.

Let me comment on one aspect of Professor Feldstein's study. He mentions a phenomenon as job shopping which I think accounts in part for the high turnover of young adults, young workers in general. A similar process occurs among employers. Employers experiment with workers, put them through probationary periods and lay them off if they turn out not to be suitable workers, so there is a symmetry in this phenomenon. I refer to it in my remarks as experimentation. On the one hand workers experiment with jobs and, on the other hand, employers experiment with workers and in many ways that is a healthy thing. I think we need to recognize the need for that.

On the other hand, there appears to be an awful lot of it and I think we need to consider programs that somehow are able to reduce experimentation on both sides of the market.

Professor Feldstein has emphasized the usefulness of counseling young workers coming out of school looking for work. I think it is also important to counsel employers about the existence of young workers.

Chairman PROXMIRE. Mr. Hall, I apologize. Your remarks are fascinating. I had no idea there was this remarkable geographic difference, and I am delighted to have you reveal that to the committee. I have never heard that discussed in this depth before and, as you say, this could be a far more instructive lesson to us than comparing it with foreign countries. It is amazing that you have this difference you say almost a zero rate of layoff in a city like Chicago and apparently it is all a matter of quits, when people leave employment rather than when they lay off. Quits are on the volition of the employee in the overwhelming majority of the cases, not all but overwhelming.

Mr. HALL. I should say on the other side of the coin, I don't want to be too optimistic on Chicago. Chicago is a fairly high quit rate, not the highest but quite high. A tight labor market makes things very easy for workers and very hard for employers.

There is one other aspect to my study that is mentioned in my remarks and that is that there seems to be a tendency, not a strong tendency but a weak tendency for the low unemployment cities, cities with low layoffs, low frequency of unemployment, to be cities that pay low wages.

Now, I have looked into it——

Chairman PROXMIRE. That certainly would not be true in Chicago and New York, would it?

Mr. HALL. No; it is—well, you see——

Chairman PROXMIRE. New York pays higher wages than Chicago, don't they?

Mr. HALL. Well, it is very important in cities to adjust for the composition of the labor force. I have used methods that make it possible to account for the fact that New York may have a lower quality labor force than Chicago and what I find is that Chicago has somewhat lower, not a great deal lower but a few percentage points lower wages after making this adjustment for the labor force and after recognizing differences of cost of living, than does New York.

On the other hand, the high unemployment cities, especially San Francisco and Los Angeles, pay quite a bit higher wages, which goes with a higher unemployment rate.

Chairman PROXMIRE. Your remarks have been very interesting. I will be interested in studying your entire study very carefully.

(The prepared statement of Mr. Hall follows:)

PREPARED STATEMENT OF ROBERT E. HALL

TURNOVER IN THE LABOR FORCE AND THE PROSPECTS FOR ACHIEVING LOW UNEMPLOYMENT RATES

NOTE.—The basic research reported here was supported by the National Science Foundation through a grant to MIT. The author is also a consultant for the study conducted by Data Resources, Inc.

Better knowledge of the character of unemployment in the contemporary American economy is a prerequisite to the design of federal policy for achieving acceptability rates of unemployment. Most of my remarks will be devoted to an empirical analysis of unemployment, in a recent year of full employment. At the end, I will discuss briefly the implications of these findings for present and proposed manpower programs of the federal government. Throughout I will emphasize the key role of turnover in the process generating unemployment. It is increases in turnover rates that account for most of the worsening relative unemployment rates of young adults and teenagers, and differences in turnover that explain a substantial part of the differences among demographic groups.

THE ANALYSIS OF UNEMPLOYMENT IN TERMS OF FREQUENCY AND DURATION

The unemployment rate can usefully be considered the product of the frequency of unemployment and the duration of each spell of unemployment. Doubling the number of spells of unemployment suffered by the average member of the labor force each year leaves the unemployment rate unchanged if it is accompanied by a halving of the length of the average spell. A fuller understanding of the nature of unemployment in the modern U.S. economy requires an examination of these two dimensions, since it makes a good deal of difference if a given unemployment rate, say the high rate teenagers, is the result of a high rate of turnover and consequent high frequency of unemployment, on the one hand, or excessive duration, on the other. Although unemployment is always a source of concern, it is more so if the result of extended inability of certain individuals to find work than if the result of more widespread but transitory joblessness.

EMPIRICAL EVIDENCE ON FREQUENCY AND DURATION

A major theme of recent thinking among economists about unemployment is that it is a problem of turnover as much as one of duration. That is, it is difficulty in keeping jobs as much as difficulty in finding them that causes some groups in the labor force to have unacceptably high unemployment rates. Evidence for this view is summarized in my paper, "Why is the Unemployment Rate

So High at Full Employment?" (*Brookings Papers on Economic Activity*, 3:1970). More recently, George Perry has examined trends over time in the frequency and duration of unemployment by demographic groups ("Unemployment Flows in the U.S. Labor Market", *Brookings Papers on Economic Activity*, 2:1972). He poses the question of what frequency and duration would prevail in 1972 for various age-sex groups if the unemployment rate for adult men were the same as in 1956. Through a sophisticated analysis of the published data on the duration of unemployment, he finds that essentially all of the very substantial adverse change in the unemployment rate for teenagers and young adults of both sexes is the result of increased frequency of unemployment. Young people find jobs about as fast as they did 16 years ago, but they must look for work up to 60% more often.

The study reported here deals with the related problem of comparing the frequency and duration of unemployment among different groups in the labor force at the same point in time. I have used data on the number of weeks and the number spells of unemployment suffered by individuals in 1966 to estimate the probability that an employed individual with given characteristics will become unemployed in a given week and the probability that an unemployed individual will leave unemployment in a given week.

The first probability is a direct measure of the frequency of unemployment while the second is inversely related to the duration of unemployment. Table 1 presents the probabilities calculated from the results of the study. In brief, I find that black males are 73% more likely to become unemployed than white males, and, if unemployed, 21% less likely to find work each week than whites. In this and other comparisons, I adjust for differences in the skill, income, age, location, and marital status of the individuals. The results suggest that of the very substantial difference in the unemployment rates of black and white males that remains after the adjustment, almost two-thirds is associated with higher frequency and a little more than one-third with greater duration. In comparing workers with few skills (those expected to earn \$1.50 per hour) to those with average skills (those expected to earn \$3.00), I find that the unskilled are 27% more likely to become unemployed and 19% less likely each week to find work when unemployed.

TABLE 1.—WEEKLY PROBABILITIES OF ENTERING AND LEAVING UNEMPLOYMENT FOR VARIOUS GROUPS, 1966

Group	Weekly probability of—		Fraction of the year unemployed (percent)
	Becoming unemployed (percent)	Leaving unemployment (percent)	
Black	0.38	10.2	3.6
White ¹ .....	.22	13.6	1.6
Wage:			
\$1.50 .....	.28	11.0	2.5
\$2 .....	.24	12.5	1.9
\$3 .....	.22	13.6	1.6
\$4 .....	.16	12.3	1.3
Family income per adult:			
\$2,000 .....	.21	13.8	1.5
\$4,000 ¹ .....	.22	13.6	1.6
\$7,000 .....	.15	9.8	1.5
\$10,000 .....	.27	10.1	2.6
Age:			
18 .....	.22	22.2	1.0
22 .....	.32	16.5	1.9
30 ¹ .....	.22	13.6	1.6
45 .....	.16	15.3	1.0
65 .....	.16	12.6	1.3
Type:			
Not applicable .....	.12	5.5	2.1
Private ¹ .....	.22	13.6	1.6
Government .....	.10	12.2	.8
Self-employed, salaried .....	.25	29.9	.8
Self-employed, not salaried .....	.09	16.0	.6
Marital status:			
Married ¹ .....	.22	13.6	1.6
Not married .....	.40	12.0	3.2

¹ Marks the values of the characteristics used in calculations for other categories.

In the comparisons by age, the results show that 18 year olds are about as likely to become unemployed each week of the year as 30 years olds, and 63% more likely to leave unemployment in each week of unemployment. It is important here to note that teenagers spend relatively few weeks in the labor force, so that their weekly probabilities of unemployment when in the labor force are actually well above those of adults. High teenage unemployment rates are a result of the fact that teenagers spend a large fraction of the few weeks that they are in the labor force looking for work. Twenty-two year olds, who spend much more time in the labor force than teenagers, are 45% more likely than 30 year olds to become unemployed and 21% more likely to find work each week when looking. Forty-five year olds are 27% less likely to become unemployed and 12% less likely to find work. It seems clear that adults over the age of 30 are able to find significantly more stable employment than are young adults. Finally, the comparison between married and unmarried men is particularly striking: those not married are 82% more likely to become unemployed but only 12% less likely to find work when unemployed.

I have also obtained results for women, but these are somewhat harder to interpret than are those for men, since on the average women spend substantially less than full time in the labor force.

Taken together, the results for men seem to confirm the view that differences in turnover, as measured by the frequency of unemployment, are if anything more important than differences in the duration of unemployment in explaining the substantial adverse experience of some groups in the labor force. At this point I should emphasize that high turnover is not necessarily evidence that unemployment is somehow voluntary and therefore not a burden on those experiencing it. In fact, my results suggest that the frequency of unemployment may be somewhat lower for individuals with higher incomes, while a theory of voluntary turnover would presumably suggest that frequency would rise with income. On the other hand, the results do offer a little support to the view that individuals who are better off take longer to find work once they are unemployed.

THE GEOGRAPHICAL DIMENSION OF UNEMPLOYMENT AND TURNOVER

The study also yields useful information about the geographical distribution of unemployment. It is well known that there are substantial differences among cities in their unemployment rates, and that these differences are stable over time. My study sheds some light on the nature of these differences; the derived probabilities are shown in Table 2. Cities with low unemployment rates have low duration, as expected, but also have low frequencies of unemployment. A worker in Chicago is 32% less likely than one in New York to become unemployed, and an unemployed individual is 54% more likely to find work each week. On the other hand, an individual in San Francisco is 73% more likely to become unemployed and 9% less likely to find work than one in New York. Pessimists who believe that high rates of turnover are an inevitable feature of the contemporary American economic system may have trouble explaining the favorable experience of Chicago, Washington, D.C., Houston, and other cities with low frequencies of unemployment. We should be careful in dismissing as unattainable the goal of a national unemployment rate of under three percent when that rate is observed routinely in these cities. However, my study shows that there may be a cost to cities with chronically tight labor markets; wages in them seem to be somewhat lower than in cities with more unemployment. Tight labor markets induce workers to quit more often, and restrict the flexibility of employers in hiring and laying off, raising the effective cost of labor to them. It may be that these two effects combine to reduce the productivity of workers in tight labor markets.

TABLE 2.—WEEKLY PROBABILITIES OF ENTERING AND LEAVING UNEMPLOYMENT IN 12 LARGE CITIES, 1966

City	Weekly probability of—		Fraction of the year unemployed (percent)
	Becoming unemployed (percent)	Leaving unemploy- ment (percent)	
Baltimore.....	0.23	15.6	1.5
Chicago.....	.15	20.9	.7
Cleveland.....	.22	13.8	1.6
Detroit.....	.32	14.9	2.1
Houston.....	.20	18.1	1.1
Los Angeles.....	.32	12.6	2.6
New York.....	.22	13.6	1.5
Philadelphia.....	.21	14.9	1.4
Pittsburgh.....	.41	12.4	3.3
St. Louis.....	.30	12.2	2.5
San Francisco.....	.38	12.4	3.8
Washington, D.C.....	.15	18.7	.1

IMPLICATIONS FOR FEDERAL POLICY

Policies for achieving low unemployment rates need to be formulated with the problem of turnover in mind. We know from the research of Otto Eckstein and others that aggregate policy by itself cannot be used to hold the unemployment rate at an acceptable level for more than a brief period without causing a cumulative process of increasing rates of inflation. Further, even at very low aggregate rates of unemployment, rates for some demographic groups are still much too high. Aggregate policy is needed to increase the number of jobs available, but other kinds of programs are required to make sure that workers keep the new jobs, and that they lose existing jobs less frequently.

Traditional manpower training programs do not seem to have had much effect in reducing turnover among their graduates. In fact, turnover within the programs themselves is high; a discouraging fraction of enrollees fail to complete the training programs. Much too little is known about the later experience of those who do finish, but I cannot find much basis for optimism in the evidence I have examined. Other kinds of manpower programs may offer more hope. In principle, those that try to make better matches between jobs and workers ought to reduce turnover, since they should reduce two important sources: quits caused by the dissatisfaction of workers about jobs and layoffs and discharges caused by dissatisfaction of employers about workers. Most proposals for the expansion of the placement activities of the federal government, through the federal-state Employment Service or otherwise, fail to take account of the complexity of the labor market and the degree of specialization in jobs and skills that exist in it.

Even with modern computers, it does not seem to be feasible to collect a body of data on available workers sufficiently detailed and informative to make it useful to a large fraction of employers with jobs to fill, nor to provide enough information about jobs to individuals looking for work to help a large fraction of them either. As a result, both employers and workers tend to rely on informal sources of information, mainly through personal contacts. Perhaps more important, they rely on experimentation. Employers may retain only the most suitable of a group of workers after a probationary period, and a worker may try out several jobs before settling on a permanent one. The process of experimentation is obviously most important for young workers. Martin Feldstein has correctly emphasized the importance of federal programs for helping young people make the transition from school to work as a method for reducing the turnover associated with experimentation.

An important body of opinion among economists holds that what is needed is neither the reshaping of workers through training nor better matching of workers and jobs, but rather the reshaping of jobs. In this view, high turnover is as much a characteristic of the jobs available to certain groups of workers as it is a characteristic of the workers themselves. Turnover can be reduced, then, by offering incentives to employers to make their jobs more stable. The hope of such a policy is to increase the number of stable, career jobs available and to decrease the number of jobs where the employer and employee have only weak commit-

ments to each other. Although the goal of the most important new manpower program of federal government, Job Opportunities in the Business Sector, is precisely the opening up of good jobs with career possibilities, it seems to have fallen far short of that goal in its actual operation. The basic problem seems to be that JOBS does not offer adequate incentives to employers to bring about the desired change in the nature of their relation to their employees. Merely reimbursing employers for the out-of-pocket costs of training disadvantaged workers does not seem to be enough. I believe, again with Martin Feldstein, that we need to consider programs that provide direct incentives for the stabilization of employment. The study of and experimentation with such programs should receive the highest priority.

Chairman PROXMIRE. Next we will hear from Mrs. Barbara Bergmann, professor of economics at the University of Maryland and director of the project on the economics of discrimination.

Mrs. Bergmann is a longtime student of the problems of structural unemployment. She has been senior staff economist with the Council of Economic Advisers and with the Brookings Institution.

Please proceed with your summary of your fine prepared statement on how to reduce unemployment among blacks and women.

Mrs. BERGMANN. Thank you Senator.

Chairman PROXMIRE. Again, I apologize for the 10-minute restriction.

STATEMENT OF BARBARA R. BERGMANN, PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND, AND DIRECTOR, PROJECT ON THE ECONOMICS OF DISCRIMINATION

Mrs. BERGMANN. I would like to lay emphasis on the problem of black unemployment rates and women's unemployment rates. I don't think we are ever going to get down to respectable levels of total unemployment until something is done about those rates. Blacks and women constitute 44 percent of the labor force currently and they are growing in importance.

Chairman PROXMIRE. You say 44 percent?

Mrs. BERGMANN. Forty-four percent and it cannot be assumed that we can go on as we have before with those rates running ever higher.

Chairman PROXMIRE. You are not double counting black women, are you?

Mrs. BERGMANN. No, I am not, sir.

Women's unemployment rates are currently running 64 percent higher than men's and black rates are running 110 percent higher than white rates. I will argue that we can bring down the pathologically high unemployment rates among blacks and women by policies which encourage employers to treat members of these groups more as white males are treated. I would further argue that such policies would not merely have the effect of spreading the misery around more evenly but would enable us to move to an era in which unemployment rates would be lower for all groups without inflationary consequences.

In my view, much of the problem we have derives from the segmentation of the labor market. There is a great deal of occupational segregation. White women have their own occupations; black women have their own occupations and so on for black and white men. There is insufficient flow of labor between these segments of the labor market and that is a great part of the problem.

The occupations that women and blacks tend to be relegated to are those lacking career possibilities. Professor Hall has made a rather eloquent statement on this which I would like to quote. He says:

The whole notion of a career with steady advancement is relevant only for white males. Blacks and women seem to be excluded from work that offers an incentive to stay with a job permanently.

Thus, one effect of the segmentation of the market is that women and blacks do tend to have higher turnover.

I present in my prepared statement some data which document the extent of the segregation of males and females and blacks and whites but I won't go into it here.

I don't think turnover, important as it is, really covers the matter with respect to blacks and women. I think there is also a shortage of demand for the services of these people as compared with the services of white prime age males. These barriers to mobility, based to some degree on employers' views as to what is right and proper in a particular job and on employers' lack of experience of blacks' and women's performance in jobs of the type not usually open to them, create excess labor in one part of the market while at the same time you may have a shortage in another.

I know there is great temptation in some quarters to attribute the poor labor market position of blacks and women and their high unemployment to the inferior characteristics of the sufferers rather than to the discriminatory actions of employers in restricting access to certain jobs to white males. Blacks have been said to lack aptitude and women to lack labor force attachment. Of course, whatever truth there is to these assertions will not be uncovered until employers begin giving a square deal to those blacks with aptitude, of whom there are quite a few, and to those women with labor force attachment, of whom there are quite a few.

I want to further argue that a reduction of these barriers to mobility for blacks and women would not merely spread around the unemployment more evenly, although, of course, that would be justified on equity grounds alone.

First of all, if we had a freer and more unified labor market, labor would be better distributed across occupations because of aptitude. Many women and blacks now find themselves, because of race and sex discrimination, in jobs in which their full talents are not utilized. These people are surely major contributors to the turnover statistics we have been talking about here.

Second, a higher proportion of the work force would realistically consider themselves in the running for promotions in their current places of work. Here I use the analogy of a sweepstakes. If a person has no ticket whatever in the promotion sweepstake, he tends to cut and run whenever he gets dissatisfied. A disproportionate amount of turnover comes from those who have no ticket; therefore, increasing the number of tickets in the promotion sweepstakes, even though somewhat debasing their value, would reduce turnover.

I think also certain occupations tend to be too large—that is, the number of people attached to those occupations, both employed and unemployed, is too large because again of these barriers I have mentioned.

If workers could be drawn off into the occupations in which there are shortages through a change of attitude of employers and employees, the unemployment rates for the various groups would be evened out. If this could occur, pay and working conditions would improve in what we now consider "dirtier jobs." As a result, these jobs they would be able to hold workers better. This could come about if some members of the captive labor force now attached to these jobs because of race and sex segregation were allowed to move off into better jobs.

Chairman PROXMIRE. That appeals to me a great deal, a great deal. I have always been turned off by the argument about so-called unattractive jobs, that people wouldn't take them because it was beneath them and so on, and the argument that teachers are paid only a little more than garbage collectors.

In my view, garbage collectors ought to be paid more than many others in our economy; it is a dirtier job and you would have to pay me more to collect garbage rather than teach. I taught for a while and I loved it; it was wonderful; it was exciting and challenging; that is not true of garbage collecting, no matter how imaginative you may be.

Mrs. BERGMANN. Economists tend rather carelessly to refer to high wage and low wage occupations as though these wage levels were ordained by God but, in fact, they depend on supply and demand. I think there is an excess of supply in some markets due in great part to this problem of segmentation by race and sex.

Let me turn to the question of deficient demand. I have made an estimate of the amount of difference in unemployment rates between whites and blacks and between men and women due to turnover and the amount of the difference due to demand. Of course, these estimates tend to be rather sketchy, but I think these are in the right ballpark.

As of August the unemployment rate for black men was 8.4 percent and for white men it was 4 percent. I estimate that for white men, 2 percent—that is, half of their unemployment—is due to turnover. This estimate is based on the assumption that turnover creates unemployment because jobs stand vacant for a while.

Now, for black men, my estimate is a somewhat higher amount; namely, 2.9 percent of the black male labor force is unemployed because of turnover. Blacks do have higher turnover rates but that 2.9 is a smaller fraction of the total black rate of 8.4 percent than the 2 percent for white males is of the total white rate of 4 percent.

Similarly for women; women's turnover rate is about 18 percent higher than male turnover rates. I would estimate that of the 7.5 percent unemployment rate among women, only 2.2 percent can be due to turnover, whereas for men, something like 2 percent is due to turnover.

Chairman PROXMIRE. Have you made any effort to find out how much of that 18 percent higher turnover for women is the result of women having children and so forth?

Mrs. BERGMANN. An estimate has been made, not of how much was due to having children but rather of how much is due to the fact that women are in occupations in which both men and women turn over faster.

Chairman PROXMIRE. But there is a definite sex difference, of course?

Mrs. BERGMANN. Yes, there is.

Chairman PROXMIRE. If the woman has a baby, in most cases she has to take at least a temporary leave and very often it is a leave that might be 2 or 3 or 4 years or longer.

Mrs. BERGMANN. Yes, although I think it is decreasing in fashionability.

Chairman PROXMIRE. It may be but it would seem to me it could well account for an 18-percent difference.

Mrs. BERGMANN. The estimate of Mrs. Sawhill of Goucher is that half of this 18 percent is due to this occupational difference and half is due to other factors.

Let me briefly address the question: Is progress being made? It is being made very, very slowly for blacks. I believe we are going backward with respect to women—that is, women are crowding into the labor force and “their” occupations, particularly the clerical occupations, are bulging at the seams.

Let me now talk about policy. Martin Feldstein has proposed that we set up youth policies, youth employment scholarships, a youth employment service. I wholeheartedly endorse that suggestion but only on condition that care be taken to insure that the young people have access to the federally subsidized jobs without regard to race or sex.

The Federal record in insuring nondiscriminatory entry into its youth programs is quite poor, the most shameful case being the programs of the Bureau of Apprenticeship. I think that a Federal youth program which would help to perpetuate present occupational segregation by race and sex would do more harm than good. After all, the labor market problems of young white males very soon solve themselves through the process of aging; the employment problems of young black women and men and of young white women are not so easily conquered.

To a nondiscriminatory youth program, I would add two other programs as essential: an expanded program of public service jobs and a strengthened program of affirmative action for nondiscriminatory hiring by private employers, enforced by the Federal Government.

Public service employment is a necessary tool for breaking down patterns which have led to high turnover and high unemployment for youth, blacks, and women, simply because it is too much to expect the private economy to solve this problem all by itself. The public service already plays a role in giving blacks and women a better deal than does the private labor market. Its role must be expanded and whatever patterns of discrimination remain within the governmental service must be broken up.

Although I realize the idea has little political appeal, I would urge experimentation on a small scale with public construction in which the usual market for construction labor organized by contractors was bypassed and the work done and supervised by employees on the public payroll chosen in a nondiscriminatory way. There is a precedent for this in the way the city of Minneapolis runs its construction projects, I am told.

I believe that vigorous, affirmative action programs in private industry are also a necessary ingredient to success in reducing occupa-

tional segregation and thus in reducing excessive rates of turnover and unemployment for women and blacks. A lot of opposition to such programs has been generated by exaggerated notions about what such programs entail. They do not entail firing any person currently on any job and they do not entail hiring masses of unqualified people.

Our research group has computed the share which blacks would have to be of all persons hired to fill job openings in manufacturing if the targeted share for black employment were to be reached in 10 years. These figures are shown in one of the tables in my prepared statement, table 4, along with the actual share which blacks had in hiring.

For example, blacks are now about 1.7 percent of all persons hired for professional and technical jobs in printing and publishing. That share needs to be raised to 5.2 if blacks are eventually to have their fair share of such jobs in that industry. There is a great deal of difference from the point of view of a black between a 1.7 percent hiring share and 5.2 percent share, but it is hard to see a great menace to whites or to competence in printing and publishing if the hiring rate is so changed.

Let me end by putting in a word about quotas. The problem has been and continues to be that there are many groups of jobs for which there has been a quota for white males—namely, a quota of 100 percent. It is these quotas that need abolishing; and there is no effective way to police the abolition of such quotas except by requiring employers to show progress on a statistical basis and asking them to explain in detail any failure to demonstrate such progress. I am in favor of such statistical requirements on employers and if this be quotas, then so be it.

Programs to create a labor market where blacks and women would have access to jobs for which they are qualified and have a chance to move up to more responsible jobs if their performance warrants it are desirable on equity grounds alone. Such programs will surely have the result of reducing the target rate for unemployment on which reasonable people can agree. It is hard to believe it could be done in any other way.

(The prepared statement of Mrs. Bergmann follows:)

PREPARED STATEMENT OF BARBARA R. BERGMANN

CURING HIGH UNEMPLOYMENT RATES AMONG BLACKS AND WOMEN*

We will not begin to take the monetary and fiscal steps necessary to reduce the unemployment rate in the United States toward levels considered respectable in most other developed countries—in the neighborhood of two percent—unless and until progress is made in solving the problem of high unemployment of blacks and women, who now together constitute 44 percent of the labor force. Women's unemployment rates are currently running 64 percent higher than men's and black rates are running 110 percent higher than white rates. Even in times (unlike the present) when the labor market for white prime-age males is tight, and further expansion via monetary and fiscal policy threatens highly inflationary consequences, high unemployment among blacks and women as well as among youths keeps the size of the total group of unemployed people very large.

*Testimony prepared for delivery before the Joint Economic Committee, Congress of the United States, October 17, 1972. Research for this paper was supported by a grant to the Project on the Economics of Discrimination by the Office of Economic Opportunity. I would like to thank Clair Vickery, Bradley Schiller, Henry Aaron, and Robert Hartman for helpful comments.

I will argue that we can bring down the pathologically high unemployment rates among blacks and women by policies which encourage employers to treat members of these groups more as white males are now treated. I will further argue that such policies would not merely have the effect of spreading the misery around more evenly, but would enable us to move to an era in which unemployment rates could be lower for all groups, without inflationary consequences.

Martin Feldstein¹ has brought together in a very helpful way the evidence on unemployment by race, sex and age. He shows that women, blacks and youth tend to have high unemployment rates whether the rate for white males is high or whether it is low. Improvement in the state of aggregate demand changes the unemployment rates for women and young blacks very little.² Rates for black men and women and white male youth are reduced by improvement in aggregate demand, but even in the best of times their rates are high.

In explaining this phenomenon of high unemployment rates for blacks, women and youth, Feldstein attributes great importance to high labor turnover among these groups—to a tendency to leave jobs. Speaking of young workers he says, "Why is employment so unstable and labor force attachment so weak in this age range? Why do young American workers experience so much higher unemployment rates than their British counterparts? I believe that a *fundamental reason is the types of jobs that are available and the lack of adequate reward for stable employment.*"³ [Emphasis supplied.]

While I believe that shortage of demand is even more important than high turnover in causing high unemployment, I do believe high turnover deserves more attention than we have given it. Moreover, I believe Feldstein is right on target in his diagnosis of the cause of high turnover among youths.

The very same diagnosis is to a great degree applicable in the case of high turnover among women and blacks. Women and blacks also suffer from "the types of jobs that are available and the lack of adequate rewards for stable employment." Robert E. Hall put the matter very strikingly when he said,

"... the whole notion of a career with steady advancement is relevant only for white males . . . Blacks and women seem to be excluded from work that offers an incentive to stay with a job permanently. . . ."⁴

The lack of careers leads to drift from one job to another and to drift into and out of the labor force. It is these drifting people who create the high labor turnover statistics and contribute, along with deficient demand, to the high unemployment rates that Feldstein documents.

Blacks and women do not have careers because they are denied access to jobs of a "career" type. The denial of a career to blacks of both sexes and white women is done through a system of occupational segregation. The occupational segregation of blacks from whites of *equivalent educational experience* can be seen in Table 1, which shows for 21 manufacturing industries the great over-concentration of blacks in service occupations and as laborers, and their gross under-representation in occupations where advances in wages and status are more common. In printing and publishing, for example, we see that blacks had in 1967 only 1.3 percent of the professional and technical jobs, whereas judging by their educational experience (on which the "target black employment share" is based) they should have 4.7 percent of those jobs. In the same industry, blacks had 1.6 percent of the craft jobs, as opposed to a "target" of 9.6. On the other hand, the share of blacks in jobs as laborers was double what might have been expected, judging by their educational experience, and their share of service jobs was triple the target level.

¹ "Lowering the Permanent Rate of Unemployment," a report to the Joint Economic Committee, October 17, 1972.

² We must be careful not to interpret an unchanging rate of unemployment over the cycle as an unchanging degree of hardship in these groups. The unchanging rate of unemployment is probably due to a reduction in the rate of quitting jobs in bad times, which balances out the reduction in opportunities to leave the state of unemployment through finding a job. In bad times, the average length of unemployment rises in these groups, and hence the hardship of finding oneself unemployed rises also.

³ *Op. cit.*, pp. 34-35.

⁴ Robert E. Hall, "Why Is The Unemployment Rate So High At Full Employment?" *Brookings Papers on Economic Activity*, 3: 1970, pp. 393, 396.

TABLE 1.—BLACK EMPLOYMENT AND HIRING PARTICIPATION, BY OCCUPATION AND INDUSTRY

[Blacks as a percent of total employment and hires]

	Officials and managers	Profes- sionals and tech- nicians	Sales workers	Clerical workers	Crafts- men	Opera- tives	Laborers	Service workers
Ordnance and accessories:								
66 black hire share.....	1.5	2.1	0	3.5	11.4	22.3	19.9	36.3
67 black employment share.....	.7	1.2	0	2.4	4.0	15.4	17.7	24.5
77 estimated black employment share.....	1.2	1.7	0	3.3	9.5	20.9	18.9	34.8
Target black employment share.....	6.2	4.6	6.6	6.6	8.6	9.7	10.8	9.2
Food and kindred products:								
66 black hire share.....	1.4	2.4	2.9	2.8	8.8	14.1	22.4	25.3
67 black employment share.....	1.0	1.8	2.6	2.4	7.5	12.9	21.3	24.6
77 estimated black employment share.....	1.3	2.3	2.7	2.7	8.4	13.4	21.4	24.2
Target black employment share.....	7.1	5.1	7.4	7.5	10.0	11.6	13.1	10.8
Tobacco manufactures:								
66 black hire share.....	3.5	3.5	2.3	7.8	5.2	17.7	17.0	52.6
67 black employment share.....	1.5	2.3	1.8	5.7	3.2	15.4	44.8	51.4
77 estimated black employment share.....	3.3	3.3	2.2	7.4	4.9	16.8	45.5	51.1
Target black employment share.....	10.0	7.8	10.4	10.4	14.4	16.8	19.2	15.6
Textile mill products:								
66 black hire share.....	.4	1.9	0	2.3	5.2	12.3	25.5	28.4
67 black employment share.....	.3	1.1	.1	1.9	3.4	9.3	24.1	28.1
77 estimated black employment share.....	.4	1.8	0	2.2	4.8	11.7	24.4	27.2
Target black employment share.....	9.4	7.2	9.8	9.9	13.5	15.7	17.9	14.6
Apparel and other textile products:								
66 black hire share.....	1.1	2.8	1.2	5.5	10.3	11.2	17.9	21.7
67 black employment share.....	1.2	2.2	.8	5.0	8.5	9.7	17.2	21.3
77 estimated black employment share.....	1.1	2.6	1.1	5.2	9.8	10.6	17.1	20.7
Target black employment share.....	7.9	5.7	8.3	8.4	11.2	12.8	14.5	12.0
Lumber and wood products:								
66 black hire share.....	.5	.9	.5	1.8	10.1	16.4	29.8	20.9
67 black employment share.....	.5	.7	.4	1.4	6.4	14.6	28.2	19.6
77 estimated black em- ployment share.....	.5	.9	.4	1.7	9.5	15.7	28.7	19.9
Target black employ- ment share.....	10.0	7.9	10.4	10.4	14.4	16.7	19.2	15.6
Furniture and fixtures:								
66 black hire share.....	1.2	1.9	.1	2.6	9.1	15.7	24.0	25.2
67 black employment share.....	.7	1.0	.1	2.0	7.0	13.9	22.8	24.2
77 estimated black em- ployment share.....	1.1	1.7	.1	2.4	8.6	15.0	23.0	24.2
Target black employ- ment share.....	7.9	5.8	8.3	8.3	11.3	13.0	14.8	12.2
Paper and allied products:								
66 black hire share.....	.5	1.4	.5	2.9	4.3	12.0	15.6	20.2
67 black employment share.....	.3	.7	.3	1.7	3.2	9.0	14.3	21.4
77 estimated black em- ployment share.....	.5	1.2	.5	2.7	4.0	11.3	14.9	19.3
Target black employ- ment share.....	7.2	5.1	7.6	7.6	10.2	11.8	13.3	11.0
Printing and publishing:								
66 black hire share.....	1.2	1.7	1.9	6.3	2.9	10.2	22.2	37.6
67 black employment share.....	.9	1.3	1.4	4.6	1.6	8.4	19.8	35.0
77 estimated black em- ployment share.....	1.1	1.6	1.8	6.0	2.7	9.7	21.3	36.3
Target black employ- ment share.....	6.8	4.7	7.2	7.3	9.6	11.1	12.5	10.3

TABLE 1.—BLACK EMPLOYMENT AND HIRING PARTICIPATION, BY OCCUPATION AND INDUSTRY—Continued

[Blacks as a percent of total employment and hires]

	Officials and managers	Professionals and technicians	Sales workers	Clerical workers	Crafts- men	Opera- tives	Laborers	Service workers
Chemicals and allied products:								
66 black hire share.....	.8	3.9	.7	3.0	6.3	14.5	22.5	24.1
67 black employment share.....	.5	1.8	.5	2.1	3.5	11.0	22.1	22.9
77 estimated black em- ployment share.....	.7	3.3	.7	2.8	5.6	13.6	21.5	23.0
Target black employ- ment share.....	7.7	5.7	8.1	8.2	11.1	12.8	14.5	12.0
Petroleum and coal products:								
66 black hire share.....	.1	2.0	1.2	4.9	3.9	16.1	23.4	20.4
67 black employment share.....	.2	.7	.7	2.9	1.9	10.7	24.4	21.3
77 estimated black em- ployment share.....	.2	1.6	1.1	4.5	3.3	14.9	22.4	19.5
Target black employ- ment share.....	7.7	5.8	8.1	8.1	11.0	12.7	14.4	11.9
Rubber and plastics products:								
66 black hire share.....	1.7	1.5	3.0	1.3	5.1	12.1	12.8	20.7
67 black employment share.....	.9	1.0	2.3	1.3	3.7	10.6	12.2	21.5
77 estimate black em- ployment share.....	1.6	1.4	2.8	1.2	4.8	11.6	12.1	19.8
Target black employ- ment share.....	6.6	4.6	7.0	7.1	9.5	11.0	12.4	10.3
Leather and leather products:								
66 black hire share.....	1.8	2.3	.5	3.5	3.7	7.0	10.6	10.5
67 black employment share.....	.8	1.5	.3	2.6	2.8	5.5	9.7	10.6
77 estimate black em- ployment share.....	1.7	2.1	.4	3.3	3.5	6.6	10.0	10.0
Target black employ- ment share.....	7.0	4.8	7.4	7.6	10.0	11.4	12.8	10.7
Stone, clay, and glass products:								
66 black hire share.....	1.1	1.0	.1	1.2	4.2	11.6	19.3	19.5
67 black employment share.....	.5	.7	.1	1.0	3.4	10.7	17.8	18.1
77 estimate black em- ployment share.....	1.0	.9	.1	1.2	4.0	11.0	18.5	18.6
Target black employ- ment share.....	7.2	5.2	7.6	7.7	10.3	11.9	13.5	11.1
Primary metal industries:								
66 black hire share.....	2.6	2.5	0	2.3	7.9	20.4	26.9	20.1
67 black employment share.....	1.3	1.1	.1	1.8	6.3	18.0	25.3	18.3
77 estimate black em- ployment share.....	2.3	2.2	.0	2.2	7.4	19.5	25.8	19.2
Target black employ- ment share.....	6.7	4.7	7.1	7.2	9.6	11.1	12.5	10.3
Fabricated metal products:								
66 black hire share.....	.6	1.0	.3	1.5	4.7	11.8	15.8	15.6
67 black employment share.....	.4	.8	.2	1.4	3.8	10.5	15.1	16.0
77 estimate black em- ployment share.....	.6	.9	.3	1.4	4.4	11.2	15.0	14.9
Target black employ- ment share.....	6.7	4.7	7.0	7.1	9.5	11.0	12.5	10.3
Machinery, excluding electrical:								
66 black hire share.....	.4	1.4	.2	2.3	3.6	8.1	14.3	19.6
67 black employment share.....	.3	.9	.2	1.7	2.6	7.2	13.4	15.6
77 estimated black em- ployment share.....	.4	1.2	.2	2.1	3.3	7.7	13.6	18.7
Target black employ- ment share.....	6.4	4.4	6.8	6.9	9.2	10.7	12.1	10.0
Electrical equipment and supplies:								
66 black hire share.....	1.1	2.3	.2	3.1	5.8	12.3	13.3	19.9
67 black employment share.....	.6	1.6	.2	2.4	3.8	9.9	11.9	18.5
77 estimated black em- ployment share.....	1.0	2.1	.2	2.9	5.4	11.7	12.6	19.0
Target black employ- ment share.....	6.6	4.6	7.0	7.1	9.3	10.8	12.1	10.1

TABLE 1.—BLACK EMPLOYMENT AND HIRING PARTICIPATION, BY OCCUPATION AND INDUSTRY—Continued
[Blacks as a percent of total employment and hires]

	Officials and managers	Professionals and technicians	Sales workers	Clerical workers	Crafts- men	Opera- tives	Laborers	Service workers
Transportation equipment:								
66 black hire share.....	1.1	1.1	.1	3.4	6.1	17.1	22.9	24.8
67 black employment share.....	.8	.8	.1	2.9	4.8	15.9	21.5	23.5
77 estimated black em- ployment share.....	1.0	1.1	.1	3.2	5.8	16.3	21.9	23.8
Target black employ- ment share.....	6.5	4.6	6.8	6.9	9.2	10.6	12.0	9.9
Instruments and related products:								
66 black hire share.....	.7	1.9	.2	2.7	2.9	6.8	10.4	18.7
67 black employment share.....	.4	1.1	.2	2.1	2.2	6.8	9.5	17.8
77 estimated black em- ployment share.....	.6	1.8	.2	2.5	2.8	6.5	9.9	17.9
Target black employ- ment share.....	6.5	4.4	6.9	7.1	9.1	10.5	11.7	9.8
Miscellaneous manu- facturing:								
66 black hire share.....	2.0	1.9	1.2	3.1	7.7	11.6	18.3	19.8
67 black employment share.....	1.3	1.7	1.1	2.5	5.4	10.8	17.5	18.8
77 estimated black em- ployment share.....	1.8	1.8	1.1	2.9	7.2	11.0	17.4	18.9
Target black employ- ment share.....	6.7	4.6	7.1	7.2	9.5	10.8	12.1	10.1

Source: Reprinted from Barbara R. Bergmann and William R. Krause, "Evaluating and Forecasting Progress in Racial Integration of Employment," *Industrial and Labor Relations Review*, April 1972.

The occupational segregation of women from men is even more extreme than the occupational segregation by race.⁵ Its extent has been documented by Harriet Zellner, to whom is owed the figures in Table 2.⁶ Zellner has grouped detailed occupations by the extent to which they were segregated by sex. She found that 47 percent of all women worked in occupations which were almost entirely female, while 87 percent of all men worked in occupations where women were grossly under-represented. Only 11 percent of women and six percent of men work in occupations where women have fair representation. The lack of a meaningful career for most women which occupational segregation entails is well illustrated by the familiar figures of the young executive trainee (male) and his secretary (female) both of whom may have gone to the same college, taken the same courses, and achieved identical grades.

TABLE 2.—DISTRIBUTION OF WOMEN AND MEN AMONGST OCCUPATIONS GROUPED BY
SEGREGATION LEVEL, PRIVATE SECTOR, 1960¹

	Females	Males	Percent distribution		Females as percent of total
			Females	Males	
Total employed.....	16,370,285	36,709,582	100	100	31
Occupation group:					
I. Occupations with 80 to 100 percent women..	7,673,389	578,057	47	2	93
II. Occupations with 50 to 79 percent women..	3,664,547	1,730,629	22	5	68
III. Occupations with 33 to 49 percent women..	1,731,389	2,320,730	11	6	43
IV. Occupations with 0 to 33 percent women..	3,300,960	32,080,166	20	87	9

¹ Based on data from the U.S. Bureau of the Census, "1960 Census of Population," PC(2) 7A, occupational characteristics, table 21.

Source: Harriet Zellner, "Discrimination Against Women, Occupational Segregation and the Relative Wage," paper delivered at the meetings of the American Economic Association, New Orleans, December 1971. A condensed version of this paper appeared in the *American Economic Review*, May 1972.

⁵ See Victor R. Fuchs, "Male-Female Differentials in Hourly Earnings," (National Bureau of Economic Research, 1970), p. 12.

⁶ Harriet Zellner, "Discrimination Against Women, Occupational Segregation and the Relative Wage," Paper delivered at the Meetings of the American Economic Association, New Orleans, December, 1971. A condensed version of this paper appeared in the *American Economic Review*, May 1972.

The kinds of jobs to which most women and blacks are consigned tend to be repetitive, boring, and without interesting human contact. These kinds of jobs may be tolerated by the less talented or imaginative. Even those of ability may tolerate such jobs if they are seen as possible stepping stones to higher things. But where these jobs are dead ends, as they are for most blacks and most women, incentive to stay in any particular job is low. To go in exasperation from one boring job to another, even at the cost of a spell of unemployment, may be better than staying on one particular boring job, especially if nothing is to be gained by staying in terms of salary, responsibilities and advancement. An occasional retreat from a boring job into unpaid household work is undoubtedly refreshing for women who can afford such a luxury.⁷ I would conjecture that much of the job leaving is done—and therefore much of the associated unemployment is suffered by—those blacks and female workers with the most ability, to whom the system of occupational segregation is least tolerable and most galling.

I know there is a great temptation in some quarters to attribute the poor labor market position of blacks and women and their high unemployment to the inferior characteristics of the sufferers rather than to the discriminatory action of employers in restricting access to certain jobs to white males. Blacks, it is said, lack aptitude, and women lack labor force attachment. Whatever truth there is to these assertions will not be uncovered until employers begin giving a square deal to those blacks *with* aptitude and those women *with* labor force attachment. Only then will we begin to see whether the present labor force behavior of blacks and women, particularly their higher turnover rate, is not merely a reaction to employer discrimination.

TABLE 3.—*Estimated index of turnover rates by occupation, for the period 1967-70*

[Professionals, technical workers, managers=1]

Professionals, technical workers, managers-----	1.00
Sales workers-----	2.36
Clerical workers-----	1.83
Craftsmen and foremen-----	1.16
Operatives-----	1.80
Service workers-----	3.14
Laborers-----	3.86

Source: Unpublished data of the U.S. Department of Labor.

There is considerable evidence already which implicates discrimination as the reason for higher turnover rates for women and blacks. Relative labor turnover rates by occupation, based on unpublished data of the Bureau of Labor Statistics are shown in Table 3. The rates of turnover for laborers, service workers and clerical workers are two to three times as high as turnover rates among professionals, technical workers and craftsmen. But where is cause and effect here? Are rates for blacks and women high because they are over-represented in high turnover occupations, or do these occupations have high turnover because they are peopled by blacks and women? I have made calculations which indicate that a considerable part of the large difference in job leaving between blacks and whites is due to the fact that blacks tend to have jobs in occupations in which both blacks and whites leave jobs relatively frequently.⁸ A calculation by Isabel Sawhill indicates that about one-half of the 18 percent difference in turnover between men and women can be accounted for by the fact that women tend to be employed in industries and occupations in which both men and women leave jobs frequently.⁹

What this means is that the reduction of occupational segregation would tend to reduce the difference in the turnover and unemployment rates of whites and blacks and reduce the difference in the turnover and unemployment rates of men and women. But would such a development—justified on equity grounds alone—leave the total rate of turnover and unemployment as

⁷ Of course, millions of working women are in families with no working man, or a working man with low earnings.

⁸ Barbara R. Bergmann and William R. Krause, "Evaluating and Forecasting Progress in Racial Integration of Employment." *Industrial and Labor Relations Review*, April 1972.

⁹ Isabel V. Sawhill, "The Economics of Discrimination Against Women: Some New Findings." *Journal of Human Resources* (forthcoming).

high as ever? I believe that the effect of lower rates of turnover for women and blacks would not be cancelled out by higher turnover for white males. There are four reasons for this:

(1) Labor would be better distributed across occupations according to aptitude. Many women and blacks of above average ability find themselves, because of race and sex discrimination, in jobs in which their full talents are not utilized. These people are surely major contributors to the turnover statistics. If nondiscriminatory hiring were the rule, fewer individuals would find themselves mismatched in their job.

(2) A higher proportion of the total workforce would realistically consider themselves in the running for promotions in their current places of work. Here the analogy of a sweepstakes is useful. By cutting discrimination, the number of tickets in the promotion sweepstakes would be increased, although the chance of any ticket paying off would be reduced. A disproportionate amount of the turnover comes from those who have no ticket in the promotion sweepstakes whatever. Therefore increasing the number of tickets, even while somewhat debasing their value, should reduce total turnover.

(3) Certain types of occupations—laborers, service occupations, some clerical occupations—which now contribute disproportionately to the turnover statistics, would tend to fall in size. These occupations are now overcrowded and hence underpaid because they have a “captive” labor supply—women and blacks who because of discrimination have no place else to go. If discrimination were eased, part of this labor supply would go to other occupations.

(4) In all probability the laborer, clerical and service occupations would improve in terms of pay and working conditions, just to meet the competition for labor. This might in turn reduce turnover in these occupations, even as they were falling in size.

Let me emphasize again that I do not believe that relatively high turnover is the entire explanation for relatively high unemployment among women and blacks, or even the most important reason. These groups have been growing in size relative to the size of the group of white prime-age males. Yet women and blacks continue by and large to be restricted to the same occupations they were restricted to twenty or thirty years ago. As a result these occupations have tended to become overcrowded. This overcrowding, which accounts for the low wage levels¹⁰ in the occupations given over to women and blacks also is a cause of high unemployment for these groups.

I have attempted in a very simple way to estimate the amount of unemployment which can be attributed to turnover and the amount which must be ascribed to deficient demand. These estimates appear in Table 4. While estimated unemployment among black men due to turnover (1.1 percent of the labor force) is higher than the amount of unemployment due to turnover among white men (0.6 percent), most of the difference in the white and black rates seem attributable to a lower demand for black men as compared with white men. About 15 percent of the difference in the two rates is due to differences in turnover between blacks and whites. Similarly, about four percent of the difference in unemployment rates among men and women is due to differences in turnover. Thus, while the high turnover of women and blacks does contribute to their higher unemployment rate, the most important source of high unemployment for these groups is deficient demand due to occupational crowding and generally slack conditions.

Feldstein, Hall and others trace high unemployment rates back to high labor turnover in youth, blacks, women. We have traced the chain of causation back another step, from high turnover rates to occupational discrimination and have added another factor which seems considerably more important—occupational overcrowding. Only a great curtailment in occupational discrimination will bring down the turnover, reduce the overcrowding and hence the unemployment rates of these groups. There is good cause to believe that such a curtailment would also bring down total turnover and would permit total unemployment to be reduced safely by increases in aggregate demand.

¹⁰ See Barbara R. Bergmann, “The Effects of White Incomes of Discrimination in Employment,” *Journal of Political Economy*, March/April 1971.

IS PROGRESS BEING MADE?

It would be pleasant to report that the problems of women and blacks with unemployment and occupational segregation are being relieved at a respectable pace, but I believe the evidence now available points the other way.

TABLE 4, PART A.—UNEMPLOYMENT ESTIMATED AS DUE TO TURNOVER
[Percent of the labor force]

Age	Male		Female	
	White	Black	White	Black
16 to 19.....	0.8	1.3	0.9	1.6
20 and over.....	.6	1.1	.7	1.2

PART B.—UNEMPLOYMENT RATES—AUGUST 1972

16 to 19.....	13.0	22.4	13.4	31.2
20 and over.....	3.2	6.5	5.6	8.8

PART C.—RESIDUAL UNEMPLOYMENT ESTIMATED AS DUE TO DEFICIENT DEMAND

16 to 19.....	12.2	21.1	12.5	29.6
20 and over.....	2.6	5.4	4.9	7.6

Source: See text and "Employment and Earnings."

Our research group is planning an extensive study of the results of the 1970 Census focused on just this question. The evidence we have now, based on older data, seems to indicate that progress for blacks is quite slow and that women may be going backwards rather than forwards.

An essential in reducing black unemployment rates and raising black incomes relative to white incomes is the achievement of a better occupational mix for blacks. Our research group has made some projections to the year 1977 of the share blacks will have in various occupations in manufacturing industries, based on hiring practices in these industries in the late 1960's. The projections are shown in Table 1, in the third line under each industry title. Comparing these projections with actual black shares in 1967 as shown on the second line of the table, we see that the projected shares of blacks in occupations in 1977, although something of an improvement over the 1967 shares, are really very little of an improvement. Blacks will continue to be over-represented in occupations with high labor turnover (and lower pay as well) and under-represented in the "career" occupations. In no manufacturing industry are blacks on the path to achieving an occupational distribution which would substantially lower their average turnover and reduce their unemployment rate.

When we turn to the developments for women, we see a retrogression. In the period between 1950 and 1970, women in the labor force increased by 70 percent, as compared with a 15 percent increase for men. Largely because of employer discrimination, vast numbers of these women crowded into the already over-crowded clerical occupations, which more than doubled in size. Women in these occupations lost ground relative to the rest of the economy in terms of salary, which is a way of saying that the price the economy paid for increasing the size of clerical occupations was to put these women to lower priority (and no doubt more alienating) tasks. It is no wonder that such a situation should lead to high turnover and high unemployment among women.

WHAT POLICIES FOR REDUCING TURNOVER AND UNEMPLOYMENT?

Martin Feldstein has proposed that we set up a Youth Employment Service and Youth Employment Scholarships which would have the effect of getting more on-the-job training for youth, and encouraging young people to stay on in

particular jobs.¹¹ I would wholeheartedly endorse that suggestion, but only on condition that care be taken to ensure that young people have access to the federally subsidized jobs without regard to race or sex. The Federal record in ensuring nondiscriminatory entry to its youth programs is quite poor, the most shameful case being the programs of the Bureau of Apprenticeship. I think that a federal youth program which would help to perpetuate present occupational segregation by race and sex would do more harm than good. After all, the labor market problems of young white males very soon solve themselves through the process of aging—the employment problems of young black women and men and of young white women are not so easily conquered.

To a nondiscriminatory youth program, I would add two other programs as essential: an expanded program of public service jobs and a strengthened program of affirmative action by nondiscriminatory hiring by private employers, enforced by the Federal Government.

Public service employment is a necessary tool for breaking down patterns which have led to high turnover and high unemployment for youth, blacks and women, simply because it is too much to expect the private economy to solve this problem all by itself. The public service already plays a role in giving blacks and women a better deal than does the private labor market. Its role must be expanded, and whatever patterns of discrimination remain within the government service must be broken up. Naturally, a public service employment program which was ill paid, offered no training, offered no future and segregated women and blacks would not be much help. But a greatly expanded and improved public service jobs program could have a significant effect on current unemployment problems. Although I realize the idea has little political appeal, I would urge experimentation on a small scale with public construction in which the usual market for construction labor organized by contractors was bypassed, and the work done and supervised by employees on the public payroll, chosen in a nondiscriminatory way. There is a precedent for this in the way the city of Minneapolis operates its construction projects, a method initiated by Hubert H. Humphrey when he was mayor.

I believe that vigorous affirmative action programs in private industry are also a necessary ingredient to success in reducing occupational segregation, and thus in reducing excessive rates of turnover and unemployment for women and blacks. A lot of opposition to such programs has been generated by exaggerated notions about what such programs entail. They do not entail firing any person currently on any job, and they do not entail hiring masses of unqualified people. Our research group has computed the share which blacks would have to be of all persons hired to fill job openings in manufacturing if the targeted share for black employment were to be reached in ten years. These figures are shown by industry and occupation in Table 5 along with the actual share which blacks had in hiring. For example, blacks now are about 1.7 percent of all persons hired for professional and technical jobs in printing and publishing. That share needs to be raised to 5.2, if blacks are eventually to have their fair share of such jobs in that industry. There is a great deal of difference in 1.7 and 5.2, but it is hard to see a great menace to whites or to competence in printing and publishing if the hiring rate is so changed.

¹¹ *Op. cit.*, p. 38 ff.

TABLE 5.—BLACK HIRING PARTICIPATION: ESTIMATED 1966 RATE AND RATE NECESSARY TO ACHIEVE TARGET IN 10 YEARS

[Blacks as a percent of all hires]

	Officials and man- agers	Profes- sionals and tech- nicians	Sales workers	Clerical workers	Crafts- men	Operatives	Laborers	Service workers
Ordnance and accessories:								
1966 black hire share....	1.5	2.1	0	3.5	11.4	22.3	19.9	36.3
Needed black hire share..	8.5	6.1	7.1	7.2	10.2	10.1	11.4	9.7
Food and kindred products:								
1966 black hire share....	1.4	2.4	2.9	2.8	8.8	14.1	22.4	25.3
Needed black hire share..	7.7	5.5	7.8	7.9	10.6	12.2	13.8	11.4
Tobacco manufacturers:								
1966 black hire share....	3.5	3.5	2.3	7.8	5.2	17.7	47.0	52.6
Needed black hire share..	10.9	8.5	11.0	11.0	15.4	17.6	20.1	16.4
Textile mill products:								
1966 black hire share....	.4	1.9	0	2.3	5.2	12.3	25.5	28.4
Needed black hire share..	10.5	8.0	10.4	10.5	14.6	16.5	18.7	15.3
Apparel and other textile products:								
1966 black hire share....	1.1	2.8	1.2	5.5	10.3	11.2	17.9	21.7
Needed black hire share..	8.4	6.1	8.7	8.8	11.7	13.5	15.2	12.6
Lumber and wood products:								
1966 black hire share....	.5	.9	.5	1.8	10.1	16.4	29.8	20.9
Needed black hire share..	10.9	8.6	10.9	10.9	15.3	17.5	20.1	16.4
Furniture and fixtures:								
1966 black hire share....	1.2	1.9	.1	2.6	9.1	15.7	24.0	25.2
Needed black hire share..	8.6	6.4	8.7	8.8	11.9	13.7	15.6	12.8
Paper and allied products:								
1966 black hire share....	.5	1.4	.5	2.9	4.3	12.0	15.6	20.2
Needed black hire share..	8.7	6.2	8.0	8.2	11.6	12.5	14.0	11.5
Printing and publishing:								
1966 black hire share....	1.2	1.7	1.9	6.3	2.9	10.2	22.2	37.6
Needed black hire share..	7.4	5.2	7.5	7.6	10.4	11.6	13.1	10.8
Chemicals and allied prod- ucts:								
1966 black hire share....	.8	3.9	.7	3.0	6.3	14.5	22.5	24.1
Needed black hire share..	10.0	7.0	8.8	9.0	13.1	13.6	15.3	12.5
Petroleum and coal prod- ucts:								
1966 black hire share....	.1	2.0	1.3	4.9	3.9	16.1	23.4	20.4
Needed black hire share..	11.0	8.0	8.8	9.0	14.2	13.6	15.1	12.4
Rubber and plastics products:								
1966 black hire share....	1.7	1.5	3.0	1.3	5.1	12.1	12.8	20.7
Needed black hire share..	7.3	5.1	7.4	7.5	10.2	11.5	13.1	10.8
Leather and leather prod- ucts:								
1966 black hire share....	1.8	2.3	.5	3.5	3.7	7.0	10.6	10.5
Needed black hire share..	7.6	5.2	7.8	8.0	10.6	12.1	13.5	11.2
Stone, clay, and glass prod- ucts:								
1966 black hire share....	1.1	1.0	.1	1.2	4.2	11.6	19.3	19.5
Needed black hire share..	8.1	5.8	8.0	8.1	11.1	12.5	14.1	11.7
Primary metal industries:								
1966 black hire share....	2.6	2.5	.0	2.3	7.9	20.4	26.9	20.1
Needed black hire share..	7.8	5.4	7.5	7.7	10.4	11.5	13.2	10.8
Fabricated metal products:								
1966 black hire share....	.6	1.0	.3	1.5	4.7	11.8	15.8	15.6
Needed black hire share..	7.3	5.1	7.4	7.5	10.2	11.6	13.1	10.8
Machinery, excluding elec- trical:								
1966 black hire share....	.4	1.4	.2	2.3	3.6	8.1	14.3	19.6
Needed black hire share..	7.4	5.0	7.2	7.3	10.2	11.3	12.7	10.5
Electrical equipment and supplies:								
1966 black hire share....	1.1	2.3	.2	3.1	5.8	12.3	13.3	19.9
Needed black hire share..	7.5	5.1	7.4	7.5	10.2	11.3	12.7	10.6
Transportation equipment:								
1966 black hire share....	1.1	1.1	.1	3.4	6.1	17.1	22.9	24.8
Needed black hire share..	6.9	4.9	7.2	7.3	9.7	11.1	12.6	10.4
Instruments and related products:								
1966 black hire share....	.7	1.9	.2	2.7	2.9	6.8	10.4	18.7
Needed black hire share..	7.4	4.9	7.3	7.5	10.1	11.0	12.2	10.2
Miscellaneous manufacturing:								
1966 black hire share....	2.0	1.9	1.2	3.1	7.7	11.6	18.3	19.8
Needed black hire share..	7.2	4.9	7.5	7.6	10.0	11.4	12.8	10.6

Let me here put in a word about "quotas." The problem has been and continues to be that there are many groups of jobs for which there has been a quota for white males—namely a quota of 100 percent. It is these quotas that need abolishing. And there is no effective way to police the abolition of such quotas except by requiring employers to show progress on a statistical basis, and to explain in detail any failure to demonstrate such progress. I am in favor of such statistical requirements on employers, and if this be "quotas," then so be it.

With an effective youth program, a sizeable and innovative program in public service employment, and with enforcement of affirmative action plans, we will effectively reduce turnover and unemployment among blacks, youth and women. And we will be doing better than reducing differences among groups by spreading the misery around more evenly. A fair chance for everyone will mean more stable behavior in those who have up to now been left out, and there is good reason to believe that this gain will not be cancelled by less stable behavior on the part of the others. Reduced crowding in some parts of the labor market will mean increased supply in other parts, which will allow further increases in aggregate demand without excessive inflationary pressure.

Programs to create a labor market where blacks and women have access to jobs for which they are qualified and have a chance to move up to more responsible jobs if their performance warrants it are desirable on equity grounds alone. Such programs will surely have the result of reducing the "target" rate for unemployment on which reasonable people can agree. It is hard to believe it could be done in any other way.

Publications and Working Papers

(By Members of the Project on the Economics of Discrimination)

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- , "The Economics of Women's Liberation," in *Successful Women in the Sciences*, New York Academy of Sciences. Also to be reprinted in D. Mermelstein, ed., *Economics: Mainstream Readings and Radical Critiques*, Second edition, Random House.
- , "Can Racial Discrimination Be Ended Under Capitalism?" in James Weaver, ed., *Issues in Political Economy: Orthodox and Radical Approaches*, Allyn and Bacon, 1972. Also to be reprinted in D. Mermelstein, ed., *Economics: Mainstream Readings and Radical Critiques*, Second edition, Random House.
- , "Curing High Unemployment Rates Among Blacks and Women," Testimony prepared for the Joint Economic Committee, Congress of the United States, October 17, 1972.
- , "Combining Microsimulation and Regression: A 'Prepared' Regression of Poverty Incidence on Unemployment and Growth," *Econometrica*, 1973.
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- Bayer, Kurt. "A Social Indicator of the Cost of Being Black," unpublished Ph.D. thesis, University of Maryland, 1971.
- Bergmann, Barbara R. "Occupational Segregation, Wages and Profits When Employers Discriminate by Race or Sex."
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- , "Public Sector/Private Sector Wage Comparisons, by Sex, Race and Location."
- , "The Distribution and Scale of Industrial and Commercial Activity in the Urban Ghetto."

Chairman PROXMIRE. Thank you very, very much, Mrs. Bergmann. Thank all of you for interesting analyses.

Mr. Eckstein, when you testified before the Joint Economic Committee in February on inflation, you pointed out that we could improve the tradeoff between unemployment and inflation by improving the structure of the economy. This is a subject that is vitally interesting to this committee, as you know.

It has been our experience that the economy is subject to many serious rigidities. One stems from heavy industrial concentration, monopoly or oligopoly, at least which gives powerful business and

labor groups power to ignore the processes of the market. Another lies in extensive import restrictions. Oil import is only one of many.

Another limitation is on the free flow of goods and services between nations.

A third stems from the Government itself through various ineffective subsidies, and unwise regulatory policies which interfere with the best use of our resources. You don't seem to have devoted much time to these factors in this study.

As I indicated, you have relied on the conclusions which stemmed from the experience of the recent past, which has been very bad experience as compared with other countries.

Why can't we change some of the basic conditions of our economy and thereby improve its functioning and make it more possible to drastically reduce unemployment?

Mr. ECKSTEIN. Senator, the question that this committee asked on how could we reach full employment targets like other countries has really made me rethink this whole problem and I now feel, unlike some months ago, that it isn't the proper way to formulate the policy to insist that we solve the inflation problem first before we raise our sights on the full employment targets. And what has given me a new view of it is the existence of the control program.

We do have the controls, for better or worse, and I think we should pursue our employment goals which really are socially terribly important and in which we are even now in danger of backsliding. If we cannot solve the structural problems, if it is impossible to make the apprenticeship programs operate properly, or to have the industries cut price rather than output, or if it is impossible to have the Government stop protecting textiles and various other industries with quotas at the border; if all of these things turn out to be undoable, let's not have the people who are potentially employed pay the social price for it.

Chairman PROXMIER. I couldn't agree with you more, but, you see, there is a political problem of great difficulty here.

It is extraordinarily hard to persuade this administration or perhaps the McGovern administration, to adopt policies to overcome unemployment if those policies are going to result in higher prices. The tradeoff is a fact of life; it is an ugly, unfortunate fact of life; we just can't get away from it. So one way of coping better with unemployment is to reduce that tradeoff and maybe it is impractical, maybe it is long-run and maybe to get at these things is going to take too much, but if somebody with your prestige or the prestige of you four would recommend it, might have more of a possibility of becoming reality.

Mr. ECKSTEIN. I totally agree with you on the importance of improving the long-run Phillips curve of improving the tradeoff—the possible combinations of unemployment and prices.

There really are two tasks: one is to improve this whole structure of unemployment so we can get below a 4 to 4.5 percent unemployment area; and the other task is to improve the tradeoff for any given labor market.

Let me just mention some of the policies that clearly have made the tradeoff as bad as it is. The first is protection at the frontier that I am

sure is the singlemost important factor which imparts a permanent inflationary bias to the economy. There are other advanced countries today in most lines of products. The foreigners produce a product that is in the same ballpark as our own. The moment the domestic industry is protected, its price begins to rise and that is quite independent of any movement of the price level as a whole. So any move toward quotas worsens the possibilities open to society and any reduction of quotas makes it possible to get it to a little bit better tradeoff.

On the domestic scene, probably the Government itself is an important factor through our agricultural and other policies. We do want to assure a decent income for farmers but the price supports which still linger on are clearly a less effective way than to boost income, than to do it in some other way.

There are still domestic oil production quotas, although at the moment we have such a shortage that they are not effective, but it is the first time in many, many years that domestic restriction in oil production is not a major factor in keeping the price of gasoline up.

There is the whole area of defense procurement which accounts for a very substantial fraction of total manufacturing output. You have laid bare the weaknesses of how the Defense Department goes about purchasing its programs. Every time the Defense Department puts through a cost plus contract and winds up with a cost overrun of 100 percent it does raise the price level. It not only raises the price level directly but the very patterns that are created in the affected industry infect other companies. The cost plus way of life cannot be allowed to become a part of the American way of doing business.

So I don't make light at all of these structural flaws and certainly I think often a mistake is made in putting the blame for these bits of domestic protectionism on the Congress. I think if one reviewed in detail the record of this administration and its predecessors I am sure one would find that administration decisions played at least as great a role, if not a greater role, in this whole host of domestic protective legislation and rulings.

Chairman PROXMIRE. Another rather basic question concerns public employment.

Incidentally, this relates to the restructuring of jobs that you were talking about, Mr. Hall.

Why can we not have a positive, highly useful and extensive program of public employment which can provide badly needed help to our communities and, at the same time, give adequate and satisfying jobs to people who otherwise are out of work? Do we suffer from a pessimistic WPA kind of thinking in this matter? I would like to hear your opinions.

Mr. HALL. Well, Senator, I would think it is a mistake to draw too sharp a distinction between private and public employment programs. I think many of the same problems arise in constructing both kinds of programs. I have looked into the attempts to implement the job opportunities in the business sector program and it looks to me that the programs encounter exactly the same kind of problems as they would in the public programs. So I think we ought to talk more about how to structure programs rather than talk about the public or private jobs.

Chairman PROXMIRE. The reason I bring that up is because we have a problem of adequate services. In many of our cities we can't—they don't have the resources. Revenue sharing may help some but we don't have the resources to hire people to do the jobs that have to be done.

Mr. HALL. I think that is right.

Chairman PROXMIRE. And with a little imagination there are other jobs that are not being done at all, that could greatly improve the quality of life.

Mr. HALL. No; I think that is correct and I don't want my remarks to be interpreted as negative on public employment; but I think what you find in trying to set up programs to provide those services is that they would not necessarily accomplish the goals we have in mind for providing better employment for disadvantaged workers. I think the difficulty of a subsidy to local governments is that the incentives are to get the best possible workers and besides which they face many constraints in their own hiring practices and all these things tend to point in the direction of them hiring workers who are fairly well off now, who don't have the pathological problems that we have discussed. One might therefore stimulate the supply of better local services, which is probably an important objective, but we might miss accomplishing the more important objective.

Chairman PROXMIRE. But wouldn't it be perfectly possible to develop jobs which could be performed by people who don't have extraordinary skills, jobs that could be performed by those who suffer high levels of unemployment and could at the same time achieve a better country—I am thinking of programs like Green Thumb. Are you familiar with that?

Mr. HALL. Not terribly.

Chairman PROXMIRE. It is a marvelous program, employs older people who could not find work otherwise. It beautifies towns and villages and other communities. It has been successful and it is the kind of program that does provide work and it seems to me that we might be able to make a little more progress along that kind of line.

Furthermore, when we get into the private sector with subsidy programs in which we subsidize through apprenticeship programs or whatever, scholarship programs and so forth, a private employer, you interfere with the market system in a way that becomes difficult and subject to all kinds of tough political and economic pressure that you don't quite have in the same way in the public sector because it is not subject to the same kind of economic competition.

Mrs. Bergmann, let me ask you, you argue that reducing the rate of job turnover for women and blacks would not be cancelled out by an increase in the turnover rates of white males. Would your arguments apply in periods of less than full employment or would they apply only in periods of virtually full employment?

Mrs. BERGMANN. I think they would also apply under current conditions, which is obviously less than full employment by anybody's definition.

Chairman PROXMIRE. In a sense, you spread the misery around a little more, as you put it?

Mrs. BERGMANN. Yes, I am sorry; I didn't get the import of your question. I think turnover rates would be reduced generally, average turnover rates.

Now, what that would do would be to permit monetary and fiscal policy to bite better, to do its job better. One of the problems, as brought out by George Perry, has been that there is a tendency for only unemployed white males to be able to act as "hostages" against inflation.

If you have more unemployed women or more unemployed blacks, it doesn't seem to bear down on the inflation as much as unemployed white males bear down and keep inflation under wraps. So you might say that the unemployed white males now have the unfortunate honor of being the sole hostages against excessive inflation.

If we can make blacks and women more like white males both in employer psychology and in their own behavior, then they also will be more eligible to serve as full hostages against inflation. We will be able to reduce the total number of unemployed down considerably. Moreover, the number of white males who are hostages against any particular level of inflation can diminish.

Chairman PROXMIRE. Well, do you share the view of the Eckstein group, and maybe I misunderstand them or at least Mr. Feldstein, as he expressed it, that at the present time aggregate demand is not the problem?

Mrs. BERGMANN. I think aggregate demand is part of the problem. I think they think so too, to some extent. I am sure they would agree that we can, with great benefit, use monetary and fiscal policy to lower the unemployment rate from what it is now. As Mr. Eckstein said, if you have got the controls we ought to be using them.

Chairman PROXMIRE. Because if you don't change demand but do provide a better access to the market for women and blacks, then it would seem to me that unemployment for white males is going to be up.

Mrs. BERGMANN. That is quite true.

Chairman PROXMIRE. You would like to comment, Mr. Feldstein?

Mr. FELDSTEIN. Let me remark that our current unemployment rates are unnecessarily high. We now have 5.5 percent. I have talked about the inability of macroeconomic policy to lower the permanent rate of unemployment. I hope I stressed that that was below levels of 4 or 4.5 percent. I think that aggregate demand increases have a role to play now and a role to play to sustain—

Chairman PROXMIRE. I am delighted you clarified your position because I didn't understand that.

Your argument is it has a present role to play until we get down to 4, 4.5 percent, below that level?

Mr. FELDSTEIN. Then one has to sustain the demand for the additional supply of workers, whether it is young people or others, who come into the labor market.

Chairman PROXMIRE. Now you enter the Bergmann phase; if you get it down to 4, 4.5 percent and you eliminate the discrimination against women and blacks, you eliminate the attitude that maybe minorities and women had to some extent, then don't you have to lower that 4 or 4.5 percent and have aggregate demand continue to improve the lowered rate?

Mr. FELDSTEIN. I think aggregate demand has a supporting role to play as we push the unemployment rate down to 3 or below.

Chairman PROXMIRE. You wouldn't say the aggregate demand, if Mrs. Bergmann's views would become effective—

Mr. FELDSTEIN. I believe that a rate of 3 percent or less would be possible but I see the ways of achieving that would come in part by improving our treatment of young people with a youth employment service and doing something to help them get better on-the-job training. That could lower their rate by 1 percent.

Chairman PROXMIRE. I thought you went down to 2?

Mr. FELDSTEIN. I am not sure of my exact phrase; I would say perhaps even down to 2. I see that happening in the following way: 4 to 4.5 through ordinary demand management without any change in the structure of our economy; a half-percent due to better placement of young people, both in the transition from school to the labor force and in a reduction in voluntary turnover in temporary jobs, that would come through something like the youth employment service; and, as I stressed in the last section of the report, that our current system of unemployment compensation, by stretching out the duration of unemployment, probably contributes another $\frac{3}{4}$ to 1 percent and by increasing the supply of temporary and highly cyclical and seasonal jobs, perhaps adds another $\frac{1}{2}$ percent. So we are talking about $\frac{1}{2}$ from youth and 1 or $1\frac{1}{4}$ percent from a restructuring of the incentives associated with the unemployment compensation system.

Chairman PROXMIRE. All right. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman, and thanks to you members of the panel for your very helpful presentations.

Mrs. Bergmann, I have a question for you: Many of us believe that the public service employment program—which was launched in a very modest way a couple of years ago and which now employs some 170,000 public service employees ought to be considerably expanded to the range of some 500,000 public service jobs.

You can imagine our surprise then when we read in yesterday afternoon's Washington Evening Star and Daily News a story by a reporter named William Steif, saying that the Nixon administration, if reelected, plans to kill the present piddling little public service employment program next June, that Labor Department officials had not even asked the Office of Management and Budget for funds for it, and that—here I quote:

Labor Department officials met Friday to discuss methods of dissolving the public service jobs program; another basis for opposition, the sources say, is that the Administration dislikes make work programs.¹

What would be your reaction if that story is ultimately true?

Mrs. BERGMANN. Let me speak to the "makework" issue first. If the administration has created makework programs it is poorly administering the use of these people. There is obviously much to be done in this country and if these people are used on makework projects it is certainly an indictment of those running that program. I would view the termination of the program as a tragedy because I think it is such a promising thing, not just for sopping up unemployment but also for

¹ See complete text of article referred to by Representative Reuss on pp. 68 and 69.

changing the structure of the labor market, for giving people experience in kinds of work they might not otherwise have, for delivering services that are needed. I think this is one of the most promising programs and to kill it in its cradle would be very serious.

Representative REUSS. Thank you.

Mr. Eckstein, would you comment, if you wish to, on the suggestion made by Mr. Feldstein in his prepared statement which has to do, as he puts it, with integrating the minimum wage law with income maintenance policy. By this is meant, I take it, that if an employer somehow signals that he is going to fire a dishwasher making \$1.55 an hour—when the minimum wage goes up to \$1.90 an hour—and stops serving lunch or whatever is necessary in order to do that, then the Government would pony up the remaining 35 cents—either directly to the employer or in sort of a food stamp fashion as an income maintenance program for the individual.

First of all, before asking you, let me ask Mr. Feldstein if I have—

Mr. FELDSTEIN. That isn't what I quite had in mind. Could I take a minute—

Representative REUSS. Could you tell me what you had in mind?

Mr. FELDSTEIN. I am an optimist about the negative income tax and it was with something like that eventually in mind that I made this suggestion. If an individual receives \$2,000 a year income maintenance payment, then I would say that he is essentially receiving \$1 an hour as an income maintenance wage. If it is a \$2 an hour minimum wage law and the income maintenance program says that he gets to keep 50 cents out of every dollar—it was a bad number for me to pick—let me start again.

If the family receives \$3,000, plus 50 percent of anything that the individual earns, that \$3,000 would be equivalent to \$1.50 an hour for a full-time employee. If that individual earns \$1 an hour or more, his total income, both the income maintenance part and his net wage, net of the amount that he has to pay because of the income maintenance rule, would be the \$2 an hour, if he took a job that paid at least \$1 an hour, so it would be essentially redefining the minimum wage requirement to include not only his market wage but also $\frac{1}{2000}$ of his income maintenance payment. So it does not require the employer to make a specific request or the employee to make a specific request.

It would simply change the definition of the minimum wage, emphasizing an important point, that the minimum wage is there to maintain income, and that these individuals would have their incomes maintained either by whatever combination of market wage and income maintenance payment as appropriate for their family size and needs.

Representative REUSS. Well, take it from there, Mr. Eckstein.

Mr. ECKSTEIN. Congressman, Mr. Feldstein, of course, is correct in reminding us that if a minimum income is provided through some universal income allowance scheme, then one of the functions of the minimum wage is carried out by Government policies some other way.

It is also true, as numerous economists have pointed out before this committee and elsewhere, that the minimum wage does a certain amount of mischief in some unknown number of situations where a

job really is destroyed with the minimum wage. The part of minimum wage that has struck me as really sound social policy is that it is a kind of protection in very one-sided job markets. That is, there are situations around this country where you have a large rural labor force working in very low wage occupations, some situations where you are dealing with a very segmented labor market which Mrs. Bergmann was alluding to, and in the worst of those situations the minimum wage provides protection.

Now, I see no reason why we should remove that protection from those people. In the American economy the wages are generally way above the minimum wage and, in the long run we look forward to the day, as we succeed through human investment, at getting to those pockets of poverty, when the minimum wage is no longer needed. But until that day is here I see no reason to scuttle it or let it get as far out of touch with the regular wage structure as it has in the last few years.

The minimum wage has really fallen compared to other wages and it ought to be corrected.

Representative REUSS. How would you relate the general outlook which you just described to the Feldstein proposal, which I gather is that an employer can look at whatever income maintenance fund an employee gets a year and then deduct that from the minimum wage that is paid?

Mr. ECKSTEIN. Well, there is a—

Representative REUSS. The dishwasher shows up, let's say there is a \$2 minimum wage, and the employer for reasons good or bad figures that he is going to close his restaurant at noon if he is going to have to pay more than \$1.50. He shops around for a fellow, until he finds someone who wants to be a dishwasher and who has got a 50 cent an hour dividend from a minimum income plan. I am interested in it.

Mr. FELDSTEIN. That is essentially the idea. Of course, that individual wouldn't take that job if he can get more than \$1.50 an hour working somewhere else.

Mr. ECKSTEIN. Well, there is a question whether the wage subsidy accrues to the benefit of the worker or to the employer. There is one school of thought which believes that any wage supplement aimed at the low productivity, low-income group, in fact mainly redounds to the benefit of the employer, and that even supplements paid directly to the worker may simply lead to a reduction in wages and to cost savings which keep marginal enterprises alive and keep them hiring workers at very low wages when otherwise the market would have closed them.

I think in the youth area the minimum wage has been mischievous. One reason Germany does have an apprenticeship system and it does pay employers to spend 2, 3, 4, years having the kids learn on the job is that it doesn't cost them much. I am sure there are cases where the minimum wage gets in the way of employers hiring people and giving them on-the-job training, and I think when we have other ways of protecting low income people, that is when we do have more of an income supplement to the working poor, we ought to cut back on the minimum wage as an across-the-board policy. In that sense I agree with Professor Feldstein.

Let me add, that although the chairman graciously refers to us as the Eckstein group, that even though we are all associated with Data Resources, we do not have a uniformity of view on every topic. We do stand behind the Feldstein findings but it does not mean we have to accept every comma or every period. We have some academic freedom.

Representative REUSS. Would you agree that a tremendous, an almost insuperable, administrative problem is presented in trying to delineate those jobs where, as an abstract matter, it can be determined that they are not really worth the minimum wage. It is easy enough to say that they are mischievous; there are cases where the minimum wage is mischievous. Both of us, without focusing on it very carefully, may think that that is so, but has anybody tried to delineate a mischievous category?

Mr. ECKSTEIN. I will give you an example.

Representative REUSS. It seems to me you have to do that. Otherwise, by adopting the Feldstein proposal, you are just subsidizing low-wage employers who may want to be low-wage employers because you are subsidizing them. Who wouldn't? It is a big problem there.

Mr. ECKSTEIN. My experience with this was that during the time the minimum wage was raised last, when I was serving on the Council of Economic Advisers the Labor Department and other studies tended to show that the number of people who would lose their job through a higher minimum wage was very small, and that the historical evidence suggested that after it went up, nothing happened to employment; and I am sure those studies in broad outline are correct. On the other hand, we did get mail about various specific situations. For example, I remember a letter from a cannery area, not very far from here, I understand, where you have canneries and these people pay very badly and the question was, would they be covered by the minimum wage. Well, the letters were sufficiently strong they looked to me if they raised the minimum wage and extended the coverage to this group that they would close.

Now, you take an area, of course, if you commute 50 miles from Washington, but in that situation everybody was telling us from both sides if you do that you will destroy that cannery; it will close; there are no alternative opportunities in that area, and it does make you pause on the implications of what you are doing, and that is why I really say—now, are they better off? Is the country better off if you wipe out employers who cannot begin to come anywhere near the normal wages in the country?

Well, in the long run the answer is probably yes but you do create some human hardships in getting there.

Representative REUSS. My time is up.

Chairman PROXMIRE. Mr. Feldstein, it is often pointed out that the very tight labor market, which I have referred to many times in the hearings so far, in World War II brought about the only significant decline in income inequality, the only improvement in income equality, since 1930. Thurow and Lucas, in a JEC commissioned paper, strongly recommend an extremely tight labor market as a way of achieving a more equal income distribution.¹

¹ Lester C. Thurow and Robert E. B. Lucas, "The American Distribution of Income: A Structural Problem," a study prepared for the use of the Joint Economic Committee, Mar. 17, 1972.

You seem to assign little or no importance to this byproduct of a 2-percent unemployment rate. Do you agree or disagree that the 2-percent rate would lessen income inequality? Isn't this a better way and, therefore, more realistic, to reduce the problem of poverty than all of our costly and heavily bureaucratic transfer programs?

Mr. FELDSTEIN. Well, I do agree that a higher level of employment would improve the income distribution. I think we see that, even with the moderate decreases in unemployment that have occurred occasionally throughout the postwar period, the lowest quintile of the population gets a slightly increased share of income.

I don't think that it would eliminate the need for income transfer payments for some part of the population. I think it would help some.

Chairman PROXMIRE. Of course, I know it wouldn't eliminate it. We have massive transfer payments now. Especially for the children, for aged and sick and the lame and the dependent mothers, mothers with dependent children.

Mr. FELDSTEIN. I think we both agree that reducing the unemployment rate would improve the income distribution but I think the important thing is that that need not occur through increases in aggregate demand.

Chairman PROXMIRE. It need not occur through what?

Mr. FELDSTEIN. Increases in aggregate demand. I hope I have made clear that I see increasing demand as a necessary accompaniment of these policies which are aimed at changing the structure of the labor market, but I think that if we do change that, if we do encourage those who are out of work to get back to work, if we do reduce the amount of nonparticipation which is really very high in certain groups of the population, we will substantially affect their levels of income.

Chairman PROXMIRE. What did you say about aggregate demand again?

Mr. FELDSTEIN. Increases in aggregate demand have to accompany policies to increase the supply of skills but that the important part is not increases in aggregate demand as such but changes in the structure and the availability of certain types of jobs for these workers. By simply getting those who are currently out of work back into work at very low paid jobs we are not going to avoid their poverty very substantially.

Chairman PROXMIRE. Not necessarily low paid jobs. As recently as 1968, because of the Vietnam war in part and so forth, with no youth employment program of any significance, with none of the proposals which you have made, we had unemployment down to 3.5 percent.

Mr. FELDSTEIN. That's right.

Chairman PROXMIRE. We did not have a control program at that time. We had no wage and price control program in 1968. With that level of aggregate demand we undoubtedly could have held onto a 3.5-percent unemployment rate, maybe pushed it lower. Yet you seem to tell us that you can't get below 4.5 or 4 percent now?

Mr. FELDSTEIN. I saw substantial inflationary pressures, and I think that is perhaps a more optimistic statement.

Chairman PROXMIRE. You see, one of the purposes of these hearings

is to find out what happens if we take advantage of the control program we have, strengthen it, button prices down, making it as effective as it was in World War II and see if we can provide a more equitable, more abundant society.

Mr. FELDSTEIN. Then if I took that as a starting point and said that you really could operate the economy with the pressure of demand that existed in 1968 and 1969 and that you chose to do that with the type of controls that we have since introduced, even then I say we can still get much more by making structural changes as well. I am saying you can have both.

Chairman PROXMIRE. And to the extent that you improve the structural situation you need, you have less need for your controls; controls don't have to be as tight; is that it?

Mr. FELDSTEIN. Well, insofar as you want to take 3.5 rather than 4.5 as a starting point and then put on certain structural policies to lower it even further to 2, you will still need the controls. If you want to start at 4, with a less tight labor market, then you wouldn't need the controls or they can concentrate, as you indicated earlier, on certain sectors of the economy.

Chairman PROXMIRE. You have suggested and I understand other members of the panel have too, that one way to reduce unemployment is to get people off a dead-end jobs with no advancement possibilities. But what about those undesirable dead-end jobs that still must be done? Who is going to do them?

For instance, recently we had a bill which I fought hard—I got no support in the Senate to speak of. We got 12 votes against it; this was a big appropriation to civilianize KP in the Army, and I thought this was about as ridiculous and wasteful a frill as I can imagine. I did KP in the Army and it didn't do me any harm; everyone should clean up their own mess. Now virtually very few of us have servants. I do my own KP at home, but the argument was made we have to provide jobs for people who otherwise wouldn't get them and the AFL-CIO was in here lobbying and lobbying very effectively; that is one of the reasons I lost on it. The contractors who hired, organized, and contracted for the manpower and put people in these jobs cleaning toilets and providing cleaning up pots and pans for the people on military posts, it does not help the combat boys; it just helps those who have nothing else to do anyway—the peacetime soldiers.

It seems to me that the argument—this certainly is a dead-end job, isn't it? If you eliminate it, what happens? Are these jobs that can be done by people by themselves?

Mr. FELDSTEIN. Not all dead-end jobs will be eliminated. But I am sure if we look back over the last 20 or 40 years or compare our economy with other countries abroad, the structure of employment, particularly at the low end, has changed dramatically. The number of jobs that have been mechanized, that have been eliminated by using disposables, that have been done away with, is vast.

Chairman PROXMIRE. A lot of the dead-end jobs could be mechanized.

Mr. FELDSTEIN. They are only feasible now because the wages are so low. If the wages were higher, if the people who did those jobs—it is the maids in Mississippi again that you referred to earlier—if the people who did those jobs could get other jobs elsewhere, those

jobs would either disappear because they were too costly—the maids—or they would be mechanized or changed in other ways.

Chairman PROXMIRE. And to the extent they didn't, you just have to pay people more to do them?

Mr. FELDSTEIN. That's right.

Chairman PROXMIRE. Mr. Feldstein, one other question:

You suggest that the minimum wage might be lowered for the young people and for the handicapped. This seems to be inconsistent with your statement that young people are often regarded casually as a secondary market. It seems to me that lowering the minimum wage represents a step backward and that it would indeed promote a more casual and indifferent attitude by employers. At least, higher minimum wages give employers some additional incentive to take their help more seriously, give them more training.

Of course, as Congressman Reuss brought out, it would represent a subsidy to low wage employers.

How about this first point about the attitude of employers toward their employees?

Mr. FELDSTEIN. I think what we want to encourage employers to do—this is what you mean when you say—“take their young workers seriously”—is to provide substantial training for them. For the worker who comes with good skills, good education, the employer can both pay him a reasonable wage and give him on-the-job training. For a worker who comes with very low skills, although he can earn the minimum wage, he can't both get that and a substantial amount of training from his employer.

The English experience is very interesting. In England now young people make, I think, something on the order of one-third of what they will make when they are 21 or 22; wages triple during those 4 or 5 years as they acquire skills. The employers take them quite seriously; they train them. The apprentice programs are often quite as formal as they are in Germany, but even when they are not formal apprentice programs, there is a good deal of on-the-job training. It is made possible because the employers can afford to give them the time essentially to learn in unproductive ways, to learn by watching, to learn by trying, to learn by doing odd jobs in the process of production, so that they learn the way in which that firm operates. I don't think it is inconsistent to say that if we had a lower minimum wage for young people those who currently get jobs but get bad jobs would get much better jobs.

I think the problem with simply cutting the minimum wage is for those who are most disadvantaged, for those who come from the lowest income families. It just would not be possible to afford that kind of on-the-job training.

Chairman PROXMIRE. We are going to have Nat Goldfinger, the chief economist of AFL-CIO tomorrow and he is concerned with the effect of minimum wage changes on his labor people. If you are going to provide this kind of a subsidy it means you are going to have a teenager doing a job that dad might be doing; and the head of the household making the money necessary to keep the family together and to keep moving, he is out of work, and junior has the job.

Mr. FELDSTEIN. I don't think they are competing for the same jobs.

I think that if you maintain the pressure of demand necessary to keep dad at work, to keep the unemployment rates of the married man or the male over 25, down to desirable levels—

Chairman PROXMIRE. Or the head of the household may be a woman.

Mr. FELDSTEIN. Or head of household, keep the head of household unemployment rate down by maintaining the pressure of aggregate demand, then introducing policies to deal with young people, will not increase inflationary pressures.

The real problem is that these people get work and leave very quickly, either voluntarily or by being laid off whenever demand falls, because they haven't acquired any skills.

What we really need is some way of extending our notion of education. Now, a person who finishes high school can go on to formal education and a very high proportion of them do. Or he can go into commercial training schools. Or he can take some peculiar jobs, if you call them jobs, in which he actually pays his employer for education. I gave the example of hospital schools of nursing in the report. The minimum wage does not prevent a negative wage; it only prevents a low, positive wage. A young man who is willing to take a low, positive wage is unable to do so. A young man who can qualify for a scholarship from a State or from Federal aid to go on to higher formal education can't get similar support to go on for a year of on-the-job training. I think we have introduced a serious distortion which favors those who are better off.

Chairman PROXMIRE. Have you been able to quantify this so we have some notion of the degree to which this would solve our very high unemployment?

Mr. FELDSTEIN. I think one could. I think the data are available to actually make such calculations and I think they should be made. I think we can identify—

Chairman PROXMIRE. It would be very helpful if when you look this over you can make some kind of a rough estimate of what it would take to quantify this so we see what impact it has.

Mr. FELDSTEIN. I give some numbers in the report but I will look at those and see if I can add to that.

Chairman PROXMIRE. Mr. Hall, I am intrigued by your statement that we need to concentrate on reshaping jobs rather than retraining workers or trying to match workers and jobs. It is a fascinating concept and it is one that has not been considered by this committee to any extent. I can see your point that if jobs tend to promote high turnover, then workers will acquire this characteristic. But how do you suggest that we go about restructuring the job market?

Mr. HALL. Let me say first I am not sure it is entirely correct to say that the Government has not taken this view. I think that there was a major change in manpower policy in 1968 when the new program, Job Opportunities in the Business Sector was instituted and I think the motivation for that program was more along the lines that I have indicated than the earlier programs.

The earliest manpower programs were training programs attempting to transform workers for what were thought to be existing jobs. A more recent view is pretty much the one I have indicated; it is not an

innovation on my part at all, to suggest this change of emphasis in manpower programs. I think it is a way of summarizing what Mr. Feldstein has said as well.

I have looked into what the JOBS program was able to accomplish in attempting to reshape jobs and I am afraid it has not been as successful as it had been originally hoped.

I think what is required, although here I am not really sure because there is not much evidence in point, is to try to stabilize employment, especially of disadvantaged workers. Now, I think that requires some long-term relationship between the administrators of the program and the employers involved and requires long-term commitment on the part of the employer. The machinery that was set up on the JOBS was one of a system of contracts which paid the out-of-pocket costs of training workers.

Now I think there is a lot to that idea but the restriction to pay out-of-pockets costs as opposed to the imputed costs, the less visible costs of having low productivity workers being paid fairly high wages is a crippling one, a point Professor Feldstein has made at length. There has been no program of reimbursement for that kind of cost, the invisible costs of having disadvantaged workers in a modern industrial environment.

So I think what is required is a program of subsidizing these more general costs that operates over a longer period of time than the contracts that have been set up under the JOBS program.

Now, I think, in fact, in fairness, the Manpower Administration has been quite sensitive to these issues. One of the best statements of the kind of thing that I think is required is in the Manpower report of the President for 1971, but I think we have a great deal to learn and there should be considerable experimentation, in my view, of alternative relationships between the Federal Government and the employers, whether public or private. As I have indicated before, I don't think the issues are very much different between public and private employers.

Chairman PROXMIRE. Maybe I should have said it is not that we have not thought about it and talked about it some and made pronouncement about it, but we have not done much about it. We have not reshaped JOBS.

Mr. HALL. That is quite correct. The JOBS program has in the past been operated at a much lower scale than Congress had hoped and it is true we do not have a large backlog of experience that would tell us how to do this and I am not confident by any means of exactly what kind of an approach ought to be taken, but I do believe that we should look more into alternative ways.

Chairman PROXMIRE. Very interesting concept.

Mrs. Bergmann, I have a couple of questions for you, and then I will be through.

You comment favorably on Mr. Feldstein's suggestion for a youth employment service and youth employment scholarships. But you insert what seems to me to be a very important proviso, that there be no discrimination in such programs, and you say the Federal record is none too good in this regard—indeed, quite poor. Would you tell us a little more about the Bureau of Apprenticeship?

Mrs. BERGMANN. I am not an expert on its program but I think it is common knowledge that black youth have been very poorly served by the Bureau of Apprenticeship. They have put very little pressure on unions with associated programs to accept a fair share of black youth and this has been a great disappointment.

Chairman PROXMIRE. Incidentally, speaking about apprenticeship programs, looking at the steps of the Capitol the other day, the Senate steps of the Capitol, and I could have been wrong but I thought one of the carpenters working on those steps was a woman. You never know these days and I looked as carefully as I could. The hair was that of a woman; everything else was that of a woman that I could tell, but I was not sure. Is this kind of thing possible? Do you think that women could be moving into construction?

Mrs. BERGMANN. Well, I know for a fact there is at least one team of women painters in the Washington metropolitan area. I have on rare occasions seen girls pumping gas and women driving taxis.

Chairman PROXMIRE. Pumping gas they do, as kind of a come-on specialists you know, in mini-skirts and so forth, at least the ones I have seen.

Mrs. BERGMANN. It is my great hope that this sort of thing will increase and I think it will make for more pleasant life for everybody.

On this question of restructured jobs, I would like to say I think the best way to get these jobs restructured is to dry up these excess pools of labor which encourage employers to keep the jobs low paying, without any training, without any hopes of promotion and so on. When these markets get a little bit tighter, then that in itself provides an impetus to the restructuring.

Chairman PROXMIRE. I am still stuck on this aggregate demand as the simplest way to do it.

Mrs. BERGMANN. Let me be very clear concerning my attitude toward aggregate demand—I think whether any structural change takes place or not, aggregate demand should be higher than it is.

Second, if we can make some structural changes, this will enable us to go further in increasing aggregate demand, and thus is reducing the unemployment with less inflation than we otherwise would have. The problems of women, blacks, and youth, are not going to shrink; they are going to grow. There is a very strong trend of more women coming into the labor market. The number of young people is obviously not going to get smaller. These groups will be a greater share of the labor force as we go on. As these people crowd into these same old occupations, the excess supply of labor in these occupations is going to get worse; these dead end jobs are going to get more dead end. The pay is going to drop relatively to other workers in the economy; so if this problem ever needed attention, it needs it now and it is going to need it in the future.

Chairman PROXMIRE. What do you think of Mr. Feldstein's suggestion that a public service employment program be tried only after a private wage subsidy program has failed?

Mrs. BERGMANN. Well, perhaps I am rather higher on public service employment programs than he is. I have a very lively notion of the needs of the cities and of the needs of our country which are not being filled.

I think that public service programs can contribute to a better deal for blacks and women rather than just sopping up unemployment. This is in addition to taking bodies off the streets and in addition to producing very worthwhile services. So I tend to think of this as an important tool in fighting the segmentation of the labor market which is causing us too much trouble and is going to cause us increasing trouble.

Chairman PROXMIRE. One other question: In your prepared statement you make a strong case that the elimination of discrimination would reduce the overall unemployment rate.

Would you give us your estimate of just how much this reduction would be?

Mrs. BERGMANN. An adequate increase in aggregate demand is, of course, a necessary condition. But, in the ultimate, if the labor force were much more homogeneous in terms of employer psychology, and if the labor force were more homogeneous in terms of the actions of the workers, there is no reason to think that we could not get the average unemployment rate a lot closer to the unemployment rate for white prime age males at its best. So I don't see any reason why we couldn't get down to 2 percent if we did an adequate job on restructuring the labor market.

Now, I think you are always going to have young people who will turn over more than older people and, in a way, that is a luxury perhaps we can afford.

Chairman PROXMIRE. But it was pointed out that turnover is a lot less in other countries.

Mrs. BERGMANN. We can, with programs of the sort proposed here, reduce youth turnover; on the other hand, maybe we are rich enough so that we can allow young people to move around a little more to find an ideal career for themselves. The idea that you should go from high school to an employer with whom you are going to stay the rest of your life may not really be optimal from many points of view. Such habits might reduce the unemployment rate but they might not increase human happiness, which is what we are after. We do have far too much youth unemployment and I tend to favor a nondiscriminatory program of the kind that Professor Feldstein is advocating. But I really don't see youth unemployment as the place where the shoe pinches worst. These are groups who are permanently disadvantaged and who get more disadvantaged as they grow older; namely, blacks and women.

Chairman PROXMIRE. I want to thank all of you for a very helpful morning and for a most fascinating analysis of a problem that we must determine to solve. We are not making the kind of progress on it we should and I think you have made an excellent start in giving us some of the concrete suggestions, specific suggestions on how we can get on top of it and get it moving; and I hope that now this committee can begin to have the kind of influence in this respect, with respect to unemployment, on the Congress that I think was originally intended by the Congress in 1946 when we passed the basic act.

I thank you very, very much for a helpful beginning on these hearings.

The committee will stand in recess until tomorrow morning at 10 o'clock when we will hear from Mr. Nat Goldfinger and Mr. Lisle Carter.

(Whereupon, at 12:25 p.m., the committee was recessed, to reconvene at 10 a.m., Wednesday, October 18, 1972.)

(The following article was subsequently supplied for the record by Representative Reuss:)

[From the Evening Star and Daily News, Oct. 16, 1972]

NIXON PLANS TO KILL PUBLIC SERVICE JOBS IN 1974 BUDGETING

(By William Steif)

The Nixon administration plans to kill a federal program that is providing about 180,000 local and state public service jobs around the nation, Labor Department sources have revealed.

The law authorizing the Public Employment Program (PEP) expires June 30—the end of fiscal 1973—and no request for funds to continue it has been made to the White House's Office of Management and Budget, these sources said yesterday.

Funding in the current fiscal year is \$1.25 billion; in fiscal 1972 it was \$1 billion.

Plans for the fiscal 1974 budget are well-advanced but no funds for this program are included. The President normally announces his budget for the coming fiscal year in the January before the year's July 1 start.

DISCUSSED FRIDAY

Labor Department officials met Friday to discuss methods of dissolving the public service jobs program.

Department sources said OMB opposes the program on several grounds.

One is that its cost averages \$6,700 per worker yearly, compared to on-the-job training programs which cost half as much. Department officials pointed out, however, that this doesn't count the value of the work produced under the program.

Another basis for opposition, the sources said, is that the administration dislikes "make-work" programs.

Finally, the budget saving is considered important, although department officials believe at least 10 percent of those working under the program will wind up on welfare if the program dies.

SIGNED IN JULY 1971

President Nixon signed the Emergency Employment Act (EEA) into law in July, 1971, after vetoing a larger public service jobs bill six months earlier.

The public-service jobs concept had been boosted strongly by congressional Democrats, largely as a tool for slashing unemployment and helping the economy.

In the period since the legislative battles for the program, the nation's economy has improved substantially, and employment has increased rapidly (although a surge in those looking for work has prevented a major reduction in unemployment.)

4.5 PERCENT "TRIGGER"

[The program goes into effect when national unemployment goes over 4.5 percent. It is now 5.5 percent. Some \$250 million yearly is reserved for areas where joblessness is above 6 percent of the work force, and 20 percent of the money is reserved to the Labor secretary for experimental projects.

The rest of the funds go to "program agents"—every government of a state, city or county with a population above 75,000—on the basis of the number of jobless in the area.

The program agents funnel funds to smaller cities and counties.

Eighty-five percent of all funds must, by law, be used for wages and benefits.

By last December, 64,000 persons were working in the program, and this

number now has nearly tripled. Labor Department officials say that without the program joblessness would average 5.7 percent instead of 5.5 percent.

TEACHERS, ORDERLIES

Those hired have gone to work as policemen, firemen, teachers, teacher aides, hospital orderlies, park and recreation workers and clerks. A recent Senate study said jobs performed fell into these categories: Public works and transportation, 22 percent; education, 20 percent; law enforcement, 13 percent; parks and recreation, 8 percent; health and hospitals, 7 percent; environment, 5 percent; fire protection, 3 percent; others, 17 percent.

Average earnings of employes under the Public Employment Program is \$6,500 a year, including fringe benefits.

SIXTY-FOUR PERCENT WHITE

A new Labor Department check showed 64 percent of the workers in the program are white, 21 percent black and the rest other minorities. More than a quarter are Vietnam veterans, a quarter have less than a high school education, 42 percent had been jobless 15 or more weeks, 28 percent are women, and 11 percent had been on welfare.

REDUCING UNEMPLOYMENT TO 2 PERCENT

WEDNESDAY, OCTOBER 18, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: John Stark, executive director; Loughlin F. McHugh, senior economist; Lucy A. Falcone, research economist; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today we continue our hearings on the most important economic policy question facing this Nation: The achievement of full employment, and that is certainly the most important question facing this committee. This committee was given a mandate, really, 26 years ago in the Full Employment Act to be the institution of the Congress to work toward full employment. We have not achieved it by a long shot, of course.

As I indicated yesterday in opening these hearings, our record has been far from acceptable over the last 25 years. It is clear that we do not know enough as yet about how to carry out the objectives of the Employment Act.

Yesterday's hearings concentrated largely on the important question of the labor market itself, its structure and its imperfections. Today we are going to hear testimony from an old friend of the committee, Mr. Nat Goldfinger, director of research at the AFL-CIO.

As I indicated in my questioning yesterday, we need to explore the dimensions of increased demand in achieving higher employment. I am not convinced that the so-called Phillips curve, as evidenced by experience over the last 10 or 15 years, should pose any natural barrier for us in policymaking. I believe that we can rely to a much greater extent on wise resort to increased demand to induce structural changes in our economy. Moreover, a change in the composition of demand could have a beneficial effect. We have found that the employment consequences of various types of public expenditure vary considerably.

For example, the number of jobs resulting from public expenditure on education is far higher—as a matter of fact, the Bureau of Labor

Statistics' estimate was that it was just about twice as high—\$1 billion spent on defense, providing 57,000 jobs; \$1 billion spent on educational services, 104,000 jobs. These figures were published by the Labor Department, I might add.

Mr. Goldfinger, I know from your frequent appearances before this committee that you have a deep and constructive interest in this subject, as does your organization, and we are delighted to have you with us at the present time. So why don't you go ahead and we will call on you later for questions.

**STATEMENT OF NAT GOLDFINGER, DIRECTOR OF
RESEARCH, AFL-CIO**

Mr. GOLDFINGER. Thank you, Senator. I will try to briefly summarize the prepared statement and submit it for the record.

Chairman PROXMIRE. As you know, Mr. Goldfinger, we have a policy of 10 minutes for a statement. We ring a bell and then we will hear the next witness.

Mr. GOLDFINGER. All right; I will submit the prepared statement for the record.

Chairman PROXMIRE. All right. Without objection, the entire prepared statement will be printed in full in the record at the end of your oral statement.

Mr. GOLDFINGER. I am grateful for this opportunity to appear here because I agree with you, Mr. Chairman, that this is a most important subject and it is a subject which, unfortunately, has been of declining interest and concern for most of the past two decades.

Even in the early 1960's when there was a considerable and much needed emphasis on reducing the level of unemployment, there was not a concentrated emphasis on reaching and maintaining the objectives of the Employment Act, so I am very, very happy to see you are moving back to the original purpose of this committee and of the act, and that is toward achieving and sustaining the objectives of the act, of maximum employment, production, and purchasing power.

Now, obviously, a 5-percent unemployment rate is better than a 6-percent rate and a 4-percent rate is still better because each percentage point is about 860,000 workers. But what we seem to have been doing is that as we continue to fail to achieve the objectives of the Employment Act during the past two decades, we have been in a process of attempting to redefine full employment which originally was defined as an unemployment rate of 3 percent or less, then redefined as 4 percent, and now there are rumors and stories in the newspapers and news media that it is being redefined again as a 4.5 or 5 percent rate.

Now, as far as we in the labor movement are concerned, the national objective should be full employment. One of the difficulties is that there are no current or recent good studies to provide a definition of full employment in terms of the American job market. Somehow all of the recent academic studies of full employment in the United States have involved what I consider to be the twisted logic of defining it in terms of the price level but not in terms of defining it in terms of the labor market. If the goal is a 5-percent or 4-percent rate in some's estimation, they may have some reasons for it but such level

of unemployment is not full employment. I mean, it may involve their concepts of tradeoffs and so forth but full employment is a function of the labor market and a definition, I think, should be based upon the labor market in terms of American society and of the American economy.

Now, in my judgment, for whatever it is worth, I think that full employment in the American economy today would involve an unemployment rate in the neighborhood of about 2 percent or 2.5 percent and in addition to that I think that private and public efforts to reduce the unemployment impact of seasonal changes could reduce the duration of unemployment and the spells of unemployment to bring the overall unemployment rate to about 2 percent.

We have functioned in the period since the adoption of the Employment Act at an average annual rate of unemployment of about 4.7 percent, considerably above anything that most people, I believe, would consider to be full employment.

We have had recurring recessions with rising unemployment, followed by difficult and lengthy periods of attempting to substantially reduce unemployment.

In addition to that, we have had a sharp acceleration of productivity in the postwar period. In addition to that, we have had rapid and radical changes in technology, with sharp shifts in the population and a vast migration of the population out of the rural areas into the cities, particularly out of the rural South.

Furthermore, as you indicated, there have been changes in the composition of the gross national product and shifts in Government measures and consumer tastes.

Furthermore, I would add that there has been a deterioration of America's position in international economic relationships with impacts on employment and losses of job opportunities in manufacturing; and there have also been changes in the labor supply with the growth, very rapid growth, in the labor force in the past 5 to 7 years and the changes in the labor supply have been affected in part by the substantial changes in the size of the Armed Forces way back in the 1950's and, more recently, again, of a rise in the Armed Forces and then followed by a decline.

However, I think that our policy emphasis in terms of government policy has not only failed in terms of usually not being sufficiently expansionary during most of these years since the adoption of the Employment Act, but furthermore we have overemphasized, both as a country, as a government and particularly, unfortunately, on the campuses, among academic economists, the emphasis has been much too great upon aggregate macropolicies and one of the points that I hope comes through in the prepared statement that I submitted, Mr. Chairman, is the need not merely for expansionary macropolicies, aggregate policies, but the need for specific, selective measures to create jobs and for an emphasis upon job creation and an emphasis not simply on manpower policy which does not create jobs, not simply on training, which does not create jobs, but on manpower and training policies for jobs. Once again, the deficiency in these years has been a lack of sufficient job creation and, therefore, I say not simply on a lack of sufficiently aggregated expansionary policies but also pretty much of an

utter lack of selective measures to create jobs at the lowest possible cost in terms of expenditure and also to meet the needs of the society in terms of public services and public facilities.

As you indicate, there are different employment impacts from different types of government expenditures and this is an issue which the AFL-CIO raised with President Kennedy way back 10 or 11 years ago and continued to raise it with him up to shortly before his untimely death in November 1963.

In conclusion, I would say that today with high levels of unemployment and considerable idle productive capacity with industry operating at merely about 70, 80 percent of productive capacity and a 5.5-percent reported unemployment rate, there is a need for continued expansionary policies for the next 2 years. But, in addition to that, in addition to the expansionary aggregate macropolicies, there is a dire need and there has been for many years now, for selective measures to create jobs through a large-scale public service employment program, to create jobs, particularly for the long-term unemployed, lower-skilled workers and the seriously underemployed.

In addition to that, in this particular period of time of high unemployment, we have recommended a program of stepped up public works, short-term repairs and construction of public facilities in areas of high unemployment.

But in the long term, in terms of the rest of this decade and the period ahead, I think that what is needed is a combination of expansionary macropolicies but a much-increased emphasis on selective and pointed job creating measures.

Thank you, sir.

(The prepared statement of Mr. Goldfinger follows:)

PREPARED STATEMENT OF NAT GOLDFINGER

I am grateful for the opportunity to appear at this hearing on the important subject of reducing unemployment to the neighborhood of 2% of the civilian labor force.

The Chairman and members of the Committee are to be congratulated on calling these hearings. I hope they will be followed up by additional studies and hearings on this subject, which is, after all, one of the basic purposes of the Committee's establishment, under the terms of the Employment Act of 1946.

Unfortunately, a period of about two decades has passed since the Congress, the Executive branch and academic economists paid much attention to the subject of full employment. In fact, there has been a declining interest and concern during most of those years.

Even in the early 1960s, the concern was with the essential policy issues of reducing unemployment, but it was not concentrated on the objective of the Employment Act—to reach and maintain maximum employment production and purchasing power. And at present, there are numerous newspaper reports and rumors that full employment, which was once defined as a 3% unemployment rate or less, and redefined as 4%, is now being redefined, again, as a 4½% or 5% jobless rate.

Obviously, a 5% unemployment rate is better than a 6% rate. And a 4% rate is better than 5%. But such levels of unemployment do not represent full employment, by any means.

Each percentage point difference now amounts to about 860,000 workers. This difference is not slight. And if unemployment can be cut to 2% or 2½%, it would mean the substantial reduction in unemployment from 4.8 million workers to 1.7 million or 2.2 million.

The national objective should be full employment. But there are no recent studies to provide a definition of full employment in the American economy,

in terms of the American job market. Somehow, recent studies of full employment, in the U.S., typically involved the twisted logic of defining it, in terms of the price level.

Full employment, as organized labor views it, means job opportunities, at decent wages, for all those who are able to work and seek employment. Under such conditions, the unemployed, at any point in time, would be temporarily jobless—such as new entrants into the labor force, people moving from one job to another or from one part of the country to another, people who are temporarily unemployed as a result of seasonal fluctuations.

I believe that a careful examination of the American job market would show that, under current conditions, full employment in the American economy would probably involve an unemployment rate in the neighborhood of 2% or 2½%. Moreover, private and public efforts to reduce the employment impact of seasonal changes and to reduce the duration of spells of unemployment could reduce it to 2% of the civilian labor force.

I hope that business spokesmen, academic economists and political leaders would stop playing games with the economic and social objective of full employment. If their goal is a 5% or 4% unemployment rate, they may have reasons for such choice, but their objective is not full employment.

If trade-offs of various objectives are thought to be necessary in establishing second-best objectives, whatever trade-off is involved in the employment goal should logically start from a well-defined full-employment base. In the view of the AFL-CIO, the full-employment objective should be the top priority.

The record of the years, since the adoption of the Employment Act, reveals that the national economy has operated at levels that are some distance from full employment. The average unemployment rate in the 24 years from 1947 to 1971 was approximately 4.7%—including a low of 2.9% in 1953 and highs of 6.8% in 1958 and 6.7% in 1961. This record indicates that the federal government, in its policies and measures, has not given sustained support to achieving and maintaining full employment.

Among the major economic factors in the job markets that contributed to the approximate 4.7% unemployment rate in 1947–1971 have been the following:

1. Recurring recessions, with rising unemployment, followed by difficult and lengthy periods of time to bring about substantial reductions in unemployment. For example, following the recession-unemployment rate of 6.7% of 1961, it took four years of substantial efforts to cut unemployment to a 4.5% rate in 1965. Another example is the rise of unemployment from 3.5% in 1969 to 5.9% in 1971, as a result of the recession of 1969–1970, with unemployment down to merely a 5.5% rate in September 1972.

2. The sharp acceleration in the pace of rising productivity. Output per manhour in the total private economy rose at an average yearly rate of 3.2% in 1947–1971—approximately 45% faster than the 2.2% average annual advance in the previous period, 1919–1947. This accelerated rise in productivity has required a greater increase in production and sales to produce a rise in employment.

3. Rapid and radical changes in technology have resulted in vast and rapid shifts in the structure of demand for labor. There has been sharp declines of employment in agriculture, mining and railroads, accompanied by stagnant or declining job opportunities in many manufacturing industries in the past quarter of a century, particularly since 1953. These changes in employment opportunities have resulted in a great migration of the population out of rural areas, particularly from the South, to the cities, especially those in the North and West. In addition, the radical changes in technology have contributed to substantial changes in industry-location, such as the shifts from the cities to the suburban areas.

4. Changes in the composition of the gross national product, as a result of shifts in government measures and in consumer tastes, have had significant impacts on the structure of job opportunities. For example, the shift in defense production, after 1953, from an emphasis on military goods to missiles and related output reduced the demand for production and maintenance labor per dollar of expenditure. This shift was reversed during the 1960s, particularly in 1965–1968—with increased requirements for production and maintenance manpower—and it has been reversed again, since 1968, to lower real levels of defense expenditures and a change in the composition of defense output.

5. The deterioration of America's position in international economic relationships is narrowing the economy's industrial base, wiping out significant portions of a widespread number of industries and destroying scores of thousands of job opportunities, each year in the past few years. There was a net loss of about 900,000 job opportunities, due to this situation, in 1966-1971, with further losses in 1972. The electronics industry association reports the direct displacement of 122,500 American jobs in radio, TV and electronic component production between 1965 and 1970, as a result of the deterioration in international trade. Scores of thousands of additional jobs have been wiped out in a spreading number of industries—including skilled and technical jobs, as well as unskilled and semi-skilled.

6. There have also been changes in the labor supply—particularly the accelerated expansion of the labor force, during the 1960s, reflecting the increased birthrates, immediately after the end of World War II which persisted until the late 1950s. During the decade, 1950-1960, the civilian labor force grew at an average yearly rate of 740,000—compared with 1.6 million in 1965-1971. This acceleration has meant a substantial increase in the number and percentage of young people in the labor force, accompanied by the continuing, increased participation of women in the labor force.

7. Changes in the labor supply, during the past 25 years, have been affected by substantial changes in the size of the Armed Forces—with impacts on young men in the civilian labor force. For example, the Armed Forces increased from 1.6 million in 1949 to 3.6 million in 1952-1953 and moved down to 2.5 million by 1959. The size of the Armed Forces rose again, from 2.7 million in 1965 to 3.5 million in 1967-1969 and has declined to 2.4 million in recent months.

These changes in the economy required general expansionary expenditure, tax and monetary measures by the federal government, accompanied by selective job-creating measures and realistic manpower programs, including training for jobs and a much-improved, effective U.S. Employment Service.

However, the federal government's policy, during most of the past quarter of a century, has not been sufficiently expansionary, such as in 1952 to 1960. Moreover, the government has, on occasion, pursued restrictive policies, as in 1969-1970. And there has been very little emphasis on selective measures to create jobs—programs to create jobs directly and programs to shift the composition of government expenditures and the gross national product to an emphasis on job-creation, particularly for semi-skilled and unskilled workers.

While there have been failures and weaknesses in manpower policy—which did not get under way in a comprehensive sense until 1961—the major deficiency has been in the lack of job creation. The main problem has been a lack of sufficient job opportunities for the unemployed and seriously under-employed.

The required measures must be decisive and selective, to create jobs and provide the greatest impact for each dollar of government outlay.

The American economy is much too large, too complex, too dynamic, too varied and diverse to depend entirely on a simplistic push-button approach to national economic policies. Over-dependence on over-all fiscal and/or monetary policy has proven to be much too expensive—in unemployment, idle productive capacity, prolonged sluggishness and, in recent years, in huge, successive budget deficits. The simplistic push-button approach has been pursued at great cost to the American people and to American society.

An emphasis is needed on pinpointed, selective government measures to create jobs, at the lowest possible expenditure-cost and in areas of greatest need, such as public facilities and services.

THE CURRENT LEVEL OF UNEMPLOYMENT

The present level of unemployment—which is lingering at about 5.5% of the labor force after 19 months of persisting in the neighborhood of 5.9%—is still, to a great degree, the result of the recession of 1969-1970.

The real volume of economic activity has not increased sharply enough, over a sustained period of time, to make more than a dent in the high unemployment rates, reached in the final two months of 1970. The difficulty of reducing unemployment, since then, has been compounded by several developments: The rise of productivity has shot up, after a serious lag during the recession—a 3.7% advance in 1971 and a 4.7% yearly rate of increase in the first-half of 1972. The decline in the size of the Armed Forces has meant an additional boost to the

growth of the labor force. The increasing participation of women in the labor force has added to its rate of expansion. At the same time, the decline of defense production and sharp deterioration of America's position in international trade have added to the job problem.

The difficulty is essentially in the lack of enough job-creation, after the layoffs and rising unemployment of 1969-1970. This can be seen in the employment-record of several key sectors of the economy.

WAGE AND SALARY EMPLOYMENT, FROM 1969 PEAK TO AUGUST 1972

	Production and maintenance jobs in manufacturing	Employees in contract construction	Employees in transportation and public utilities
1969 peak.....	14,853,000	3,485,000	4,474,000
August 1972.....	13,849,000	3,537,000	4,532,000
Total.....	-1,004,000	+52,000	+58,000

Source: Bureau of Labor Statistics.

The number of production and maintenance jobs in manufacturing, in August, was still one million less than at the 1969 pre-recession peak—although manufacturing production was up 1.6% from that period of 1969.

Moreover, in August 1972, after more than a year and one-half after the bottom of the recession, employment in construction was only 52,000 above the pre-recession peak and in transportation and public utilities, employment was up merely 58,000 from that point.

The areas, where employment is up significantly from 1969, are wholesale and retail trade, the services, state and local governments, finance and real estate. Moreover, more than a quarter of the net increase in total employment between 1969 and August 1972 has been in part-time work.

It is no wonder, then, that the over-all unemployment rate is about 5.5% and that the high teenage unemployment rates of recent years have moved up the age-scale to the 20-24 year age group, with unemployment rates of about 9%-10% in the past number of months.

To get the economy on a continuing road to full employment would require a continuing government stimulus and a sharp rise in the real volume of total national output of about 7 percent in the next 12 months. In order to begin to approach full employment rapidly, a similar rise in real national output would be required in the succeeding 12 months. Moreover, such general fiscal and monetary measures should be accompanied by selective job-creating programs.

The economic history of the first-half of the 1960s, when the labor force was growing at a much slower pace, provides a rough indication of the great task of turning the economy around. It required real economic expansion of 6.6% between 1961 and 1962, to reduce unemployment significantly and to increase industry's operating rate. In the two years from 1963 to 1965, it took yearly increases in real national output of about 6%, to boost employment by 3.3 million and reduce the jobless rate from 5.7% to 4.5%.

Selective government measures are needed, as well as aggregate policies, to create jobs, boost sales and lift production—to provide the increasing number of job opportunities for the unemployed and the rapidly growing labor force.

A greatly expanded and strengthened public-service employment program is needed—federal grants to the states, local governments and federal agencies for the creation of jobs to provide needed public services.

A special program of federal financial aid is required to step-up job-creating, short-term public works construction and repairs in areas of high unemployment.

Such measures are needed to boost industry's operating rate, the only sound basis for increasing business outlays for plants and machines. They are required to boost productivity and reduce pressures on costs and prices. And they are needed to provide the government with increased tax receipts.

Moreover, immediate boosts in public investment to create jobs and lift the economy, now, would mesh with American society's need for expanded public facilities and services.

In addition, justice in the federal tax structures and additional tax revenues are required—by eliminating the major loopholes of special tax privilege for corporations and wealthy families.

Moreover, Congress should direct the Federal Reserve system to allocate a significant portion of available bank credit, at reasonable interest rates, to effectuate the construction of housing and community facilities.

A Congressional review of the entire Federal Reserve system and the nation's monetary policy is long overdue—to bring America's central bank fully into the federal government structure, to provide improved coordination of the nation's monetary policy and to make the Board of Governors and the managing boards of the district banks more representative of the major groups of the economy, including workers and consumers.

THE LONG-RUN UNEMPLOYMENT PROBLEM

The long-run unemployment problem has also been essentially a lack of sufficient jobs. Changes in the structure of the labor supply have aggravated the problem, to some degree, but have not caused it. The major causes are to be found in the demand for labor—largely in numbers, structure, skills and location of job opportunities.

An indication of the problem can be seen in the following:

WAGE AND SALARY EMPLOYMENT FROM 1953 TO AUGUST 1972

	Production and maintenance jobs in manufacturing	Employees in mining	Employees in contract construction	Employees in transportation and public utilities	Employment in agriculture from 1953 to August 1972
1953.....	14,055,000	866,000	2,623,000	4,290,000	6,259,000
August 1972.....	13,849,000	603,000	3,537,000	4,487,000	3,625,000
Total.....	-206,000	-263,000	+914,000	+197,000	-2,634,000

Note: In the above employment categories, there was a net employment decline of 1,992,000 in the 19 years from 1953 to August 1972.

Source: Bureau of Labor Statistics

Under the impact of the technological revolution in agriculture, employment in farming dropped from 10% of the labor force in 1953 to only about 4% at present. Hundreds of thousands of farmers, farm workers and their families—as well as scores of thousands of other inhabitants of small towns in agricultural parts of the country—left the rural areas in search of jobs and homes in the cities.

Although the over-all growth of the population has slowed considerably in the past several years, after nearly two decades of very rapid expansion, the migration has continued to urban and particularly to large metropolitan areas.

This social upheaval has been greatest among Negroes. From an overwhelmingly southern rural population, Negroes have become overwhelmingly urban—as a result of the great migration out of the rural South to the cities, particularly the large cities of the North and West.

All of the new migrants to Americas cities—whites and Negroes, Puerto Ricans and Mexican-Americans—have faced the difficulties of adjusting to a new and strange environment. The Negro migrants in particular have brought with them a history of 350 years of slavery, segregation, poverty, lack of education and frequently poor health, as well as suspicion of government authorities.

On coming to the cities, the new migrants have faced the discriminatory practices of those areas, as well as a lack of low- and moderate-income housing and the impact of the technological revolution in industry on job opportunities for uneducated and unskilled urban workers. The types of industrial jobs that helped previous generations for foreign immigrants and rural Americans to adjust to urban life have not been expanding.

While agricultural employment dropped more than 40% between 1953 and August 1972, there were also employment declines in mining and among production and maintenance workers in manufacturing. In addition, over these 19 years of economic expansion, employment in transportation and public utilities increased merely 197,000 and in contract construction, only 914,000.

In addition, another great migration in the past quarter of a century has seen millions of middle- and upper-income families leave the cities for the suburbs, the most rapidly growing sections of the country. This movement has opened up older housing in the inner cities. But, combined with the additional migration of industry to the suburbs and countryside, it has reduced the tax base of the cities. This reduction has come at the same time as mounting demands on the cities' financial resources for low- and moderate-cost housing, welfare, education, police and fire protection, manpower training and other public facilities and services. Increasingly, the inner cities have become concentrations of decaying and poverty-stricken areas, with small pockets of wealthy families, while the needs for city facilities and services multiply and the tax base narrows.

The change of industrial location has also compounded the problem of inadequate mass transportation facilities for lower-income city dwellers to get to the new areas where employment is growing. And most suburban communities have had color barriers as well as a continuing absence of low-cost housing.

General fiscal and monetary policies, coupled with an emphasis on selective measures and manpower programs, are now needed to provide the basis for economic growth and full employment in the period ahead.

A long-range, planned national effort to meet the needs of the American people for public facilities and services can provide the basis for economic growth and job-creation in the period ahead.

Each era of economic expansion in America has been accompanied by growing investments and employment in new industries. The last third of the 19th century saw the building of the railroads, the agricultural implement and the steel and oil industries. The first two decades of the 20th century saw the development of the public utilities—the electric, gas, telephone and urban transit systems. During the 1920s, economic growth was accompanied by the development of the auto and radio industries and in the period after World War II came television, aircraft, air travel, electronics and advanced technology.

Now, in the 1970s, America's new frontiers are in a major emphasis on public investment to rebuild the urban areas, to strengthen the foundation of American society and provide the investment—and employment—basis for a new period of national economic expansion and job-creation.

Such step-up in the expansion and improvement of public facilities and services could be a key to provide opportunities to employ the talents and skills of scientists, engineers and technicians, as well as job opportunities for returning GIs, production, maintenance, construction and other categories of workers. It could lift the entire economy, providing growing consumer markets, as well as a sound incentive for expanding business investment in plants, machines and equipment.

In February 1971, the Economic Policy Committee stated, in a report to the AFL-CIO Executive Council:

"To sustain the planned expansion of public investment, the federal government should develop, coordinate and maintain a national inventory of public investment needs, based on estimated future population growth and present backlogs in each major category, such as low- and moderate-cost housing, schools, health care facilities, day care centers, parks, pollution controls, other community facilities and public services. Each state and metropolitan area should be encouraged, with the assistance of federal planning grants and technical aid, to develop a similar inventory of needs within its geographical jurisdiction. Such a comprehensive inventory of needs should provide the foundation for planned nationwide programs in each category—based on adequate federal financial and technical assistance to the states and local governments, including federal grants-in-aid and guaranteed loans, as well as direct federal efforts.

"Target dates should be established for achieving specified objectives in each category—along the lines of the 10-year national housing goal established by Congress under the Housing and Urban Development Act of 1968—and the pace of continuing advance should be speeded up or slowed down, with sufficient funds, depending on the availability of manpower and productive capacity. In this way, the inventory would also be a shelf of public works, with an accelerated pace in times of general economic recession and a slower advance in periods of shortages of materials and manpower.

"To facilitate such programs, a federal urban bank or similar mechanism may be required to provide long-term, low-interest loans for the construction of low- and moderate-income housing and community facilities as well as for aiding state and local governments in financial crisis.

"An Office of Public Investment Coordination should be established in the executive branch of the federal government to encourage, assist and coordinate public investment planning and execution by state and local governments and federal agencies."

As part of such an effort to improve the quality of American life—and to provide enough jobs for full employment—a large-scale public-service employment program is needed. It could create jobs, particularly for lower-skilled workers, in such public services as parks and playgrounds, schools and hospitals, law-enforcement facilities, libraries and museums. To the extent that the regular economic channels fail to achieve full employment, the public-service employment program should aim to do so. It could provide needed services to the public—as well as jobs, income, work experience and training for those who would otherwise be unemployed.

An essential ingredient of a job-creating, full-employment program is full and effective enforcement of civil rights legislation—to provide equal and open opportunities for education, training and jobs to all persons, regardless of race, color, sex, creed or national origin.

In addition, the AFL-CIO has urged the Congress to direct the Federal Reserve to allocate credit, at reasonable interest rates, to programs of high national priority, such as housing and community facilities.

Tax justice is essential to provide the federal government with adequate revenues and to establish the needed public confidence in the fairness and equity of the tax structure.

The Burke-Hartke bill should be adopted to curb the job-destruction involved in the continuing deterioration of America's position in international economic relationships.

Such measures—together with public and private programs of manpower training and upgrading—could provide the major avenue towards reaching and maintaining maximum employment, production and purchasing power in the 1970s.

THE SERIOUS SOCIAL NATURE OF UNEMPLOYMENT TRENDS

Unemployment is much more than an economic waste or a statistic. It concerns people—workers and their families. Extended unemployment, in our work-oriented culture, represents a human tragedy—a loss of social status and perhaps, self-esteem, as well as income.

The Labor Department's monthly reports on unemployment present statistics on the average number of unemployed in each month. These statistics understate the problem, because they omit the hundreds of thousands of hidden unemployed—those who have stopped seeking work. And they are an understatement, too, because they do not include the additional hundreds of thousands who are seriously under-employed.

Moreover, these monthly statistical reports do not deal with unemployment in human and social terms. The clearest picture of the human and social aspects of unemployment is indicated by the Bureau of Labor Statistics' reports on the annual work-experience of the population. The most recent report, available at present, is for the year 1970.

In that year, 1970, when the Labor Department reported an average 4.1 million unemployed, in each month of the year, the report on the population's work-experience shows the following facts, concerning the impact on human beings:

14.6 million people were unemployed at some time during the year.

Over 9 million workers were jobless for 5 weeks or more during the course of 1970.

4.5 million workers were unemployed for 15 weeks or more during the year.

That is nearly four months or more of joblessness during the course of 1970.

And even these insights into the human aspects of unemployment are an understatement, due to the above-stated weaknesses in the Bureau of Labor Statistics' basic information. Yet they are the best available indication of the broad impact of unemployment on people.

Moreover, this situation is not spread evenly across the country and across all segments of the population. It is concentrated—in low-income urban areas and depressed rural communities, among Negroes and young people, among unskilled and semi-skilled workers. It is highly concentrated among the migrants to the cities and their children, who live in the spreading poverty areas of the central cities.

The relatively high unemployment of so many of the years, since the adoption of the Employment Act of 1946, is not merely a reflection of shortcomings in the federal government's economic policies. It is also a reflection of the vast social and economic changes of the past quarter of a century. Moreover, it is also a major source of many of the troubles that have plagued American society in the past decade.

A substantial reduction of unemployment to the neighborhood of 2% of the civilian labor force is important to the progress of the national economy. But, of even greater importance, it is essential for the health of American society in the 1970s. In a work-oriented and free society, sustained full employment is a fundamental requirement for the peaceful advance of the society.

MINIMUM WAGE AND YOUTH EMPLOYMENT

The AFL-CIO is opposed to a sub-minimum wage for youth, or any other category of workers. We believe that if a job is worth doing, it is worth a fair wage—no less than the federal minimum wage, regardless of who is doing the job.

Some opponents of FLSA improvements allege that minimum wage legislation puts young people out of work. The evidence, however, indicates that the high levels of youth unemployment, in recent years, are not due to FLSA provisions.

To understand the employment problems of youth, it is important to remember that teenage unemployment has always been higher than the national average for all workers. This is because teenagers are new jobseekers, they often seek only part-time employment near home, they look for temporary summer jobs and then return to school. Moreover, out-of-school teenagers tend to have very high quit rates.

The unemployment rate for 16 to 19 year-olds in the labor force increased from under 10% in 1947 and 1948 to about 16% and 17% in the recession years 1958 and 1961, and was equally high in 1963 and 1964 when the general employment situation had begun to improve. With the continuing improvement in employment, it declined to slightly less than 13% in 1966 and remained at about that level in 1967-1968—after the 1966 amendments went into effect.

The real problem of teenage unemployment in the 1960s was that it did not drop as fast as the decline of joblessness among adults 25 years of age and older. In the early years after World War II, the teenage unemployment rate was about three times greater than the unemployment rate among adults. In 1963, it moved to four times higher and by 1966-1968, it was five times greater.

This worsening of teenage unemployment in relation to adults could hardly have been caused by FLSA when it began to show up in 1963 or in the years that immediately followed. For, from 1938, when FLSA was adopted, until February 1, 1967, most typical teenage occupations were not covered by FLSA—such as medium-sized and small retail stores, restaurants, service establishments and farms. Such business activities that typically employ teenagers were not covered substantially by FLSA until 1967, under the terms of the amendments adopted in 1966.

The roots of the teenage unemployment problem of the 1960s can be found in the sharp rise of the birthrate after the end of World War II. The great increase in births in the years after World War II resulted in a sudden, sharp rise of teenagers looking for employment in the 1960s. And although teenage employment increased considerably in the 1960s, it was not enough to match the sharp influx of youngsters into the labor markets.

During the decade 1948-1958 there was actually a slight decline in the number of teenagers in the labor force—reflecting the low birthrate of the depression years of the 1930s. But in the 10 years, 1958-1968, the number of 16 to 19 year-olds in the labor force skyrocketed 53%, from 4.3 million to 6.6 million. The average yearly increase of teenagers in the labor force was about 230,000 in 1958-1968, in sharp contrast to the slight decline in the previous 10 years. One would expect that such massive change in the number of teenagers in the labor force could create problems, particularly if the demand for teenage workers did not keep pace.

Many of the part-time farm jobs, once held by teenagers, disappeared with the growth of large industrial-type, mechanized farms and the general decline of farm employment. The rapid decline of small neighborhood stores eliminated

many other jobs once held by teenagers. The expansion of less-skilled jobs in retail stores and the various services was not as fast as the skyrocketing supply of teenagers in the labor force. Harold Goldstein of the Bureau of Labor Statistics has estimated that employment in the kinds of jobs typically employing three out of four teenagers increased 20% in the past decade—in contrast to the over-50% rise in the supply of teenagers in the labor force.

In addition, there has been the increasing participation in the labor force of married women 35 years of age and over, which results in some degree of job competition with teenagers. Many married women with no small children at home, are now at work on part-time or full-time jobs that often employ teenagers—for example, in supermarkets, restaurants, retail stores and movie theaters.

Nevertheless, employment of teenagers increased sharply in 1958–1968, in contrast to a small decline of teenage employment during the previous decade. In response to the massive influx of teenagers into the labor force in 1958–1968, teenage employment increased from 3.6 million to 5.8 million—an average of about 220,000 a year.

This turn-around in teenage employment, from a small decline in 1948–1958 to a sharp rise in 1958–1968, occurred despite the improvements in FLSA, which minimum-wage opponents claim result in denying jobs to teenagers. But this great expansion of teenage employment was insufficient in the face of the even greater growth in the number of teenagers in the job markets.

Despite the clear, factual record, some opponents of fair labor standards laws claim that the federal floor for wages results in all kinds of supposed troubles, particularly Negro teenage unemployment. This assertion is as far from the facts as other attempts to blame fair labor standards legislation for a variety of economic ills.

The causes of higher unemployment rates among Negro teenagers—about twice as high as among white teenagers—are similar to the problems confronting teenagers in general, except for two major differences: 1) racial discrimination in education and hiring has had adverse effects on Negro teenagers in the job markets; 2) the migration of a large proportion of Negroes from the rural South to the cities, as well as the mechanization of farming, has resulted in a decline of teenage farm employment.

In 1958–1968, the non-white teenage labor force rose even somewhat faster than the total teenage labor force. The number of non-white 16 to 19 year-olds in the labor force rose from 504,000 in 1958 to 780,000 in 1968—about 27,600 per year. But the migration of the Negro population to the cities and the mechanization of southern agriculture sharply reduced farm employment of Negro teenagers.

Educational opportunities for Negro youngsters have been generally inferior—in both the rural South and in urban slum areas—and the preparation of many Negro youngsters for employment was also inferior. In addition, there is discrimination in hiring.

Despite these difficulties, non-white teenage employment increased sharply—from 366,000 in 1958 to 585,000 in 1968, or nearly 22,000 per year. However, this sharp increase in employment was less than the sharper rise of the non-white teenage labor force. The result was increased unemployment.

These are the real problems that have caused high unemployment rates for 16 to 19 year-olds, in general, and for Negro teenagers, in particular. The Fair Labor Standards Act and its improvements are not among these causes, and reducing wages for teenagers cannot be expected to solve their job problems.

The solution to teenage unemployment, generally, and especially Negro teenage joblessness, requires a growing economy and full employment. For the major solution to teenage unemployment is increased jobs. And if there are insufficient job opportunities in the regular job markets, there should be a federal program of public service employment—for both adults and teenagers—to create jobs for the long-term unemployed and seriously underemployed, in providing badly-needed public services in parks, recreation centers, hospitals, schools and other public and private non-profit facilities.

The Neighborhood Youth Corps—a part-time public-service employment type program for both in-school and out-of-school youth—should be expanded considerably to provide young people with regular work-experience, training and encouragement to remain in high school through graduation.

The Job Corps program for unemployed out-of-school youth should be maintained to provide them with basic education and skill training for entry into the job market.

Improved vocational training is needed in the school systems, to prepare young people for the skill requirements of the job markets. Manpower training programs should be geared to meeting actual requirements in the labor market. Outreach programs—such as those sponsored by the AFL-CIO building trades unions in many areas—should be expanded to motivate and assist young people for entry into apprenticeship programs and skilled occupations. And federal law should be enforced to wipe out racial discrimination in hiring.

The solid base of increasing teenage employment of the 1960s and the start of federal aid for education, manpower training and youth employment programs should be continued and improved.

Such progress and the expected leveling off of the rise of teenagers in the labor force in the coming years—as a result of the lower birth rate since the latter 1950s—could begin to solve the teenage unemployment problem. But what should not be done is to establish a special, lower minimum wage for teenagers.

Opponents of the federal minimum wage often advocate that teenagers should be covered by lower minimum wage rates than adults because they are supposedly less productive. The effects of such special lower minimum wage for teenagers would have four clear social disadvantages: displacement of working family heads, discrimination against young workers, a loss of dignity in the work performed by teenagers, and increased profits to those employers who would discriminate against teenagers by paying them lower wages than adults for the same work.

Some employers would be more than happy to hire teenagers at a lower wage than adult workers, especially since low-wage employers are those most affected by minimum wage legislation. On February 1, 1968, there were about six million workers who required wage increases to bring them up to the new federal standard of \$1.60 an hour. Many of these six million were adults and some of them would have lost their jobs if employers had the choice of raising their wages to \$1.60 an hour or firing them and hiring teenagers for a lower wage. Such potential displacement of heads of families by lower-wage teenagers would be socially undesirable.

Also, most lower-wage jobs are unskilled or semi-skilled and require little training. Hence, the volume of work in these occupations, regardless of the age of the worker, is approximately equal. To pay a lower wage to teenagers for the same job as an adult would be clearly discriminatory against teenagers.

It should also be remembered that many teenagers measure the dignity of a job by the amount of money the employer is willing to pay. Work would hardly seem worthwhile to a teenager doing the same job as an adult if he were receiving a lower wage than his adult counterpart.

The advocates of a two-step minimum wage—lower for teenagers—use the high unemployment of teenagers to plead their case. They do not seem to realize that what they would achieve by a lower minimum wage for teenagers, relative to adults, is to attack the effect of the problem and not the cause. Providing the basis in federal law for teenagers to work for less than adults on the same job does not create more jobs. It would decrease the wage costs of those employers who would displace adults and hire teenagers, thereby raising their profits, and result in greater adult unemployment.

The need is to provide more job opportunities for both teenagers and adults—with FLSA as a uniform wage floor—rather than to encourage low-wage employers to displace adults and hire lower-wage teenagers.

A detailed study by the Bureau of Labor Statistics on Youth Unemployment and Minimum Wages¹ found that: "No single factor explains the high rates of unemployment experienced by youth. Imperfect mechanisms for finding out about the world of work and the existence of jobs, uneven changes in population, changes in the composition of demand, legal restrictions upon the employment of youth, as well as general economic conditions, have all played a part."

The final conclusion from this 189-page report is: "During the coming decade, the teenage population will increase 12 percent compared with 40 percent in the 1960's. Assuming no major decline in economic activity, this slower rate of

¹ Youth Unemployment and Minimum Wages, Bulletin 1657, BLS, 1970.

growth, alone, should help ease problems of absorbing teenagers into the employed labor force."

This same study provides information on the failure of employers who are now authorized by the FLSA to employ students at less than the minimum wage to make full use of this authorization. Only 42% of the hours authorized were actually used. A significant number of employers noted that teenagers were unwilling to work at less than the minimum wage.

There is no justification in the record for a sub-minimum wage for teenagers. Moreover, establishment of a sub-minimum for teenagers would be followed by serious adverse impacts.

The federal minimum wage should provide a single standard for all workers regardless of age, sex, color or creed.

Chairman PROXMIRE. Thank you I appreciate the concise way that you have summarized your remarks.

Next we will hear from Prof. Lisle Carter of the Graduate School of Business and Public Administration at Cornell University.

Mr. Carter was formerly vice president of Cornell University for Social and Environmental Studies. Before that he was vice president, National Urban Coalition; Assistant Secretary of HEW for Individual and Family Services during the Johnson administration; Assistant Director of OEO with the present Democratic nominee for Vice President, Sargent Shriver.

Until recently, he was a member of the National Manpower Policies Task Force. He will testify on aspects of "Genuine Full Employment and Social Policy" dealing with full employment, welfare, and the youth problem.

Mr. Carter, we are glad to have you here. Go ahead.

STATEMENT OF LISLE C. CARTER, JR., PROFESSOR OF PUBLIC POLICY, GRADUATE SCHOOL OF BUSINESS AND HEALTH ADMINISTRATION, CORNELL UNIVERSITY

MR. CARTER. Thank you, Mr. Chairman; I am glad to be here.

I am not an economist by training and, therefore, I can't join in this very important discussion from the point of the technical aspects of the debate which I am sure will go on, but I do want and hope that I can perhaps make some contribution on the question of the implications of the sincere effort to move the unemployment rate—overall unemployment rate—substantially down for social policy.

I am concerned today primarily with the problem of public assistance and the problem of the young but I might say that the implications of the kind of ideal situation that you propose, of moving toward an unemployment level that we perhaps have only seen during the Second World War, would be quite profound. Older workers who are now forced out of the labor market at earlier and earlier ages would find jobs again. The modern Luddites, as they have been called, who were expressing their dissatisfaction not with their pay but with the jobs that they have in the automobile assembly lines, would have other options and, of course, women, youth, and minorities would be in demand.

Now, the testimony that you heard yesterday in effect made clear that aggregate policies cannot take us all the way even if the issue of inflation were set aside. This confirms the view of the labor market by

such people as Charles Killingsworth, Doeringer, Piore and Lester Thurow, but one of the things that Feldstein emphasizes that I think bears some attention because it reflects on policies that affect welfare and youth is that there are jobs in this lower or secondary labor market that has been described by these economists and that young people move in and out of those jobs all the time and, therefore, that the market is not as loose as would be commonly supposed.

I think this point gives rise to the quietistic policy which, in significant part, is being followed by this administration and it generally follows a line offered by Prof. Edward Banfield in his book, "The Unheavenly City." Professor Banfield says in effect that we now can take care of depressions with aggregate demand and we can assure even increases in prosperity for most of our population, that there are, in fact, jobs for people if they really want to work; and even though they may be deadend and low paying, someone has to do that work and in the end these people who refuse to take these jobs at certain points in their life, in fact, do take them when they settle down and take on family responsibilities.

Therefore, the Banfield thesis goes, the remaining problems in the society are more the preferences and limitations of individuals than fundamental social ills and to the extent that these individuals may cluster in particular populations or racial groups, that just happens to be the stage of development we are in in the society.

We should do what we can to help these individuals but the whole history of the 1960's is that we cannot do very much. Thus the worst thing we can do is to raise expectations unrealistically and in no circumstance should we undertake such substantial effort that they disturb the general good life that most of us enjoy.

Now, it seems to me that view poses, in a sense, the social dilemma which faces efforts to vigorously attack the remaining problems of unemployment which are so heavily identified with either the lower sector in the labor market, or if you will, the end of the queue or the secondary labor market.

But I contend that the finding that Mr. Feldstein has offered is not inconsistent with the Killingsworth, Doeringer, or Thurow views but merely indicates that the nature of those jobs is such that they are characterized by income levels that are inadequate, that they are generally the lowest status jobs in our society and they have the lowest possibility for mobility and, therefore, only in the last extremity do people accept those jobs.

I also contend that if all of the people looking, in this particular sector, were looking for employment at the same time, plus the hidden unemployed that could come into the market, that the market would be characterized indeed by the very looseness that has been described by Mr. Killingsworth and others; that the accessibility, in other words, is really the function of the rapid turnover of these jobs.

Now, the welfare problem, if we might look at that for a moment, is a function, it seems to me, of this particular kind of labor market and the fact that we have discrimination against women and more heavily against black women, confining them disproportionately to this sector of the market. Welfare rolls are more typically volatile,

just as that labor market is, with heavy turnover, and do not conform to the traditional or conventional notion of people staying on welfare for generation after generation.

It is, rather, the inability to make enough income based on productivity to meet family needs, including the costs of working themselves, includes very heavy costs of childcare which drives mothers quite frequently onto the welfare rolls and the lack of any available routes out of the lower labor sector which keeps them returning there.

The youth problem is similar in nature, not in the sense that the unemployed young are so much constrained by a gap between productivity and their needs, but because they are, in effect, during the critical years of 16 to 22 in a period which for increasing proportions of the society is a time when young people are gaining more skills, gaining education. It is an attenuated period of youth in our society; young people are not going to work generally as early as they used to. They remain in sort of a vestibule in our society where increasingly there is very little that society has for them to do. It is true that jobs are available to them but, in times, when other young people are gathering skills by which they might advance these jobs, obviously do not offer that kind of opportunity.

Now, when we tie to these considerations the problems of locational isolation which affect both the rural poor and youth and also increasingly the central city poor, as isolated from growing job opportunities in the upper and more attractive sectors outside of the central city, artificial standards which make it very simple for people, employers, to differentiate among job applicants, such as the requirement of high school diplomas and so on, and, of course, the continuing and palpable fact of discrimination which cuts across both labor market definitions and affects income even for those in minority groups or women who have relatively high educational attainment, we have a picture which obviously has to be attacked in rather specialized ways.

Essentially if one had looked at the problem at the time when Charles Killingsworth first called attention to the inadequacy of aggregate demand in solving the problem, in the early 1960's, and looked at the nature of the problem with more comprehension than we were able to do at that time, we would have recognized that, as Mr. Goldfinger said, manpower training, whether for young people or for such programs attached to welfare programs, were not by themselves to be a sufficient answer; one needed strong aggregate demand; one needed training programs, of course, but they had to be attached to inducing employers to behave in different ways and to creating now job opportunities.

There had also, if one was going to get young people and people in other circumstances to participate in these programs, to be much more substantial income transfers, either through training allowances, job subsidies or income maintenance, than was available under these programs and the program had to be much more massive than anything that had been undertaken because one would have to deal with the problem of hidden unemployment and of discouraged workers from coming into the market once opportunity became apparent.

The failure of welfare programs, Mr. Chairman, I submit is the failure to take into account these needs. The present administration, with much more information available to it than those early efforts in the 1960's, has continued this failure in its opposition, for example, to a public service employment program, about which we have Secretary Shultz making the extraordinary statement that he was opposed to artificiality on the demand side of the labor market while favoring the requirement that mothers be required to work, which obviously favors artificiality on the supply.

I recognize my time is up, but the thing I would stress, Mr. Chairman, is the answer, in addition to things such as public service employment, is that we have to find ways to open up the system much more than it has been with kinds of apprenticeship programs, the ability, supported by government, to move in and out of school, affirmative action programs against discrimination and different ways of dealing with the locational problems, including aggressive use of mobility allowances and inducements to business either to assure housing and living opportunities near where they work or that the workers will have access to jobs where they are.

(The prepared statement of Mr. Carter follows:)

PREPARED STATEMENT OF LISLE C. CARTER, JR.

GENUINE FULL EMPLOYMENT AND SOCIAL POLICY*

The Congress has just ended a long, tortured and unsuccessful effort to reform the public assistance programs for families with children. The same three-year period has seen rising concern and despair across the country about the prevalence and spread of crime. There should be little question about the importance of full employment to resolving these social issues. Yet the linkage is not as straightforward as is often assumed.

During the 1960's, as unemployment rates dropped to below 4%, the number of families on AFDC rose by 4.4 million. Needless to say these increases rose much more sharply as unemployment rates turned upward—2.7 million more cases by mid 1971. Crime also continued to rise both during the fall and rise in unemployment rates. Teen-aged unemployment is related to juvenile crime which in turn is an incubator of long-term criminal activity. Although teen-aged unemployment rates dropped somewhat during the earlier period, the changes by no means kept pace with the adult decline in unemployment much less showing any evidence of closure. Obviously, factors other than unemployment contributed to both AFDC levels and crime rates, but employment and income are significant factors.¹

In both situations Blacks are disproportionately represented. This is consistent with their status of predominance at the bottom of the economic pile. Despite evidence of some improvement in that status, relatively low unemployment rates of mature Black men with families and the continuance of a significantly larger proportion of Black women than white women in the labor market, with all the rapid increases in the latter group, the Black economic status remains precarious.

The implications of moving toward an unemployment rate we have seen only in World War II would be profound. Older workers who are now forced out of the market at earlier and earlier ages would find jobs again. The modern Luddites, as they have been called, who expressed dissatisfaction not with their pay but with assembly line work would have options. And women youth and minorities would be a demand. From the point of view of social policy, what strategies are required to begin to achieve these desired circumstances?

* Testimony prepared for delivery before the Joint Economic Committee, Congress of the U.S., October 18, 1972.

¹ See, Levitan, Rein et al., *Work and Welfare Go Together*, Johns Hopkins Press, 1972; *Juvenile Delinquency and Youth Crime*, Task Force on Juvenile Delinquency, The President's Commission on Law Enforcement and Administration of Justice, 1967.

Martin Feldstein has provided a valuable service in reporting on the work of the Eckstein group.² The reported studies demonstrate, under present conditions, the limits of fiscal and monetary policies in helping us toward genuine full employment, even with the assumption that the inflationary impact could be managed satisfactorily. The use of these policies to promote aggregate demand do appear to have some positive benefits on the two groups that we are concerned with, but they do far too little to reduce overall unemployment significantly. The Feldstein findings are consistent with what we observed in the employment-unemployment behavior of the late sixties; they also support related accounts of the difference in labor market behavior toward low income workers and toward better off workers.³ Feldstein's own description of the market particularly as it affects young workers also is accurate and useful as far as it goes. There are jobs for which they qualify—but they are “dead-end” and low paying and thus not attractive to the young for long-term attachment. But I would suggest that in the end he does not go far enough in his descriptive analysis and this necessarily limits his policy outcomes. Nevertheless, those proposals are positive, and with some reservations constitute an important part of what must be done.

The Feldstein data, however, also might appear to support more quietistic policies. These policies are based on reasoning that runs somewhat as follows: Most economists seem agreed that with the use of aggregate policies we can avoid general depressions. More than that for most of the population we can assure rising prosperity. In addition, for those at the bottom there are jobs even though they may be dead end and low paying in nature if the teen-agers and young adult workers would just go ahead and take them.

Indeed the evidence is they do take them when they acquire family responsibilities. In the end, then, the remaining problems represent much more the preferences and limitations of individuals than fundamental social ills. To the extent that those individuals cluster in particular population groups those just happen to be the groups that at this stage in our development are at the bottom. We should do what we can to help these individuals, but the whole history of the sixties is proof that very little helps. Thus, the worst thing we can do is to raise unrealistic expectations and in no circumstances, should we undertake such substantial efforts that they disturb the general good life that most of us enjoy.⁴

If this argument made sense then it would be hard to justify strenuous efforts to reduce unemployment and even the Nixon administration's tentative proposals to raise the unemployment rate associated with full employment to 5% might become plausible. But, despite its superficial reasonableness, it does not make sense for at least two reasons: (1) it does not count the social and economic costs, not simply to the many individuals involved, but to the whole society of continued growth in traditional welfare dependency and in the crime rates associated with teen-age and youth unemployment and (2) it betrays a lack of understanding of the labor markets in which the individuals associated with these acute problems are expected to function. “Blaming the victims”—the poor, the young, the minorities and increasingly women has become fashionable again, in part, as result of the limited accomplishments of the social programs of the 1960's and the accompanying disillusionment of liberals and activist social scientists who began that decade with high hopes for their “social technology” and, in the end, were not only surrounded by their small successes and frequent failures, but often scorned by the very people they set out to help. Ironically, it may be that many of those programs were based as a misapprehension of the problems which they were designed to treat.

I am not an economist and do not intend to wage economics among differing views of the labor market. I am prepared to assume that most, if not all, reputable views have some partial grasp of the truth. It will be recalled, however, that for almost a decade Killingsworth has described what he calls the “labor market twist,” that is his thesis that “evolving technology and changing consumption patterns have continued to produce exactly opposite effects in the upper and

² “Lowering the Rate of Unemployment: A Preliminary Report,” presented to this Committee.

³ For example, the views of Charles C. Killingsworth, Peter B. Doeringer and Michael J. Piore and of Lester C. Thurow.

⁴ See, for example, Banfield, *The Unheavenly City*, Little, Brown & Co., 1968. The Nixon Administration seems to have taken Banfield as its text in respect to social policy.

lower sectors of the labor market." The demand for "more skilled better educated workers" runs ahead of their supply, while the decline in demand for "less skilled, less educated workers" runs ahead of the shrinkage in supply of such workers.⁵

Under this view: (1) the labor market is thus divided in two—a lower section characterized by chronic looseness and an upper sector characterized by chronic tightness; (2) this division is roughly defined by those who have achieved 12 years or more of schooling and those who have not; (3) the lower sector displays a pattern of withdrawals from the labor market; (4) stepped-up demand is reflected overwhelmingly in growth in the upper sector; more workers are drawn into the labor force in that group (Killingsworth estimates 95% of job growth 1962-67 was in the upper sector.) (5) Finally and importantly, despite shrinking lower sector labor force and a growing upper sector force, the income of the upper sector has increased substantially relative to the lower sector.

There is less inconsistency between the Killingsworth thesis and the Feldstein findings that may appear at first. Killingsworth and Feldstein would both agree that the labor market at the bottom of the labor force is different from that for other workers; that it is very difficult to move from that lower market into the more attractive upper and that the lower labor market is characterized by income levels inadequate for family support. True, Killingsworth points to "looseness" while Feldstein points to the availability of jobs such as those in restaurants, hotels, office cleaning, casual construction. But this contradiction is not so significant as quietistic policymakers would want us to believe. The high turnover observed by Feldstein implies a "musical chair" effect where several workers share a single job in the course of a year. If a substantial proportion of these workers stayed in those jobs for a more sustained period and discouraged workers came into the market and if the unemployed isolated by location were able to compete, the market would be "loose" indeed. In any event, these composite views of the labor market at the bottom fit with what we know of the AFDC problem and that of poor and minority youth.

The AFDC rolls consist overwhelmingly of families headed by women with poor educations. Contrary to the conventional wisdom, the occurrence of generations of continued welfare dependency is not the rule. In 1970, which was certainly not a good year for job hunters, 40% of the cases on the rolls at the beginning were not there at the end. As with the lower labor market, AFDC rolls are marked by considerable volatility. Families do move on and off and on again. Among the principal handicaps of these women heads of households are inability to earn enough money to take care of the costs of working, including child care, and meet their family needs, together with the inability to break out a job market which pays such low wages.

In the case of youth what might be called the "vestibule" phenomenon is at work i.e., the period during which young people are expected to get educational skills through the formal education and training systems, and thus youth itself, is increasingly extended. During this period, for the "drop outs" from these systems society has no place. The low status, low mobility, low pay jobs of the lower labor market are, of course, available, but these offer nothing to satisfy the aspirations and search for identity of these excluded youth. Nor does society offer legitimate alternative routes to pursue these aspirations and that search. A remarkable aspect of this situation among youth in the sharp drop in their unemployment levels before they reach their mid-twenties. Presumably, by then, if they have not turned to criminal careers, they have come to accept their deadend fate in the lower labor market and thereby have become more acceptable to employers.

Other factors exacerbate these problems.⁶ First educational requirements such as a high school diploma are often irrelevant to the needs of the jobs.

Frequently they form arbitrary barriers to ease screening out workers. Arrest and convict records furnish similar and additional barriers. Second, physical

⁵ See Killingsworth, "Rising Unemployment: A 'Transitional' Problem," testimony to the House Select Subcommittee on Labor, March 1970. Doeringer's and Plore's concept of a "Secondary Labor Market" and Thurow's concept of the "Queue" add to our understanding of this phenomenon but what is particularly significant from the policy viewpoint is that Killingsworth set out his thesis in 1963, and questioned then the adequacy of aggregate policies for reducing unemployment.

⁶ See Doeringer & Plore, *Internal Labor Market and Manpower Analysis*, Heath, 1971; see also Thurow, *Poverty and Discrimination*, Brookings Institution, 1969.

isolation whether a rural area or central city can make possession of requisite education and skills meaningless in the short run and thus dampen motivation to get them. This problem becomes all the more severe as the suburbs absorb most of the news jobs. Third, discrimination not only constitutes a barrier to movement for the lower sector but distorts behavior between the two sectors. For example, college educated blacks not only earn much less than white college graduates but still on average earn less than high school educated whites. Even making allowances for presumptively worse education for similar levels of attainment, the differences cannot be explained away. In every occupational category minorities and women are paid less than white males. Discrimination is at work within business organizations in the upper labor sector preventing many workers from being hired at levels comparable to their educational and skill status and from being promoted once hired. Moreover discrimination has the effect of placing those who are better educated and discriminated against in competition with those who are less educated and discriminated against.

POLICY 1960-70

Our present understanding would suggest that if we had wanted in the early sixties to do something serious about overall unemployment and low income:

1. Strong aggregate demand was necessary, but not sufficient;
2. Vigorous training, basic education and work adjustment programs were also necessary but they would be insufficient unless upper labor market sector employers could be induced to change some of their ways of dealing with the market;
3. Substantial income transfers either through training allowances, job subsidy or income maintenance would have been required for some time for most workers and
4. the undertaking would have to be massive in size to effect overall unemployment. This is so because of the potential participation of those who have withdrawn from the regular labor market or are too discouraged to enter. Many of the individuals falling in these categories presumably would come into the labor market if conditions gave them hope.

The trials and errors of the 1960's do not need extensive recapitulation for this committee. Not as much was known about the functioning of the labor market when policies were being formed to meet unemployment problems in 1961-63. Although it was soon observed that increases in aggregate demand were not enough to meet the employment problems of those at the bottom, the initial emphasis was on changing these workers without dealing with the conditions that put and kept them there. The results of this effort in training and retraining the disadvantaged proved disappointing as undoubtedly Killingsworth could have predicted at the time. Manpower programs did not meet three of the above requirements. Later analysis showed that, predominantly, even after training, workers ended up with the same kind of lower sector jobs that they would have achieved without training.⁷ In the meantime, the onset of the war against poverty saw the start of several work creation programs aimed primarily at giving lower sector workers good work habits and some skills. Undoubtedly some younger workers did use these as routes to escape the lower market. Presumably, there were some who would not have made it on their own. But in the large, these programs were not designed with exits to the upper sector and served primarily as acceptable ways to transfer income—a by no means small achievement. More might have been done if the budget priorities of the Vietnam War and the falling overall employment rates had not led to the attempt to graft the lower labor market sector into the upper market sector through direct involvement of business establishments in the JOBS program. Assuming this was good faith effort and not merely an expedient to avoid, in the short run, higher cost alternatives, it represented a continuing naivety about the nature of the lower labor market sector.

The welfare program (AFDC) was not seriously related to these other efforts until late in the sixties. As we have seen, given our understanding of how the two sectors of the market work, it was not surprising that the number of AFDC recipients continued to rise despite the fall in unemployment rates. Other factors contributed as well—rising and broader benefits, increased awareness and litigi-

⁷ Doeringer et al., *Low Income Markets and Urban Manpower Programs: A Critical Assessment*, Report to Department of Labor, 1969, for example.

macy of the program among the poor, and liberalizing court decisions. Nevertheless, it would be hard to demonstrate that up until 1967 anything was done that would have reduced welfare dependency or containment in the lower labor market sector. Two principal negative provisions are well known—that support was almost exclusively for female-headed families and that assistance was reduced by earning dollar for dollar.

When the very limited program for unemployed fathers was made available to states, community work and training projects were required for these recipients primarily, it seems, to legitimize for taxpayers making welfare payments to able bodied men. They were, in effect, 'working off their relief.' The Work Experience and Training Program that was enacted as a part of anti-poverty legislation became substantially a way of transferring income to male headed families not otherwise eligible for assistance. As I have indicated in connection with other OEO programs this was in no sense an undesirable end, but it would be hard to contend that either of these programs had much to do with central public assistance problems.

The Work Incentive Program (WIN) initiated by Congress in 1967 was aimed squarely at these problems as far as the existing welfare population was concerned. With some qualifications, it required recipient mothers whose children were over six and youth 16 years of age and older who were out of school to enter either work or training; it provided the first significant reduction in the 100% tax on earnings, as well as necessary supportive services such as payments for child care. Importantly, it handed job placement and training over to the presumed expertise of the Department of Labor. Once again although it made an important contribution to enabling mothers to work through child care support, the program did little to overcome the other handicaps of the lower labor market sector and this was reflected in its low completion rate.⁸

It fell to the Nixon Administration to run WIN, but it was not this administration's program and it should not be criticized for not solving problems the program did not provide tools to solve. However, the program the administration itself offered, the Family Assistance Program, contained many of the elements of WIN and no provisions that made it more likely to succeed in breaking its beneficiaries out of the lower labor market sector.

By 1969 there was growing sentiment for a large public service employment program as a major way of intervening in the lower sector. Such a program had been recommended by several commissions and Task Forces, as well as by citizen groups concerned with unemployment and rural and urban problems. Many legislators who had watched the small successes of manpower training programs had become convinced that the assurance of useful work and a more than minimal income were essential as motivations for success. Concededly there were those including some economists who feared public service employment would lead to massive, wasteful bureaucracies and 'make work' projects. But as unemployment rates began to rise in 1970 so did support for such a program.

The Nixon Administration, however, was obdurate in its opposition. George Shultz, then Secretary of Labor, gave as a principal reason for its position an unwillingness to create artificiality on the demand side of the labor market. It is instructive that Secretary Shultz saw no contradiction in the administration's willingness to create artificiality on the supply side by requiring FAP mothers to take jobs they might not otherwise take. Coincidentally, this view accorded with the Banfield proposals which in effect would supplement and contain recipients in the lower labor market sector.⁹ In any event, as we know President Nixon's opposition went so far as to veto the Manpower Act that included a public employment program.

The Emergency Employment Act has shown, despite its weaknesses, that a public employment program can work well without a massive bureaucracy and that there are useful tasks to be done. But if we are to reduce substantially overall unemployment, particularly unemployment among welfare mothers and poor and minority youth much more has to be done in addition to provision of large scale public employment directed heavily toward those at the bottom. The four policy requirements cited early remain basic and essential. Indeed the massiveness of the undertaking can be judged from a recent 'subemployment index'

⁸ For an informal discussion of WIN see, Levitan et al., *Work and Welfare Go Together*, op. cit.

⁹ *The Unheavenly City*, op. cit. pp. 245-246.

report prepared by the majority staff of the Senate Subcommittee on Employment, Manpower and Poverty. This index includes the officially unemployed, workers who have withdrawn or stayed out of the labor market, part time workers seeking full time jobs and workers earning less than \$80 per week. The report showed that while the unemployment rate for 68 urban poverty areas was 9.6% the subemployment index was 30.5%.¹⁰ Policies should concentrate on opening up the dual labor market system. In an analogy with the 'full employment' budget, the government should follow those policies that support actions which might prevail if lower market sector workers were in great demand.

1—Teenage youth and young adults have to be assured alternatives to formal schooling as entry into upper labor market jobs. The creation of genuine apprenticeships leading to real jobs may be a promising option. However, the expansion and integration of apprenticeships within our prevailing employment patterns are probably quite complex. Whether through this route or in transition from public employment to the private sector or in upgrading of workers from what have been 'end' level as well as 'entry' level jobs employers have to be induced to establish direct ladders for advancement. Lester Thurow has proposed linking a subsidy to employers to some measurable employer performance such as increased worker productivity.¹¹ This approach would be much more efficient and more likely to be effective than the Feldstein proposal of an employee investment tax credit.

2—While the likely prospect of advancement would provide real motivation to young workers, 'fellowships' to these workers in the period when they are gaining and improving skills could be decisive. These worker subsidies could bring wages below that necessary for family support up to some minimal level. They also could make it possible for young workers with family responsibilities to shift to part time employment while increasing their skills or leave better paying but unsatisfactory jobs for lower paying jobs with more mobility and scope. Means have to be found to induce employers and schools to make supportive provisions for this kind of part time participation and movement in and out.

3—I strongly support Barbara Bergmann's proposals in her testimony to the Committee, for dealing with discrimination particularly with her emphasis on the need for vigorous affirmative action programs.¹² All the clouded rhetoric about 'quotas' has served to obscure the well established principle in dealing with discrimination that little happens without the establishment of targets and time tables.¹³ No serious program for reducing unemployment can be effective without such a component. Backing down on affirmative action would be a clear signal to employers and unions that the government is not serious about ending discrimination or fighting persistent unemployment.

4—Child care has to be related to any affirmative action program for women and to reducing dependency on public assistance. More women are entering the labor market voluntarily and this presents a much broader problem than meeting the needs of recipient mothers. Mothers are making all sorts of arrangements in an inadequate child care situation. A comprehensive child care program is plainly essential. Nevertheless since we want to *require* recipient mothers to work, a special responsibility would seem to follow to assure adequate child care for their children. It might be less costly to support mothers at home with their children, but we have made a value judgment for which we should be prepared to pay. Child experts such as Urie Bronfenbrenner contend that there are positive advantages to child rearing in providing care in the right kind of setting and opportunities for mothers who want to do so to work at least part time.¹⁴

¹⁰ In estimating the size of the problem, I think Martin Feldstein may be incorrect in believing that teen unemployment and participation rates are respectively substantially lower and higher because the longitudinal survey which supports that view is based on interviews with the youth themselves. It is generally to be expected in surveys that when a person is asked a question that involves a socially preferred value the responses will be exaggerated in the direction of that value.

¹¹ Thurow, *Poverty and Discrimination*, the Brookings Institution, 1969, p. 191.

¹² Barbara R. Bergmann, "Cutting High Unemployment Rates Among Blacks and Women." Testimony delivered to Joint Economic Committee, U.S. Congress, October 7, 1972.

¹³ Doeringer and Plore in their study of Internal Labor Markets express the view that this is the most efficient way to attack the problem leaving it to management and the union or dominant workers to work out how goals are to be achieved.

¹⁴ See Urie Bronfenbrenner, "The Roots of Alienation," unpublished paper, Cornell University, 1972.

5—There are certainly many other things that need to be done to open up employment,¹⁵ but I want particularly to mention the problems facing juvenile offenders or even youth who only have been arrested. The 'labeling' process too often works its way into employment records and provides an obstacle that can shut off all opportunity and drive the youth into the worst jobs or to crime. The best answer is to keep young people out of the justice process whenever at all possible, the second best is to affirmatively require employers to disregard such information and to pursue affirmative action policies with regard to young offenders.

6—Finally, the problems of location appears to me an ever more serious problem. For those unemployed who are isolated in small towns and rural areas much more vigorous use of genuine mobility allowances should be employed. This assistance should be made available to those who live in high unemployment urban areas as well. But the more long term and more difficult problem is the increasing location of the new job opportunities in the suburbs.

Census data show suburbs have drawn equal overall and in many instances have passed cities as providers of jobs.¹⁶ Much of the upper labor market sector demand is locating where much of upper labor market sector supply resides. Too often, racial barriers or income barriers foreclose the workers in the central city from living near or getting to these jobs. Affirmative action programs should require newly locating businesses to assure that there will be nearby housing accessible to low income and minority workers. Housing policies that would locate low and moderate income housing open to all in the suburbs should be aggressively pursued. The government might also offer economic inducements to businesses to overcome other economic considerations and encourage location in areas that would be convenient to central city residents or even in the cities themselves. Mass transit systems should be developed with the needs of central city residents commuting to the suburban or jobs in the design even if it requires continued subsidies to maintain the service.

Clearly these proposals and others are going to cost a good deal in the short run and will require in addition that those in the upper labor market sector make some adjustments in working and living. In the end, as with the answer to other major social issues whether we achieve genuine full employment rests on our willingness to take the steps required to do so. Hopefully the long run pay off to the whole economy to be found in full employment both in growth and in the reduction in social costs and the high value we place in work will provide inducements for broad support. Genuine full employment will not end the need for public assistance but it should make it possible to have a decent program for much less money for those who continue to need it. Genuine full employment will not eliminate crime but it should help shut down one of the principal 'fast breeders' of criminal activity.

Chairman PROXMIRE. Thank you very much, Mr. Carter.

These have been two excellent presentations.

Mr. Goldfinger, your conclusion is that we can get down to 2 percent unemployment, and that that ought to be the standard rather than the 4 percent which is at best the goal of the administration. We have had a lot of trouble nailing them down to 4 percent. As you know, former Secretary Connally has said the achievement of levels of unemployment as low as 4 percent has never been done except in wartime with tight controls but he says it is an aberration from the norm, implying that 4.5, 5 percent is a much more realistic goal; but I think it would be possible especially with certain structural improvements to get down to 2 percent unemployment.

I think you said something like 2.5 percent without that kind of profound change in the structure; is that right?

¹⁵ See for example, *The Report of the Twentieth Century Fund Task Force on Employment Problems of Black Youth*, Praeger, 1971, pp. 8-17.

¹⁶ New York Times Analysis of Census Tract Reports, N.Y. Times, October 15, 1972.

Mr. GOLDFINGER. I think it would be necessary, Mr. Chairman, to use structural and selective measures to get down to 2.5 percent but I think we could get down further. We could get down to 2.5 percent along the lines of the kinds of measures that Mr. Carter and I outlined briefly a few moments ago. But I think we could get down even further through public and private attempts to smooth out seasonal fluctuations and reduce the duration of unemployment.

For example, I mean, if you take the construction industry, which is highly seasonal, and a number of other industries which are highly seasonal, and with frequent and rather lengthy periods of unemployment, I think if we took steps to smooth out those kinds of sharp fluctuations, we would get down to the neighborhood of 2 percent.

Chairman PROXMIRE. One way of getting down, of doing this with minimum disruption in the work force, is to time your expansion so that it is not so sudden, but you create a political backwash or reaction with Government policymakers becoming much more concerned about inflation, and adopting policies restraining the economy.

What I have in mind is this: As you know, we now have 5.5 percent unemployment; we have been at that level for the last 4 months, roughly. Prior to that we had 6 percent unemployment for more than a year. To move to 4 percent unemployment, I understand by the middle of 1974 would take an extraordinary and almost unprecedented peacetime growth in our economy?

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE. I wonder if you can see how we are likely to get that? You talk about monetary and fiscal policies and say that they are important but they are not the only important elements; there is the selective nature and quality of your fiscal policy which is important, too. Would you give us some idea, Mr. Goldfinger, what policies you think might be adopted in the next year and a half to at least achieve that 4-percent level and preferably to do better than that?

Mr. GOLDFINGER. Well, in the prepared statement I submitted, Mr. Chairman, I suggested the need for at least 2 years, the next 2 years, of fairly rapid aggregate growth in the economy, in the neighborhood of real growth of about 7 percent for 2 successive years.

Chairman PROXMIRE. That would be a very high rate of growth on the basis of historical experience, would it not?

Mr. GOLDFINGER. Yes.

Chairman PROXMIRE. Especially coming out of a war situation?

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE. How do we do that?

Mr. GOLDFINGER. The reason I suggest that, in the first place, is that we now have a very high rate of productivity advance which has its beneficial impacts in terms of improved efficiency and reduced pressures on unit costs. In fact, in the second quarter of the year there was a slight decline in unit labor costs as a result of the sharp rise in productivity.

Chairman PROXMIRE. Very few people realize that.

Mr. GOLDFINGER. Yes.

Chairman PROXMIRE. We not only had less inflationary pressure

from the labor sector which, of course, is the most important cost but it was actually negative.

Mr. GOLDFINGER. Right.

Chairman PROXMIRE. On that basis prices should have gone down.

Mr. GOLDFINGER. Well—

Chairman PROXMIRE. I realize that is a great oversimplification but just from the standpoint of the labor cost element.

Mr. GOLDFINGER. I agree with you completely and what has happened is, we have had a very excessive rise in profits during this period showing the imbalance in terms of the so-called control program; but that is another issue.

However, the productivity rise makes it very difficult to bring down the level of unemployment, particularly at a time when the labor force is increasing very rapidly.

Chairman PROXMIRE. I am glad you emphasize that because we all favor improvement in productivity. You do; I do, everyone. The administration experts, even Mr. Moore, just refuse to acknowledge the employment consequences of sharply improved productivity. The fact if you have 100 men who are able to produce, say, 10 percent more, it means instead of hiring 10 more men to do the job, the same men can produce what it would take 110 men to do because they are more productive.

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE. And too many administration experts won't acknowledge that the productivity element is a very, very important aspect of inhibiting the reduction in unemployment and the expansion of employment at a greater rate.

Mr. GOLDFINGER. Well, I think the data show the point that you just made. For the month of August, manufacturing production, according to the Federal Reserve Board index, was up 1.6 percent above the prerecession 1969 peak; however, production and maintenance jobs in manufacturing were 1 million less than at the 1969 peak. Employment in contract construction was only 52,000 above the peak and employment in transportation and public utilities was only 58,000 above the peak. In key sections of the economy, particularly key sections for semiskilled workers and unskilled workers and in the sections that provide at least moderate paying and better paying jobs, in those sections, we still had an awful lot of employment slack by comparison with the 1969 peak.

Chairman PROXMIRE. That is likely to continue for many months and perhaps for a couple of years; is it not?

Mr. GOLDFINGER. Well, unfortunately, I believe that is true as a result of this sharp spurt in productivity; but in order to—

Chairman PROXMIRE. I mean productivity is likely to continue to improve?

Mr. GOLDFINGER. Right.

Chairman PROXMIRE. One of the elements I have watched, for example, is the fact that numbers of hours worked per week are by historical standards still low.

Mr. GOLDFINGER. Very low; yes, sir.

Chairman PROXMIRE. It is down to 37, 38 hours.

Mr. GOLDFINGER. That's right.

Chairman PROXMIRE. What this means to me is that many employers instead of hiring additional workers will work their workforce a full 40-hour week and maybe overtime in many cases.

Mr. GOLDFINGER. Yes; that is the normal procedure in an upturn from a recession.

Well, all of that adds up to the need for expansionary macropolicies during this period of time in order to provide the increase in aggregate employment opportunities; however, and here I want to emphasize again, as I did in my opening statement, and as Mr. Carter did, and that is there is the need to couple the expansionary macropolicies with selective measures.

For example, we at long last were able to achieve a very modest and, I believe, truncated public service program which now provides something like about 150,000 jobs. That program should be much strengthened and much expanded to provide at least 500,000 jobs and to increase it beyond that; but let's start at about a 500,000 employment level and begin to develop experiences in terms of operating such a program and, if necessary, to increase it to double that size, to something like 1 million public service employment jobs.

Now, the reason for the need, I think, was very pointedly stated by Mr. Carter in his reference to the kinds of conditions in the labor market, the realities in the labor market.

Whether or not you agree entirely with Charles Killingsworth, Mike Piore and Pete Doeringer and others that there is a secondary labor market of low-skilled people, particularly in this period of time when, as a result of the technological revolution that we have been going through with large masses of people who have migrated out of the rural areas into the cities and with the migration of industry out of the city into the suburbs, there is this large pool of people who are at the end of the queue, according to one theory, or in the secondary labor market according to another theory, those people find it very difficult, if at all possible, to get jobs even in a period such as in 1966-68, when the aggregate level of economic activity was fairly high.

This is because of low levels of education, discrimination, discrimination not only in employment but prior discrimination in education, and other disadvantages. Those people are particularly vulnerable to unemployment and have remained unemployed for extended periods of time even when the aggregate level of economic activity was relatively high as in 1966-68.

So because of such conditions there is the urgent need, not merely for manpower programs and training programs on a much larger scale than we have engaged in—by the way, as an aside, once we get and sustain high levels of economic activity, employers, because of pressures in the labor market, engage in their own manpower programs of upgrading employees within the establishment and of hiring people at the lower levels of skill and engaging in, to a much greater extent—

Chairman PROXMIRE. There is nothing like a tight labor market to greatly improve manpower policies.

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE. And make the private manpower training programs come into force.

Mr. GOLDFINGER. Right.

Chairman PROXMIRE. This is a far, far more relevant, pertinent, appropriate, timely, and efficient method than any governmental program. The worst aspect of the governmental program is really pretty silly. If you have a manpower training program when you have 5.5, 6 percent unemployment, you are going to break people's hearts and their spirit; they go through the discipline of engaging in manpower training, which is very difficult for some people, but they somehow find the will to do it and then there is no job. How rough can you get? They go through this and there is no job and then they throw up their hands and say, "Why try to improve myself?"

Mr. GOLDFINGER. I think that is a human tragedy aside from a tragedy in public policy.

Chairman PROXMIRE. It is essential when we provide manpower training that there be a job at the end.

Mr. GOLDFINGER. Right.

Chairman PROXMIRE. I would like to ask you, Mr. Carter, you talked, as Mr. Goldfinger indicated, about the people at the end of the queue, the secondary labor market; we had some very good testimony on this kind of situation and it seems to me that some of these so-called, these dirty jobs, these jobs that are low paying, that are hard, that while it is true that some of them are going to continue to have to be done, many of them can just be eliminated and should be eliminated. Witnesses before this committee mentioned yesterday the fact the census had disclosed that the State that has the largest number of maids is one of the poorest States in the Union—Mississippi—and on a per capita basis, New York, a far richer State, has relatively few maids because New York workers insist on a higher wage and because people do their own maid work.

So those jobs may disappear—some of those jobs. Other jobs may be automated and in the remaining cases, where you have a hard, tough difficult job in terms of bringing people to do it, although it is easy in terms of skill, I can't understand why we just don't let economic forces work and rather than deplore the fact that nobody wants to go out and do stoop labor in the fields for \$1 an hour, let them make \$5 an hour and then you will get people to do it; and just let the economic system recognize the fact that some work is a severe disutility.

What I am saying is that being a professor at Cornell or being a U.S. Senator or being the top economist for the AFL-CIO—these are very pleasant, challenging, attractive jobs—and I am not sure that from the standpoint of discomfort we can justify the kind of pay that all of us get. On the other hand, if we had to clean toilets and had to do kitchen patrol for people, I think we—all of us—would demand higher pay and we should.

Mr. CARTER. Well, I would agree with that except the evidence would seem to suggest that as the wage goes up that is one of the forces that drives those jobs out of existence. One of the interesting things in referring to the—

Chairman PROXMIRE. That's right, but there is nothing wrong with it, really—

Mr. CARTER. No.

Chairman PROXMIRE (continuing). As long as you can provide work for these people, and you should as both of you gentlemen have said by expanding demand and other ways and by improving the quality of the other jobs.

Mr. CARTER. One of the incredible provisions of H.R. 1, as a matter of fact, was that it would, in effect, have abolished the minimum wage for these particular workers and would have said that not only do you have to take work but you take it at three-quarters of the minimum wage. This would go fine for people who are complaining about the agricultural minimum wage in the South because that would almost put them back where they were before the agricultural minimum wage and the Government would pick up the rest of the tab and these rural Southern employers could have their labor or they could have more maids or whatever the case might be.

So here we had proposed governmental policy which was going to do the reverse of what you are suggesting.

Chairman PROXMIRE. When you talked about opening up the system more, it was not only a matter of sex and race discrimination, as I understand it—

Mr. CARTER. Right.

Chairman PROXMIRE (continuing). It was a matter of far more imaginative and aggressive training programs. You talk about allowances.

Mr. CARTER. Well, it seems to me if you look at a job, and I think the analogy you draw is quite apt, you are prepared to trade off perhaps three things: There are probably others I have not thought of, but the attractiveness of the job to you, the opportunities for mobility and the pay. You might settle for any one of those factors. Of course, people in the lower end of the labor market are asked to settle for none of them. Beyond that there is the situation where young workers, because of family considerations, get trapped into jobs which are paying reasonably well but obviously when they look at the rest of their life at age 20-odd they know that they are going to spend in doing this particular kind of work, they cannot afford to stop working to improve their employability because of their income and their family needs. Yet we provide no real alternatives for these workers, either through more flexible employment policies that would favor more part-time employment, supplemented by some kind of governmental support that would allow them to go on to continue their education or get additional skill training or through industry being induced to change the nature of its internal market, if you will, which would allow young workers to move into other lines of work while training within the industry or other kinds of differentiation from what they are doing. It seems to me this is going to become, apart from the very serious problems faced by the people at the very bottom, a very critical problem for us.

We have the same kind of rigidity we have in our school system, which marches everybody all the way through high school at the same pace, and if you don't fit into that particular mold there is nothing else you can do.

Colleges, by and large, are better off. They are beginning to break out of that mold, but high schools are not and, therefore, there isn't much opportunity, particularly given child labor laws and other restrictions, for young people to have a variety of experiences which would allow them to shift around and get a feeling for their niche and what they need and what they want and what they need to get there. The young realistic feeling for this rather than what they might be told by some counselor who really doesn't know anything more than what he has read in the book somewhere.

Chairman PROXMIRE. Let me get back to something you mentioned in the course of your answer with respect to H.R. 1, the welfare reform.

As you know that was defeated—many people feel it is going to be years before we have something like that again, if we ever have it; it may take another tack. I think from a political standpoint, having talked to thousands of my constituents and I am sure other Congressmen and Senators have, that this is not a popular approach.

Mr. CARTER. I agree.

Chairman PROXMIRE. Those who represent the poor are split and divided and those who have to pay for it are overwhelmingly against it; they just don't understand the notion of a guaranteed income and they associate it, maybe unfairly, with people who have an income and don't work and don't have any incentive to work.

Under these circumstances, it seems to me that one realistic and acceptable kind of an approach would be some kind of guaranteed job. Most people, I think, fair-minded people, would say if a person is willing to work, he ought to have that opportunity to work; so maybe we can get at this thing that way. Now all of us recognize if somebody is too young, if they have a baby or small child, or if they are too old, lame, blind, we have to take care of them but if they are able-bodied and they can work, we ought to provide an opportunity for them to do so.

Why shouldn't this be a more realistic, more constructive, more politically acceptable approach than going back to this other welfare reform approach which would seem to put people on the dole and keep them pay for them, while they are idle?

Mr. CARTER. As I tried to indicate in my opening remarks, Mr. Chairman, I would agree with you in the sense that we are not going to be able to deal with the welfare problem unless we deal with the employment problem.

Now, I think that there will be residual problems but that fundamentally the evidence is perfectly clear that people on welfare want to work; that is, I am talking about the overwhelming majority; I am not saying that there are none on welfare who do not. But the WIN program has a substantial number of people waiting in line for jobs even after training for whom there are simply not the opportunities. The payoff from that program has been extremely small, mainly because there are no opportunities for them after they go through the program. If there hasn't been any need to invoke the requirement that people work except in isolated cases where the kind of arbitrary discretion that I happen to think, is unfortunate in the welfare program

has been exercised against particular individuals. Most people are volunteering for the program so I think if one had job assurance that many people would not get on to the welfare rolls in the first place and many there would be able to get off.

Now, I think we do have to face realistically the question of how much we are prepared to pay for our own set of values; that is, it can be quite expensive to assure a work opportunity for a mother, say, with several children because this means that in one way or another those children are going to have to be cared for while she is working and that can be a rather expensive proposition.

My own hope would be that—and we already see evidence of this—the presently broader support for family planning methods, is going to lead to substantially reduced family size. That obviously is not going to deal with the present problem but it should deal with some aspects of the concern about continued expansion of that.

Chairman PROXMIER. I think both of you gentlemen have made a solid contribution in building up the overwhelming case for a far more vigorous effort to provide an opportunity to work in this country. When you recognize all of the elements that are going to go into the next couple of years to slowing down a reduction in unemployment, you have the productivity element which Mr. Goldfinger so ably diagnosed and analyzed; you have the demographic fact that you have young people who are now in high school and grade school, the biggest number we have ever had in our history, who are coming along and going to be in the work force in a very, very few years; you have the welfare people who want to work and are on welfare and the jobs just are not available for them; and in many cases they are not included in the work force because they are discouraged workers or maybe they have some kind of a little part-time job of 10 or 15 hours a week and may be considered employed but there are over 1.5 million of those in our work force; you have many women and teenagers who would like to work and come into the work force as soon as the jobs begin to open up.

You have the Vietnam war coming to a close. Hopefully, we are going to be able to phase down some of our military contracts which will certainly demobilize more of our people—everybody agrees to that—so you have all of these factors which indicate that we are going to need an extraordinary expansion of employment just to stay even and to get down to 4 percent, to get down to the 2.5, to 2 percent which our witnesses so far seem to feel is—should be our realistic goal—going to take a tremendously big effort.

Now, one of the things, Mr. Goldfinger, that stands in the way of this is reluctance, not just—it is not a partisan matter, not on the part of the administration alone but much of the business community and many, many others who feel if we move vigorously in this area we are going to provoke inflation which is just too painful to endure, and while 5 or 6 percent of the work force may be out of work, 100 percent of the people suffer from inflation, they are all conscious of it. So there is likely to be powerful political resistance to our moving too fast. That probably will develop at some point a pressure on prices or at least a pressure on prices, they are going to rise. What can we do about this? We have a control program in place; there are other ways,

I suppose, of coping with a rise in prices. You spoke about the fact that profits had gone up very sharply. What would be your method of meeting this problem of a rapid expansion coupled with prevention of the kind of rise in prices which would create a political situation where we couldn't continue the expansion?

Mr. GOLDFINGER. In the first place, Mr. Chairman, the rise in productivity that would accompany such an expansion would, in itself, reduce the pressures on unit costs.

Chairman PROXMIRE. That is a good point.

Mr. GOLDFINGER. That in itself is a plus and it is a very strong plus, to the extent that we don't get profiteering on the other side, but at least in terms of cost pressures they would be down.

As I indicated before, I think the record of the past year indicates that—particularly the second quarter of this year.

Another thing is that there is no danger in this situation, particularly in the next couple of years, in my mind, that we would be bumping against any ceiling of physical and manpower resources because we are operating so far from full employment, and so far from optimum levels of capacity utilization. I don't think that is the problem. I think there could be problems in the money markets, with credit pressures, and I think that here we probably have to get back to the kind of legislation that the Congress passed, I believe it was, in December, 1969, which the President has not used; and that is to direct the Federal Reserve to allocate credit to areas of high social purpose, such as housing, community facilities, and so forth, so that they do not get it in the neck in the period of tight money and that they don't get clobbered as they did in the beginning of 1969 and 1970.

Now, in addition to all of that, the AFL-CIO, as you know, Mr. Chairman, has been on the record ever since early 1966, that the Labor Federation would cooperate with a wage stabilization program if it was part of a program that was equitable and across the board affecting profits and interest rates, all prices and costs, as well as the wages and salaries of working people.

Chairman PROXMIRE. That's right. Interest rates at the present time, as I understand it, have only a limited control; they have a jawbone control.

Mr. GOLDFINGER. No effective control.

Chairman PROXMIRE. And only one small segment of interest rates has direct control but it is limited and everybody, almost everybody with expertise about interest rates, including the Federal Reserve people, say that interest rates are going to go up but there is no control on them—I mean, no significant control.

Mr. GOLDFINGER. Well, this is one of the economic inequities and social inequities in the current program. Interest rates are rising now; the prime rate has risen slowly, but it has been rising in the past number of months and, as I say, the bankers and the people from the Federal Reserve all predict that it will rise further in the course of the next number of months, and this is a pressure on costs and in some areas of the economy it is a very important pressure; it is a very important cost factor in housing, in construction, generally.

Chairman PROXMIRE. It is devastating in housing, just devastating. If that rises significantly it means, as we learned in 1966 and as we

learned repeatedly, no matter what happens to the rest of the economy, no matter how people's incomes are up, because the interest element in buying a home is so decisive, you just price literally tens of millions of people out of the housing market. It means that you are going to have—could have—a housing depression, which we had in 1966 in one of the most prosperous years in our history.

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE. So I think this is certainly a weakness and I am glad you pointed that out.

Mr. Goldfinger, I am very much interested in your emphasis on rebuilding of urban areas as the new frontier for public investment and employment. I have two questions to put to you:

One is whether or not you have any idea of the aggregate investment that might be required for this purpose?

Mr. GOLDFINGER. Unfortunately, I do not. I don't have.

Chairman PROXMIRE. Where would most of it come from, the private sector?

Mr. GOLDFINGER. As far as the sources, I believe that most of it would come from the private sector; however, there would be the need for a considerable public investment to provide the incentive and provide the base for this kind of forward movement.

Chairman PROXMIRE. Would this be through tax incentives or through—

Mr. GOLDFINGER. No; I would think they would have to be in the form of expenditures and guaranteed low interest loans.

If you look at the history of the kind of problem, just take one problem, Mr. Carter and I mentioned briefly, and this is the problem related to the technological revolution with the movement of industry out of the cities to the suburbs where the people who live in the cities are hardpressed with the lack of mass transit. One of the urgent needs of our time in the urban areas is the development of an adequate mass transit system, and I don't see how we are going to get any adequate mass transit systems without considerable public investment.

Chairman PROXMIRE. You know that is very timely. This morning about half an hour ago a conference group, and I am a member of it—I gave my proxy to Senator Muskie and and Senator Cooper—is having a tremendous hassle over whether we can divert part of the highway trust fund money into mass transit and the powerful highway lobby is adamant against it. We are being as tough as we can to try to carry out the will of the Senate which is that we should provide \$800 million which is just a beginning in this area of mass transit, but we are having a very difficult time to achieve it. It makes all the sense in the world in terms of the ecology, in terms of getting people—

Mr. GOLDFINGER. Yes, sir.

Chairman PROXMIRE (continuing). To be able to move efficiently and economically from the city to the suburbs where the jobs are increasingly being created and vice versa, but it is a tough, tough thing to overcome. I am glad you emphasized that.

At any rate, you say the investment would be largely private sector with substantial public encouragement and incentive but you can't

estimate how big that investment should be. I am very interested in that aspect, too, because I am chairman of the Appropriations Subcommittee that provides funds for housing and urban development.

Mr. GOLDFINGER. You know, Senator, I am appalled by the lack of interest in this whole area for roughly two decades. I can think back to the 1950's, Mr. Chairman, to the days when there was hardly any interest in this whole area of public facilities and public services, but nevertheless in the White House, President Eisenhower had a staff member, General Bragdon, who, unfortunately, was essentially ignored, but he was a man who worked on this kind of issue from day to day with a very tiny staff, on the needs of this country for public facilities and public works and where the shortages are, and the shortfalls are. I think there is the need somewhere in the U.S. Government, not for any massive bureaucracy, but for a small group to get into this area and find out in terms of aggregate numbers what is it that is needed, where are the shortcomings, where are the shortfalls, and what are the needs over the period of the next decade or two. I don't think that these problems that have built up and festered now for 20, 30 years can be solved overnight but we have to get moving on—at least some—degree of planning in terms of 10 or 20 or 30 year planned programs of moving ahead, in providing mass transit and providing better school structures, of hospitals, and so forth, all of which would provide jobs at the same time, particularly if they were coupled with a public service employment program of providing jobs in the public services, that are needed.

Chairman PROXMIRE. There is one aspect of this public investment that the Senate acted on with great emphasis last night. The President vetoed the water pollution bill, a \$24 billion public investment program, and the Senate passed that over his veto by a 52 to 12 vote last night.

Mr. GOLDFINGER. I think you and the Senate are to be congratulated on that move.

Chairman PROXMIRE. The House will act on that today.

Mr. GOLDFINGER. Right.

Chairman PROXMIRE. This is a program which should provide many, many jobs in a highly constructive way.

Mr. GOLDFINGER. Yes. I hope that the House moves with the Senate in overriding that veto.

Chairman PROXMIRE. I would like to have both you and Mr. Carter comment on the extent to which you feel the Federal Government can and should, and maybe you can tell us a little bit how they should, provide for the redeployment of skills and resources resulting from the reconversion to the extent there still remains a reconversion problem after the Vietnam war. We have the aerospace problem in the State of Washington; we have that same problem in California, New York and Connecticut and many, many other States where you have very high unemployment and you also have defense layoffs, people who are very skilled in their areas but the demand for weapons may be somewhat less in the coming years.

How can the Federal Government meet this? It doesn't seem to have done a very good job so far. What can we do?

Why don't you start off, Mr. Carter.

Mr. CARTER. Well, I think we make the easy rhetorical statement there are many tasks such as the one we have just been talking about, environment, transportation and the like. The fact is, however, that the Government, Federal Government, which is probably the major investor in technological R. & D. has starved research and development in areas outside of aerospace and weapon systems and the like, so that the transition, I am afraid, is not going to be quite as easy as some would believe. I mean, when we talk about mass transit and rapid transit: we simply have not done the kind of research and development that other countries have done. We have not done the research and development in shipbuilding; we have not done research and development in earthmoving with solid waste disposal, and one could go on with a host of other things. We need to build very rapidly the investment in that kind of research and development so that these very highly qualified workers can begin to shift over to not only the research and development component which will obviously provide a relatively small number but then obviously beyond that into the needed production aspects.

But it does seem to me that the Federal Government, by shifting its emphasis in research and development, can make a major contribution to the reconversion problem, starting as rapidly as we would get into that.

Obviously, beyond that many people who are extremely intelligent people who have been involved in these other efforts go—if they are going to deal with the kind of problems we have been talking about, the urban-investment problem and the like, need to have periods of retraining. Rand, for example, has found it is not as easy as they thought to shift from considering defense matters to deciding what to do about urban problems. They have been getting an education paid for by a variety of taxpayers. This no doubt is a very valuable thing but much more of that needs to go on in terms of the reeducation of many more trained people to think about different sorts of problems.

Chairman PROXMIRE. Mr. Goldfinger.

Mr. GOLDFINGER. I would move on from what Mr. Carter said and I agree with everything he said, but there is need also in the shorter run, not simply to increase the investment in R. & D. with payoffs that are down the road, but there is need to have a planned offset to the decline in defense and the decline in defense production, which we didn't get, through such programs as the program that we of the AFL-CIO proposed to the Congress and which the Congress passed and the President vetoed, and that was the accelerated public works program, to provide at least a short-term stepup in the repair and construction of public facilities in areas of high unemployment which could provide some employment opportunities for engineers and technicians and some employment opportunities for semiskilled and unskilled people as well as skilled people. In addition, I would add, once again, I am afraid I am sounding like a bug on the subject but once again, the importance of large-scale public service employment program, particularly for those at the lower end of the skill levels.

Then a further measure which I omitted, unfortunately, in my prepared statement and Mr. Carter mentioned it in his opening remarks—

there is the need in this country for a system of relocation and allowances, of Federal financial aid to workers who are unemployed, for them and their families to be able to move from areas where they are jobless to areas where they have found jobs. I don't think that relocation allowances in themselves are a solution or any one of these suggestions is a solution but I think that taking all of these kinds of measures as a package, as offsets to the declining defense expenditure and the decline in size of the armed forces and so on, that these could move us forward without the terribly tragic waste, economic waste, and the waste of human talents and human efforts that we have been going through in the past couple of years and we may well continue to go through in the next couple of years.

Mr. CARTER. I would subscribe to those comments, Mr. Chairman; my own remarks were addressed to how would the employers, the demand stimulated through the employers, be in fact reconverted.

Chairman PROXMIRE. Mr. Carter, apropos of what Mr. Goldfinger has been saying, the Nixon administration has criticized our public service jobs program, calling it a makework program. In fact, an article in Monday's Evening Star, which you might not have seen, states that the administration intends to kill the program. Mrs. Barbara Bergmann, who was one of the witnesses yesterday, made a very impressive appearance and said if the administration is correct in calling it a makework program, then it has done a poor job of implementing what the Congress intended.

Could you tell us the effectiveness of the public service employment program thus far?

Do you favor expanding the existing program or would you suggest changes?

Mr. CARTER. I would say that whatever—I don't know the basis on which the administration is making its judgment but most of the evaluations that I have read of the public service employment program recognize it does have some shortcomings in its implementation and its impact on groups that we, who were supporting public service employment before the real recession crunch, had in mind, that is to say, that the cities were feeling starved for revenue and did to some degree use this as a substitutional program; people were drawn into the labor market, as one could judge, by the rather short average time of unemployment that was found in many of the programs implemented and although the official category "disadvantaged" was rather high because it included a large number of people, there were people obviously included in that category who but for one fact or another would not be considered disadvantaged but those were the most negative things probably you could say about the program. It got into effect very rapidly and did not involve the creation of a huge bureaucracy. The jobs that are being done are jobs that are obviously jobs that need to be done in the communities where they are carried out, so I think clearly from that point of view it seems to me that all the evaluations I have looked at, and I have looked at several by different organizations, are positive with respect to the program.

The general feeling is that it does need to be more targeted in terms and hopefully it will be as the general unemployment rate decreases, but the unemployment rate of the groups that are most heavily con-

cerned about, with the exception of, obviously, you know, serious situations obtained in Seattle and other places but the one group we generally have been talking about at the end of the labor market remain among those heavily unemployed; the program needs to be more targeted on them, more targeted on the people who are receiving public assistance, and so forth. But there is no question, the jobs are there to be done; many jobs have been identified.

Chairman PROXMIRE. They are not makework; they are not so-called WPA, although it was a constructive program?

Mr. CARTER. That's right.

Chairman PROXMIRE. It has been associated in the minds of people as leaf-raking.

Mr. CARTER. But those are not; they are doing a whole wide variety of jobs.

Chairman PROXMIRE. There certainly are plenty of services to be done.

Mr. CARTER. That is correct.

Chairman PROXMIRE. In city after city we have had witnesses at the table before us who have documented it, Governors and mayors have documented the urgent need for providing services where they have had cutbacks, where they have a great need for improving sanitation, recreation, law enforcement and a number of other things.

Mr. CARTER. The fact is in this program they are working at those kinds of jobs so it is not simply people coming over here and saying there is one kind of thing to be done and then, in fact, in order to get the program going in a hurry they are giving people brooms or putting them out in the park with rakes or something like that. That is not what is happening.

As I say, there are some weaknesses which I have tried to indicate but, on the whole, one would have to count the program a success and, as Mr. Goldfinger said, one that should be expanded, certainly not cut back.

Chairman PROXMIRE. Now, Mr. Goldfinger, you have a very strong segment of your statement on the minimum wage controversy. I would like to have you express right here before the committee so we can have some balance publicly of your reaction to what Mr. Feldstein argued, as I understand it, yesterday, that while the minimum wage or an equivalent to the minimum wage might be paid to people who work, that we might subsidize the employer to make that possible, might provide scholarships to make it possible, that we should recognize what has been done in European countries where they have very low levels of teenage unemployment compared to our very high levels of teenage unemployment. They say teenage unemployment is around 2 or 2.5 percent in most of the European countries. As you know, it is around 15 percent in this country.

The argument is, European countries do not use the minimum wage in hiring teenagers, that we do and, therefore, they want some exceptions.

Now, you are one of the strongest and most vigorous and most persuasive advocates of maintaining a minimum wage and increasing the coverage and I would like to have your answer to the Feldstein position.

Mr. GOLDFINGER. I was shocked by Professor Feldstein's paper in connection with the issue of the minimum wage and also with the issue of unemployment compensation. On the issue of unemployment compensation, just as an aside, Mr. Chairman, I read that paper very late the day before yesterday and didn't have a chance to append anything to the prepared statement I submitted. If you wish, the AFL-CIO can supply a memo on the subject of unemployment compensation for the record.

Chairman PROXMIRE. We would appreciate that. The memo will be printed in full at this point.

Mr. GOLDFINGER. I appreciate that.

(The following information was subsequently supplied for the record:)

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., November 1, 1972.

HON. WILLIAM PROXMIRE,
*Chairman, Joint Economic Committee,
New Senate Office Building, Washington, D.C.*

DEAR SENATOR PROXMIRE: During my appearance before your committee on October 18, 1972, I requested an opportunity to submit for the record comments on unemployment compensation.

These comments are enclosed. They were prepared in response to the inaccurate and mistaken views of Professor Feldstein contained in the report he submitted to your committee on October 17, 1972.

Sincerely yours,

NAT GOLDFINGER,
Director, Department of Research.

Enclosure.

BACKGROUND INFORMATION ON THE FUNCTIONS AND OBJECTIVES OF
UNEMPLOYMENT COMPENSATION

Unemployment compensation is a program which provides a weekly income for a limited period of time to compensate eligible unemployed workers for part of their wage loss. It seeks to aid unemployed men and women while they are looking for work. By sustaining the purchasing power of unemployed workers, a major contribution is made toward stabilization of the total economy.

To insured workers who are employed, unemployment compensation lends a feeling of security; they know that should they lose their jobs through no fault of their own, they will not be totally without income. For insured workers who are unemployed, it means cash to ease the crisis of loss of their jobs. These payments help workers buy food, housing, and other essentials for themselves and their families. Since the program requires registration at the public employment offices, it helps workers find new jobs—and suitable jobs.

Benefits between jobs help to conserve workers' skills. They reduce the pressure on jobless workers to take blind-alley jobs in which they would lose their skills and the status which goes with skills. At the same time unemployment insurance facilitates the free flow of workers between communities. When workers must leave a community because of industrial or community changes or for personal reasons, unemployment insurance helps sustain them until they find employment in other localities where their skills are needed.

Unemployment insurance serves employers by helping them maintain a trained labor force.

Plant efficiency and national productivity depend on getting workers into jobs where their highest skills are used. While this is the responsibility of the employment service, the unemployment insurance program helps stabilize the labor market so that matching job openings with applications for work can proceed in an orderly fashion.

Unemployment insurance helps maintain purchasing power in a neighborhood, town, or region where workers have been laid off. By maintaining part of

the purchasing power of the workers directly concerned, unemployment insurance helps prevent "secondary unemployment" of people who provide the goods and services that workers buy—for example, workers in stores and shops, restaurants, and laundries. Thus, unemployment insurance helps maintain confidence among workers, employers, and the communities in which they live. It helps prevent the contagion of fear which starts a downward spiral of curtailment of business.

Feldstein maintains the nation's unemployment compensation system was adopted in the depths of depression, and continues ". . . in essentially its original form." He then discounts the program as an economic stabilizer and suggests increased government expenditures, or tax cuts could be utilized as a replacement for unemployment compensation.

This concept completely ignores the individuality of unemployment. Increased government expenditures or tax reductions can be used to maintain aggregate demand, but there is no guarantee in these fiscal arrangements that the unemployed individual will be in an economic position that will permit him to benefit immediately from these governmental actions. However, unemployment compensation if it is designed to meet the needs of a modern industrial economy can provide immediate economic benefits to the unemployed individual and society with a minimum of lost productivity.

During the recession years of 1970 and 1971, this program put over \$11.0 billion into the hands of jobless working men and women during temporary periods of unemployment. In 1970, more than \$4.1 billion was made available weekly to jobless individuals to assist in maintaining homes and families while seeking new employment. In 1971, over \$5.9 billion was paid out of the program for the same purposes. The availability of this compensation weekly to millions of jobless individuals replaces a substantial industry payroll loss that might otherwise have devastating economic consequences for individuals, industries, and communities.

The failures of the program which do create problems—inadequate weekly wage replacement benefits for the vast majority of workers, limited coverage of the program (approximately 15,000,000 workers are presently denied protection under the program through various exclusions), unreasonable eligibility requirements effectively denying coverage to additional millions of workers, and harsh disqualification provisions used to deprive eligible workers their benefit entitlement—are completely overlooked by Professor Feldstein.

He states the unemployment compensation system has two distinct bad incentive effects, and identifies one of these incentives as follows: ". . . for all types of unsteady work—seasonal, cyclical and casual—it raises the net wage to the employee relative to the cost to the employer."

1. UNCOVERED WORKERS

This is an unfortunate assertion since his definition of "unsteady work" encompasses seasonal, cyclical and casual workers who are all too often excluded from coverage under the program and have been denied its coverage since the inception of the program in the 1930 depression period, either through specific exclusionary language in state laws or through the operation of eligibility requirements. Of course, for uncovered workers the net wage of the worker and relative cost to the employer are entirely unaffected by unemployment compensation. Agricultural workers, domestic workers, and others whose employment might fit within the definition of "unsteady work" could make a much greater contribution toward maintaining a stable economy, both in terms of consumer purchasing power and diminished productivity as a result of unemployment, if they were extended the protection of the program.

2. COSTS OF UNEMPLOYMENT

The other bad incentive—the first mentioned by Professor Feldstein—states that ". . . for those who are already unemployed it greatly reduces and often eliminates the cost of increasing the period of unemployment." The examples cited to support this statement are woefully inaccurate. The duration of unemployment compensation benefit availability is directly related to past labor force attachment or past earnings. Any unemployed individual entitled to a 10-week benefit period (in Massachusetts, the state selected for the Professor's

examples, or any other state (will be burdened with the entire cost of a period of unemployment extending 11 weeks or longer. Professor Feldstein implies that jobless workers may be entitled to unemployment compensation benefits for unlimited periods. This is completely contrary to the manner in which the program operates. Benefit duration periods are limited under every state program and beyond that period the cost of unemployment to the worker and his family cannot be reduced or eliminated by the unemployment compensation program. In fact, the limited duration periods established under many state programs are operated in a fashion that force jobless workers on to the public assistance rolls in an effort to minimize the staggering cost of involuntary unemployment.

In addition, the author fails to consider the entire cost of unemployment to the individual. His example allows for a reduction in federal income taxes, social security payroll taxes, and state income taxes.

He cavalierly ignores the waiting week loss of income as a cost of unemployment. The unemployed worker pays for his own first week of joblessness and this author fails to consider this a cost. He compounds the error by basing his computation on benefit payments for four weeks of unemployment even though he is aware, or should be aware of the fact, that the jobless worker will only receive benefit payments for three weeks. This cost and additional costs of unemployment should be considered in any attempt to measure the economic impact of joblessness. Unemployment costs to an individual worker include: the loss of seniority and status in the workforce; the loss of pension credits based on earnings or hours worked; the loss of life, accident, and health insurance protection for the worker and his family; and the cost incurred in seeking new employment.

These costs should not be ignored in measuring income loss, but perhaps a more serious oversight is the footnote on page 79.

3. TAXES ON BENEFITS

The footnote states ". . . unemployment insurance benefits are not taxable income." An accurate footnote would state unemployment benefits are not taxable income for purposes of federal and state income tax computation. However, unemployed workers are not exempt from the payment of: state sales taxes, local property taxes, local school taxes, federal gasoline and other excise taxes, or any other state or local tax imposed upon individuals in the community.

The costs cannot be avoided by jobless workers in any jurisdiction, and they certainly should not be disregarded in any objective attempt to compute effective marginal tax rates.

4. FREQUENCY AND DURATION OF UNEMPLOYMENT

The author poses the question of individual response to his alleged "very high rates of marginal net unemployment compensation." His answer to this question is that duration and frequency of unemployment are increased. This answer is at odds with the observations that have been made concerning the operation of the program.

During periods of high level economic activity—such as the late 1960's—a mere 30.0% of the unemployed claimed unemployment insurance benefits. During periods of economic slowdown, less than 50.0% of the unemployed seek benefits from the program. During the month of August 1972, with an unemployment rate of 5.6%, a mere 37.0% of the 4.9 million workers reported as unemployed claimed benefits.

The benefit duration period of those workers who do claim benefits varies inversely with the level of economic activity. During periods of full or near to full employment duration drops drastically. During periods of recession duration increases to some extent. It is the level of economic activity rather than high rates of marginal net unemployment compensation that influence and control unemployment frequency and duration.

The author speculates on the motives of unemployed workers in their efforts to seek new jobs or return to former jobs. He disregards the fact that society has an interest in preserving the productive skills of its workforce. Although carpenters could work as gas station attendants, this is not considered the best use of skilled labor. This concept is accepted even though the individual might in the short-run earn higher weekly wages. His skill is lost for that period of time to the industry in which it is recognized as most productive.

5. PART-TIME WORK

The author goes on to raise the question of unemployed workers performing casual work. The fact is that the unemployment compensation programs in every state are designed to encourage jobless workers to accept casual employment when it is available. Every state program permits jobless workers to earn a limited amount of wages to supplement the weekly benefit amount.

This feature of every state program is a clear recognition that the rates of marginal net unemployment compensation are inadequate. These provisions are also intended to encourage workers to utilize every opportunity within the program to contribute their productive skills and capacity to increase the available supply of goods and services.

6. EXPERIENCE RATING

The author is critical of experience rated tax rates as a method of financing the program. He recognizes that experience rating has led to abuses in the system, but rather than discard it he proposes to intensify its use. He would shift the basis of experience rating from employers to workers. This would create a situation in which those workers exposed to the greatest risk of unemployment through no fault of their own would be paying the bulk of the cost of the unemployment compensation system.

Professor Feldstein's proposal would result in requiring workers unemployed as a result of a managerial decision to move their productive facilities overseas to finance the cost of their involuntary unemployment. Workers whose joblessness stemmed from federal, state, or local government decisions on construction, procurement of supplies and equipment, and on environmental problems would also be required to finance the full cost of their unemployment. Construction workers forced into unemployment due to weather conditions, apparel workers made idle as a result of fashion changes and jobless automobile workers unemployed for purposes of model change-over would be saddled with the cost of unemployment over which they exercise absolutely no control.

7. LONG-TERM UNEMPLOYMENT

In the author's section on unemployment insurance, absolutely no mention whatsoever is made of the manner in which unemployment compensation can or should be modernized to meet the problems of long-term unemployment.

The author fails to recognize the need for or suggest any program to assist in solving the problem of long-term unemployment. Today, the nation's economy is faced with many situations in which unemployment compensation could be supplemented by job counseling, training, retraining, upgrading of skills or relocating unemployed workers and their families.

Each of these measures or a combination of them could lower the permanent rate of unemployment. A program of this nature coupled with universal coverage of all wage and salary workers and the establishment of minimum federal benefit standards to assure adequate wage replacement are essential if unemployment compensation is to contribute to the permanent reduction of rate of unemployment.

Mr. GOLDFINGER. To get to the minimum wage issue, in the first place, the European versus American comparisons are not particularly valid. European societies, European economies, and European labor markets are altogether different from these in America.

In Europe, in most countries, a child goes to school until about the age of 12 and from there on, their system is substantially based on social class distinctions, where most kids go into jobs as apprentices, with very comprehensive apprenticeship systems that originally date back to the guild system. They have a very detailed and very comprehensive apprenticeship system which we do not have in this country, because we started from a later base in the 18th and 19th centuries without all of the social class and educational rigidities and holdovers

from a prior period. I don't think that the simple comparison that Professor Feldstein makes is applicable, unless there is a detailed examination of the employment patterns of youth in both countries, and the educational patterns of youth.

We provide much more open and much more adequate educational opportunities for young people in this country but, on the other hand, we do not have much of a comprehensive apprenticeship system.

But let's get on the minimum wage issue, specifically, and without getting into great detail, I would say that any of the proposals that Professor Feldstein made or inferred, of getting around a single minimum wage for all workers, in terms of employment, would simply be a game of musical chairs.

Now, this may be a good game for a professor at Harvard, with no particular reflection on your alma mater, Mr. Chairman, but it is not a desirable social policy for a country. A subminimum wage for youth or to subsidize the employer to hire youth may actually have some small impact on increasing youth employment by displacing adult employees; so you would possibly get a job for the kid by displacing his father or his uncle, and what have you done for society?

Now, these are the kinds of problems that I don't think Professor Feldstein faced up to at all.

Furthermore, if you did the kind of thing that Professor Feldstein seems to be impressed by, and that is where he says that a subminimum wage for youth is not enough and what is needed is a subsidy to the employer for the hiring of young people, you would be splitting up the work force within a workplace, within a plant or within an office or within a store, between subsidized employees and unsubsidized employees. Obviously, the employer, particularly if he is an unscrupulous low-wage employer, with low value added in his industry, would prefer to employ the subsidized employee or the subminimum wage employee and to get rid of the adults.

What have you done there in terms of the economy, in terms of the society? I think that his proposals, frankly, are not only an abomination, I think that they are a terrible disservice in terms of social policy.

Chairman PROXMIRE. I would like to ask you, Professor Carter, as a social scientist rather than as an economist, if you can give us some kind of understanding of the submerged, invisible social system that operates that does not get into our statistics—it is a sad and tragic area. What I am talking about is the fact that there are literally tens of thousands of people, maybe many more, who are employed in one kind of crime or another; they are involved in the numbers racket; they are involved in drugs; they are involved in prostitution; they are involved in all the kinds of—you can't call it underworld exactly but in an area of social operation that does use the time and energy and provides rewards for literally thousands of people. Has there been any study, any evaluation, of what this amounts to in terms of its economic impact? Of course, one answer to this is not only to try to clean it up by vigorous and effective law enforcement but another is to provide the jobs so that this is not the only thing that these kids can do—these people can do.

What I am getting at is, how big is this operation? We very rarely talk about it and I think we ought to pull it out and look at it and consider its economic impact.

Mr. CARTER. I don't have the economic figures right in my head, Mr. Chairman, unfortunately. There have been some economic studies. Louis Furman has done some study on the irregular economy which is basically what you describe and I would be glad to supply some information on this. The President's Commission on Law Enforcement and Administration of Justice has made some studies both in investment costs and the cost to society in the program. But looking at it for a moment from not entirely that sort of aggregate economic view, I think that the last part of your remarks are extremely important.

One has to recognize that the irregular economy plays a real part in the economy of the ghetto; it is a source of investment resources, of both equity and debt capital within this area. To the extent, therefore, that one begins to build up alternatives and more socially accepted sources for such funds; that is, both in terms of other opportunities for capital investment and for the needed resources, this would begin to take the place of the irregular economy. I think it would be a mistake to believe that when minority people are protesting, for example, the legalization of the numbers; that is, that the State is going to take over the numbers, for example, in a given community, that this is simply some kind of black ideological position; it is a recognition that there are real disabilities in terms of obtaining funds in the regular economy for business investments and the like.

Chairman PROXMIRE. The widespread gambling called the numbers racket provides employment for literally tens of thousands of people.

Mr. CARTER. That's right. While it pays better, by and large, than traditional menial kinds of jobs, this does not mean that people necessarily desire this kind of employment. This represents what the sociologists would call the adaptive behavior. In looking at the world around them and their prospects for moving out of it, other vehicles simply do not present themselves. We are talking about the real alternatives of survival in a very difficult environment.

One sees, in point of fact, that people who get into this kind of activity quite often have the same kinds of aspirations for their children that anybody else does, they want them out of the irregular economy. They try to get them educated so they can get decent jobs. They have the same kind of internalized value sets that most of us have, so that it is fundamentally, and I am not saying it is true for every individual, but it is fundamentally adaptive behavior and the best way to deal with it is to deal with the basic problems that force that adaptive behavior.

Chairman PROXMIRE. That is hopeful and interesting. You are the first witness who has been able to give us such an insight into that and I think it is probably an area that does have considerable economic impact, especially in our central cities.

In our hearing yesterday, we did not have much time to discuss the benefits to our economy of reducing unemployment to 2 percent other than those general macroeffects of increased investments, profits, income, et cetera. It seems to me that there are other benefits that would have a real meaning to the individual unemployed workers—

such things as better job and job training opportunities, less discrimination particularly against women and minority groups. There is nothing that dissolves discrimination like a labor shortage. Employers who might discriminate are much less likely to discriminate against women, against blacks, against teenagers, if they are the people who are available and nobody else is and they know they can make money by hiring them and putting them to work, so that this would be a fallout.

With all of the emphasis that we have had by presidential candidates and others about equitable income distribution, it seems to me that nothing, but nothing, would help more clearly to improve an inequitable income distribution than a full employment policy, in getting unemployment down below 2 percent. The only time that I can think of in our history when we had a significant improvement in the inequity of income was World War II, when everybody went to work so I would like to have both of you men conclude this morning by giving me your reaction to these other benefits that we might get that I think are overlooked by a vigorous policy of getting unemployment down to 2 percent.

Mr. Goldfinger, would you start off?

Mr. GOLDFINGER. I would be glad to start because I could not agree with you more, Mr. Chairman.

I think that the high and continuing unemployment and particularly the hidden unemployment problems of the past number of years have been one of the major sources of troubles in our society. If we are going to look forward with some degree of optimism to the future peaceful progress of the society—then I would say that one fundamental requirement is the achievement of full employment for all of the reasons that you suggested. We need ways of providing jobs for the unemployed, for the people who are hanging around jobless or underemployed, for the people who find themselves in the straits that Mr. Carter just indicated a little while ago, in a kind of secondary or tertiary economy which is somewhat illegal, somewhat legal, but on the fringes. In our work-oriented society and work-oriented culture, the way to move forward, to bind the wounds that exist within the society from all kinds of troubles that we have had during the past decade, would be the fundamental prerequisite of achieving full employment. I think that full employment also would provide the basis for upgrading workers and for moving up the income ladder, not only for groups in the economy but also for individuals and I think here, too, government policy is needed, not merely in terms of achieving and sustaining full employment but also by placing an emphasis upon upgrading. I want, just in winding up, to give you a couple of examples of the kinds of things I mean.

There are low-skilled or so-called dirty jobs in the society which are probably not going to be automated out of existence in the next few years. There is the need for hospital orderlies, for example. It is an urgent need and it is a very important social function.

In the first place, unlike Professor Feldstein, I think that one of the aspects here is the need for decent pay. One of the menial aspects of so-called menial jobs is low pay and if you pay decently, you remove

at least a good part, not entirely, you remove a good part of the menial aspect of the job, so that good pay is one part of it.

But another thing which the trade unions, in that area have developed is what they call career ladder programs. The State, County and Municipal Employees Union and the Service Employees Union, with some degree of funding from the Labor Department, have engaged in recent years in programs for upgrading orderlies, in setting up a system of career ladders within the hospitals so that the orderly job need not be a dead end job. With high school equivalency training and other education and training, which is provided through this career ladder system developed by the unions, as I said, with the hospitals and somewhat funded by the Labor Department, but that kind of thing can also best be done in a full-employment economy, where there are growing job opportunities.

Another area is the area which the AFL-CIO and the building trade unions have been involved in and which should be expanded and that is the Outreach programs, to bring into the building trades, on a skilled basis, increased numbers and increased percentages of disadvantaged youth, and to bring them into the trades on a regular basis through the apprenticeship programs, and to develop the full skills so that once they are finished with the apprenticeship programs, these youngsters will be fully competent journeymen who can get jobs at journeymen's wages. But those kinds of programs can be expanded sufficiently only in a full employment economy, an economy where there are job opportunities at the end of the road of the training programs. So there are all kinds, as far as I am concerned, of broad economic and social benefits from sustained full employment. Once again, I would say that in a work-oriented free society such as ours, a fundamental prerequisite for peaceful social progress is full employment.

Chairman PROXMIRE. Mr. Carter.

Mr. CARTER. I agree, Mr. Chairman, with a good deal of what you had to say and what Mr. Goldfinger has had to say.

I tried to indicate in my oral remarks that there were many other problems immediate or not immediate in the economic consequence although they are economic in nature. I talked, for example, about the problem with the older worker, although I did not dwell on that in my prepared statement, which is a very serious one and becoming more serious all the time. The age is descending rapidly at which people can confidently expect reemployment. Older workers are literally being driven out of the labor market.

Obviously, full employment would tend to reverse that and that has payoff not only in economic terms but also in terms of people's feelings of self-satisfaction and well-being. To be told they are useless in their early fifties, in effect, in our society, I think is one of the more tragic aspects of the present developments.

As Mr. Goldfinger has indicated, full employment will make workers who are on the job more secure and, therefore, more willing to participate in a variety of programs that would bring in disadvantaged workers. Many of the artificial barriers, credentialing and everything that has been set up as ways, on the one hand, of helping employers screen out very simply the people from employment and also

to provide protection for people who are already in—many of those things, obviously, in full employment would not seem as important.

You remarked about the income redistribution aspects. The last time we really had income redistribution of any consequence in this country, obviously, was during the Second World War and we really have not had any significant redistribution since that time.

It is interesting that during the Second World War, because we needed all of the manpower, womanpower, and so forth that we could get, we supported day care centers, but the specter of depression was so close on us at that time that immediately the war was over we resorted—we abolished that kind of support for day care and, in effect, followed welfare policies which wanted to keep women out of the labor market rather than giving them the opportunity or encouraging them to take the opportunity to work.

Now, an important side effect, I think, that has been too little noted, is that one of the problems—and this is not just true of poor people: it is true as a prevailing problem in our society—is the isolation of very young people, children and so forth, from adults, from the working world, and so forth. They see practically only their mother and other children and the teacher in their school and this—there is convincing evidence from child psychologists, Mr. Chairman, that this has had a very strong impact on many of the problems young people are experiencing, developing into mature adults. They don't interact enough with adults. Many of us when we were growing up had many sorts of experiences with adults.

One of the interesting payoffs from full employment could very possibly be that once again with mothers and others going into the labor market and day care centers being supported and organized in ways that would give not only mothers but other adults proximate contact with children, that children would not only become more familiar with the world of work and what people did and so forth but also would begin again to have that kind of essential humanizing contact with adults.

These options would be possible in a full employment situation in a way that is not possible today, and I think we would have a measurable payoff, therefore, in problems of alienation and other problems that we are experiencing with our young people regardless of class and race.

Chairman PROXMIRE. Gentlemen, thank you very much for very wise, intelligent observations and most helpful record we have made here.

The committee will stand in recess until Thursday morning at 10 o'clock, when we meet in this room to hear the Chairman of the Council of Economic Advisers, Mr. Herb Stein.

(Whereupon, at 11:45 a.m., the committee was adjourned, to reconvene at 10 a.m., Thursday, October 26, 1972.)

REDUCING UNEMPLOYMENT TO 2 PERCENT

THURSDAY, OCTOBER 26, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: Loughlin F. McHugh, senior economist; John R. Karlik and Richard F. Kaufman, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; Walter B. Laessig, minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today the Joint Economic Committee continues its investigation into unemployment, the most important economic problem facing this Nation, and I might add the one on which we have made, in my view, the least progress. I am not talking about simply the executive branch; I am talking about the Executive and the Congress.

The Employment Act of 1946 which set up the Council of Economic Advisers and the Joint Economic Committee made full employment the prime focus of public economic policy and certainly the central responsibility of both of our organizations—the Council of Economic Advisers, Mr. Stein, and our committee, the Joint Economic Committee.

Clearly, Congress and the executive branch have not done the job as intended under the act. The average rate of unemployment has exceeded 4½ percent during the past 20 years. Moreover, this average tends to hide the miserable unemployment ratios for blacks, for other minority groups, and for teenagers. At the present time, our unemployment rate is still 5½ percent which means that nearly 5 million—4.8—people are out of work. During the past 2 years the rate of unemployment has ranged between 5.5 and 6.1 percent.

It is because of my dissatisfaction with this record that I have embarked the committee on the present inquiry, and it is my intention to pursue it vigorously.

Mr. Stein, we have had a continuing colloquy on the vital question of how much we should do to assure a decent job for everyone who is willing to work. I know that you and your associates also have been

concerned about improving employment. Earlier this year, in an appearance before this committee, you indicated that the CEA is studying the barriers to higher employment. It appears, however, that none of the President's chief economic spokesmen has yet affirmed support of a full employment goal of 4 percent.

My staff has made available to you, I believe, a study which this committee commissioned, by Data Resources Inc., under the leadership of Mr. Otto Eckstein and Mr. Martin Feldstein, two economists for whom I am sure you have a high regard. I was pleased to note that this study came to the conclusion that the United States can lower the permanent unemployment rate to a level substantially below the average of the postwar period. In fact, I think they said it was possible to get the unemployment rate, in their view, if we took certain measures, down to 2 percent. At the same time, the study warns that this cannot be done through puerly macroeconomic means but rather must involve direct public concern with the functioning of the labor market.

I am pleased to welcome you and Mr. Solomon here this morning. I am most disappointed with your prepared remarks for today's hearings.

The prepared remarks did not even note that you were aware of Mr. Feldstein's paper. The comments are as always of a high intellectual order, but they seem to me to be full of generalities. You seem to be willing to settle for targets on prices. You have said we want to achieve a level of $2\frac{1}{2}$ to 3 percent inflation. That target is definite and clear, everybody understands it. A target on output, that we expect to increase the real output $4\frac{1}{2}$ percent is our real goal. That is clear. The target on housing—26 million housing starts over a 10-year period. But there is no target on the single most important failure and problem of our Government—that is, providing jobs for those who want jobs. There is no target for getting unemployment down.

We intend to go into this matter in detail later on, so please proceed, Mr. Stein.

STATEMENT OF HON. HERBERT STEIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, ACCOMPANIED BY EZRA SOLOMON, MEMBER; GARY SEEVERS, SPECIAL ASSISTANT TO THE COUNCIL; AND NICHOLAS PERNA, SENIOR STAFF ECONOMIST

Mr. STEIN. Thank you, Mr. Chairman. Mr. Solomon and I are accompanied here today, let me point out for the record, by Mr. Gary Seevers, who is special assistant to the Council, and Mr. Nicholas Perna of our research staff, who works in the field of employment and unemployment.

I should say that—

Chairman PROXMIRE. Will you identify the gentlemen with you? I recognize Mr. Solomon.

Mr. STEIN. I have just done that.

Chairman PROXMIRE. I know you have, but I would like you to repeat that.

Mr. STEIN. Mr. Gary Seevers, who is special assistant to the Coun-

cil, and at the other end of the table, Mr. Nicholas Perna, an economist on our research staff who works in the field of employment and unemployment.

As you have pointed out in your opening statement, the Employment Act of 1946 created the Joint Economic Committee of Congress. I recognize that what you said earlier, that our prepared remarks are deficient in not acknowledging the value of the contribution made by Mr. Martin Feldstein in the paper submitted to you. I think it is a really very useful contribution to the discussion of this subject and I congratulate you on having commissioned it and I congratulate him on having done it. I think it deserves a great deal of study.

I may point out that in the debates preceding the enactment of the legislation—that is, the Employment Act of 1946—there was a great deal of discussion of the meaning of the term “full employment” which was the goal initially stated in the bill and the term you also used in your remarks. However, the Congress not only abandoned the term “full employment” in favor of “maximum employment,” and that was not a trivial decision but one which occurred after a great deal of discussion, but also refrained from providing either a conceptual definition or numerical standard of “maximum employment.” We believe that Congress was wise in this approach. The Congress affirmed that among the numerous objectives of public policy great weight should be given to the objective of high employment. The act stands as a constant reminder of that, a reminder bequeathed to their successors by the generation that suffered through the Great Depression.

To set a numerical target for unemployment as a goal of policy, with the implication that it is to be achieved at all costs, and the additional implication that to get further down is unnecessary or undesirable would be most dangerous. It would risk on the one hand imposing excessive costs on the Nation to achieve the predetermined number and on the other hand failing to achieve a possible reduction of unemployment below that arbitrary number.

Chairman PROXMIRE. Mr. Stein, could not that same argument be made against setting a goal for the price level? Would not you say that if you aim at a target level for inflation, get your prices down, that in order to achieve that, you might have to have unemployment that you can't justify? And also that you, of course, want to get it down lower.

You set a target of $2\frac{1}{2}$ to 3 percent for inflation. You want to get it lower; so do we; I hope we can. But that was a target that was useful, it is helpful, we want to move in that direction, but we haven't done that.

Mr. STEIN. I am glad you brought up the point which was also mentioned in your introductory remarks but which I do not understand. We set a goal of an inflation rate for the end of this year of 2 to 3 percent at the same time that we set an unemployment rate goal for the end of this year in the neighborhood of 5 percent. We have never said we set a 2- to 3-percent inflation rate as a permanent goal of economic policy. Neither have we said that the neighborhood of 5 percent is a permanent goal for the unemployment rate. We regard those as positions which it would be desirable and possible and mutually consistent to achieve at a certain point in time.

Furthermore, I think it is true with respect to all of these goals that they are not meant, as I said with respect to this one, to be achieved no matter what the costs, or that they are not to be exceeded if the circumstances justify and permit that. We are concerned about adding to the Ten Commandments another one chiseled in stone which says the unemployment rate should be some number which has come from an econometric model that the Senate has chosen.

Chairman PROXMIRE. You are saying that the goal is in the neighborhood of 5 percent. How big a neighborhood is that? What does that mean? Four and a half, 4.1, 4.9? That is by the end of this year, 1972.

Mr. STEIN. That is by the end of this year.

Chairman PROXMIRE. Three months from now.

Mr. STEIN. I have indicated that where we are now is not in the neighborhood of 5 percent and I hope that will help narrow down the neighborhood, but I can't hope to do much more than that.

Chairman PROXMIRE. All you can say is in the neighborhood of 5 percent, but somewhat less than 5½?

Mr. STEIN. Yes.

Chairman PROXMIRE. All right.

Mr. STEIN. The goal, as we see it, is employment for everyone able and willing to work. Like other worthwhile goals this one can be only imperfectly achieved because human management and foresight is limited and because in the real world progress toward one goal requires sacrifice of others. The useful question to ask at anytime is not what is the target number but what can be practically done to reduce the rate of unemployment in ways that do not have excessive human costs.

Most people who have attempted to analyze the problem of achieving the Employment Act goal of "maximum employment" would probably agree on the following propositions:

1. It is useful to relate the concept of maximum employment to the size of the working age population and to the size of the labor force. The latter relationship provides a direct measure of unemployment.
2. While the rate of unemployment is frequently discussed as a single number the phenomenon itself is a highly complex one which can be understood only in terms of a large network of statistics. I think that is one of the contributions that the Feldstein study has made, to emphasize this pattern and indicate the diversity of the measures that may be needed to attack different parts of the unemployment problem. I think it should also be pointed out that when the Feldstein paper concluded that the unemployment rate could be effectively brought down significantly below 4 percent, this was qualified as the unemployment rate of those seeking permanent full-time employment, which is, of course, not the whole of the labor force.
3. It is useful to divide unemployment into at least two components—cyclical unemployment, or demand-deficiency unemployment, on the one hand, and noncyclical unemployment on the other. Various and sometimes overlapping subcomponents of the latter have been referred to as frictional, transitional, and structural unemployment.
4. Cyclical, or demand-deficiency, unemployment is a result of the demand for goods and services being below the level of the economy's

normal supply capacity. The economy's normal supply capacity is determined by the state of productivity, the size of the labor force and the fraction of the labor force that can be employed under existing demographic and social conditions without intolerable costs, usually taking the form of a high or accelerating rate of inflation. Demand-deficiency unemployment is unemployment that can be corrected by expansion of demand without excessive adverse consequences. The proper function of macroeconomic policy is to keep demand up to the economy's normal supply capacity and growing steadily with it.

5. Noncyclical unemployment represents the level of unemployment which would prevail even if cyclical unemployment is zero, that is, even if macroeconomic policies succeeded perfectly in always steering the economy smoothly along the growth path of potential unemployment. Quantifying "maximum" or "full" employment has generally taken the form of citing the estimated rate of purely noncyclical unemployment.

6. Noncyclical unemployment reflects a very large number of demographic, social, institutional, and economic factors of which the following four appear to be particularly important.

(a) In a growing economy, people entering the labor force for the first time require time to locate, decide on, apply for, accept and start on a job. The amount of unemployment traceable to this factor will depend upon the size of the new entry group and on the average length of time it takes individuals in the group to search for and settle into active employment.

(b) In the United States, individuals have the freedom to leave and reenter the labor force, and they do so with great frequency for various reasons. Thus individuals may want to change their educational status, their marital status, their occupation, their geographic location or their particular jobs. Reentrants, like new entrants require time to find and make decisions about new jobs.

(c) In a society in which the calendar, the weather and personal preferences, including the preference for leisure, have a substantial effect on both the supply of and demand for labor from one season to the next, some unemployment is a direct result of such calendar seasonality.

(d) Unemployment also arises when markets and institutions fail to operate the way they should. For example, the constant ebb and flow of industries in a dynamic economy sometimes leaves occupations and areas stranded in its wake. Inadequate information may mean it takes too long to find a first job or another job or that information is gathered through haphazard job hopping. Overt discrimination or its more subtle lingering effects result in systematic exclusion from preferred employment, a condition which manifests itself in a variety of symptoms: abnormal movement from job to job, from employment to unemployment, from labor force participation to nonparticipation. Excessive unemployment also arises and has a disproportionate impact on certain groups when relative wage rates fail to flex in response to changing economic conditions.

It is not to be inferred that the level of noncyclical unemployment is irreducible. It cannot be reduced by an expansion of demand alone.

It may be reducible by appropriate policies of other kinds, such as training programs, perhaps accompanied by expansion of demand.

When we get beyond these general principles, and especially when we try to attach numbers to the concepts, disagreements become serious. It is very important to recognize this. Persons in a position to influence policy cannot responsibly choose one economist or one econometric model to believe and follow in making policy. Policy must take account of differences of opinion and the uncertainties this reflects.

One of the basic uncertainties is about the connection between the rate of inflation and the level of demand-deficiency unemployment.

On one view, a higher level of demand or a more rapid growth of demand cannot reduce unemployment beyond some point, except temporarily, even if we are willing to accept a higher rate of inflation. On the other view we can choose to get a lower rate of unemployment more-or-less permanently and over a considerable range by more demand stimulus if we are willing to have more inflation.

Within each of these views there would be disagreement about the numbers.

Chairman PROXMIRE. Let me just ask at that point. There you discuss the trade off between unemployment and inflation and you say there are limits to which unemployment can be reduced even with a higher rate of inflation. Then you put the other view that we may get lower unemployment if we were willing to accept higher inflation.

But what about the view that there is a series of administrative policies, such as reducing Government stockpiles, such as cutting back on subsidies, such as vigorously enforcing antitrust laws—all of these steps could be taken which could reduce the frictions in the economy and allow us to reduce unemployment more without adding to inflationary pressures.

What has this administration done since the controls went into effect, since August of 1971, to reduce the frictions in the economy that add to inflationary pressures?

Mr. STEIN. Well, we have been concerned with a number of measures, mainly of Government origin, which tend to hold up prices; for example, we suspended for 1972 the quotas on the importation of meat. We have relaxed the quotas on the importation of oil. We have taken some steps to improve the supply of lumber. That is, we have been concerned with those cases in this last year where we did seem to be getting exceptional price increases as a result of supply constraints.

Chairman PROXMIRE. But none of those measures was decisive enough and significant enough to enable you, at the same time, to stimulate the economy to the extent where you got a significant reduction in unemployment. In other words, they may have had some effect, possibly, on prices, although we still suffer, as you know, from the latest monthly report; September was a bad inflation month. Still, there hasn't been a sufficient change to enable us either to get inflation under adequate control or to devise an inflation where we could get a reduction of unemployment.

Mr. STEIN. We have achieved a significant reduction of unemployment, we have achieved an extraordinarily large increase in employment and we have made progress on the inflation side along with that.

Chairman PROXMIRE. Mr. Stein, you are talking about the achievement of getting unemployment a little bit below what it was at the height of the Nixon recession, far, far higher than what it was when the administration took over. It is at an unacceptable level of 5½ percent. To argue that we have achieved a significant reduction of unemployment, it seems to me, is really pressing these figures too hard. You're making a silk purse out of a sow's ear.

It is true unemployment is not quite as bad as that Nixon recession during 1970-71, but it is still at a 5½-percent level.

Mr. STEIN. Senator, if you want to enter into a debate about the state of the economy when we entered the picture, what was the Johnson policy and what we did, what was attributable to what we did, and what was attributable to the Democratic policies, which you yourself criticized as being the greatest goof in history, we can do that. We want to advance the cause of reducing the rate of unemployment and I do not particularly want to make a political debate out of it. But if that is your desire, we can do that.

Chairman PROXMIRE. I agree, there were many mistakes made by President Johnson—many very, very serious mistakes, especially with respect to inflation. But when President Nixon took over in 1969, unemployment was down to 3.4 percent. As you said and Mr. Shultz did, we hoped and expected to keep unemployment at the 4-percent level, maybe a little bit above that, and at the same time take steps to reduce the inflationary impact. But there has been a great failure. It has gone far above 4, far above 4½, above 5, above 5½ percent.

While we all recognize there were many serious mistakes made by the previous Democratic administration, it seems to me that is no answer to the charge that this administration has failed badly along with the Congress, the Democratic Congress, to achieve levels of unemployment that would be acceptable, as we are charged under the Employment Act of 1946.

Mr. STEIN. Well, there is a constant reference to what we are charged with under the Employment Act. The Employment Act can only charge us to do what it is possible to do. The Employment Act also specifies a number of other objectives and a number of conditions under which we achieve these objectives.

Considering the conditions which existed in the economy when the President came to office, we have achieved a great deal and we have carried on a very constructive and vigorous policy.

Chairman PROXMIRE. But as you know, Mr. Stein, the Employment Act is not called the Price Stability Act, it is not called the Production Act, it is called the Employment Act for a very good reason. The principal concern of Congress was to achieve a low level of unemployment and a full utilization of our manpower resources and we have not achieved that.

When I say the Nixon administration, I could include at the same time the Congress, even if it is a Democratic Congress. We worked together. But somehow between these two bodies, we haven't done the job.

And in your very able and impressive statement, you say that rather than talk about goals, we should decide what to do about it. Then you give a series of statements about the cyclical problem, the demographic

problem, and so forth, but no indication of what is being done or what has been done or what will be done to reduce that level of unemployment below 5½ percent and get it down to a level of 4 percent or less.

Mr. STEIN. Well, we have no doubt and I do not think that most economists have any doubt that unemployment is going to go below 5½ percent. I will not say that we are satisfied—certainly we are not satisfied with the present rate of unemployment or with the rate of unemployment that we have experienced in the past several years. We are now embarked on a program which stimulates the economy and which will, we believe, reduce the unemployment rate as we go through the remainder of this year and 1973.

As I would point out if I had a chance to read my statement—

Chairman PROXMIRE. I do not mean to interrupt your statement, but I think under the circumstances here, because other Members can't be present in this interim between sessions, it is easier for us to get a colloquy going. If you could right now, and you have certainly the ability to do it without any question, if there is such a program, could you outline the program the administration has to reduce unemployment, to get it down to 5 and then to 4½ percent and then below. What are you going to do? What specific steps are you going to take?

Mr. STEIN. As far as getting below 5 and 4½ percent, we believe that this range is within the domain, within the capacity of fiscal and monetary policy which will produce and which is producing a rapid expansion of the economy. We will, after all, have a budget which, even given the ceiling that we are trying to maintain, provides for an increase of \$18 billion in expenditures between fiscal 1972 and fiscal 1973. As we look ahead, as we forecast the consequences of the budget policy we have and the monetary policy that we expect to go along with it, we believe these general expansive policies will reduce the rate of unemployment through the zone of 5 percent and down toward the zone of 4½ percent and be continuing to decline as we go through 1973.

Chairman PROXMIRE. Mr. Stein, if deficits would do it, if fiscal policy would achieve it, we would not have the problem today. As you know, you have had a series of very large deficits. The President has taken the position that most of the economic profession has adopted in this economy, that we ought to have a full employment budget. He has adopted that and we have a full employment deficit, as you know. We have had that or close to that over the last 2 or 3 years with no significant decrease in unemployment. We have to look at whether or not we are, given the quality of spending, whether we have a program that is going to provide job opportunities for more people and unemployment for fewer people in the coming year or so than in the past. And as you say, the problem is going to be enormous because we have this demographic problem of young people coming on the labor market in large numbers; we'll have the problem of continuing reduction in our defense efforts, probably, at least in terms of manpower. We are going to have to continue to improve productivity, which means that the same number of people can do more work and produce more. All these things we know we are going to have and it seems to me we are going to have to have some pretty imaginative, effective policies if we are going to get unemployment down under those circumstances.

Now, where are they? It seems to me we are saying we are going to have more deficits. That might help, but it just is not a satisfactory answer.

Mr. STEIN. I am sorry you don't think it is a satisfactory answer. The papers which were prepared for you by Mr. Feldstein and the paper given to you by Otto Eckstein are saying that generally expansive measures, what the trade calls macromeasures, can reduce the rate of unemployment from where it is now to some significantly lower rate. I think the Eckstein estimate is in the neighborhood of 4½ percent, some would say 4 percent. We don't particularly quarrel with those numbers.

What I am saying is that a certain degree of reduction of the unemployment rate from where we are now can be achieved by the general expansion of the economy, which is underway, and it is a mistake to say that no progress has been made on the unemployment side. We have, of course, had an increase of 2½ million in employment in the last year and a reduction of the unemployment rate from about 6 to 5½ percent and for reasons which are explained later in our statement, we think that the increase in employment will, as we go forward, produce more rapid declines in unemployment.

Chairman PROXMIRE. Let me interrupt just once more at this point to point out that what I am groping for and reaching for is some kind of specific program here that will give us some indication of how we are going to put people to work. The administration has been reported to be against the public service employment program. Maybe that was unwise or unfair that the Washington Star reported that. The Feldstein paper on reducing unemployment has a series of specific proposals. I don't see anything specific in terms of putting people to work in your statement here this morning. And I haven't heard anything from the administration as to what they intend to do about this. The President says he intends to hold spending down. I think he is right in that area. But if he is going to do it, it seems to me he has to refine that spending that he has and gear it, aim it, at providing jobs. Maybe some economists disagree that that is a very effective way to operate. I don't agree with those economists and apparently you don't and the President doesn't. But if he is going to provide more jobs and get unemployment down below 5½ percent, how is he going to do it? The Eckstein-Feldstein statement may be wrong, may be inadequate, probably is, but I would like to know what the administration proposes to do about this.

Mr. STEIN. You interrupt me.

Chairman PROXMIRE. I am sorry.

Mr. STEIN. I think everybody agrees that this is a two-part problem. It is a macroproblem, and beyond that it is a problem of structural measures. I started with the demand expansion measures which I think everybody agrees at this point can reduce unemployment significantly, though that is not all the story. We do not agree by any means that it is the whole of the story. We believe in the improvement of manpower programs and I do not think you should take the story in the Star as indicative of what the administration's policy is with respect to these matters. In the budget we submitted for fiscal 1973, we requested \$5 billion for manpower programs, the largest amount ever

provided and the largest number of persons ever to be served by manpower programs. Certainly we in the Council do not think that we have reached the end of the line with this. As I said earlier, I think the suggestions that Mr. Feldstein makes in a great number of fields deserve a lot of study.

You find us, I must say, at an awkward point in time for the enunciation of the administration's policy. This was not a good time for this hearing, because we are going through the process of making budgetary and economic policies for the next year, but we will not be coming forward with the administration programs until January and it is difficult for me to say what the next steps will be. It is correct that we have expanded the training programs, we have expanded the information programs, we have adopted, undoubtedly you helped push us into it, some degree of public service employment and we are, I think, as eager as you to make progress in all these programs.

Now, we do have a certain difficulty which authors of papers do not have—that is, we have to manage the programs that we adopt and they don't. The management of them has turned out to be very difficult.

But I don't think we ought to be placed in the position of being negative about these programs. We have provided considerable money, we have initiated the job bank, the computerization of labor market information, we have taken a number of steps about which other people can give you more detail than I.

I think everybody who is working in this field recognizes that many things that looked good 10 years ago and in which we all placed a great deal of confidence are, at this point, hard to evaluate. It is always easy to say that programs we have not yet tried will work whereas the ones that we have tried do not. We want to continue making effort and probing in this field.

The Feldstein paper is very important in indicating the relation between the expectations of the workers and the possibility of employing them and so on.

Chairman PROXMIRE. Well, I take it from your response that you at least are very emphatically knocking down the report that we have had that the administration intended to kill the employment services program. You are not going to kill it, you intend to expand it. Is that correct?

Mr. STEIN. Well, I am not making any promises about what the fiscal 1974 budget will contain. I can only say that the story in the Star, if it implied that the decision had been made to kill it or reduce it, was incorrect. The problem of the fiscal 1974 budget is before us. There are a lot of decisions to make, and that one has not been made.

Chairman PROXMIRE. Let me just ask you this at this point. In the annual report, you made a pledge and a promise to the Congress. You said this: "Are there persistent structural characteristics in the modern American economy that make inflation inevitable, or inevitable in the absence of high unemployment? If so, can these characteristics of the economy be changed? Upon the answers to these questions will depend the possibility of holding down the rate of inflation after phase II ends, not only below the heights reached after the Vietnam war expansion, but to an even lower level. These questions will be the subject of a study by the Council of Economic Advisers."

The question is what has that study shown? What have you done, what are you going to do? How are you going to be able to hold down inflation and get the employment increase and the unemployment drop so clearly and emphatically provided in that promise?

Mr. STEIN. We are not prepared to state the conclusions of that study today. The study is going forward. A number of people on our staff under Mr. Solomon's direction are working on it. We will have more to say about it in our report.

Chairman PROXMIRE. That was almost a year ago.

Mr. STEIN. Well, we have several months before our report comes out.

We have seen during this year encouraging progress toward simultaneously raising employment, reducing unemployment, and reducing the rate of inflation. We are by no means discouraged about the prospects and we look forward to making progress, both by the continued expansion of the economy and by improved specific measures.

But having now become aware that general expansion of the economy doesn't do everything, it would be a mistake to conclude that the general expansion of the economy does not do anything. This we regard as a major element in reducing the unemployment rate from this point forward.

After I had just indicated that there were two views of the relation between the rate of inflation and the rate of unemployment, I was about to say within each of these views there would be disagreement about the numbers. If there is some rate of unemployment that cannot be reduced by demand stimulus, regardless of inflation, what is it? If there is a trade-off between unemployment and inflation, what are its dimensions? Presumably these magnitudes change over time, for example, as the composition of the labor force changes. They would be different after several years of rapid inflation than after several years of price stability. They would also differ according to the initial rate of unemployment. The unemployment rate that could be attained in 6 months without inflation would be different if we start with 6 percent unemployment than if we start with 4 percent.

Over the past 20 years the most frequently cited number for the practical minimum achievable by macroeconomic policy is 4 percent. This rate is also the one which was adopted when the Council of Economic Advisers, in its 1962 annual report, specified a target rate for the first time. When this rate was put forward in early 1962 the actual unemployment rate was 5.5 percent, and the 4-percent target rate was put forward as an interim target to be achieved in 1963, with the hope that the achievable rate would then be lowered still further by effective manpower policies. However, the actual rate remained between 5.4 and 5.9 percent for 2 more years through early 1964, after which it began to decline steadily, and the concept of 4 percent as an interim target was retained. In 1966 the pressure of defense mobilization reduced the rate to just below the interim target and prices began to rise. To quote the Council's 1967 report:

In 1966 as unemployment hovered just below four percent of the labor force, prices rose at a clearly unacceptable rate * * * the experience of 1966 clearly suggests that expanding demand cannot lower the unemployment rate much below the present level without bringing an unacceptable rate of price increase.

Disagreement also exists about the feasibility of reducing the minimum noncyclical unemployment rate, whatever it might be, through the use of manpower policies.

Chairman PROXMIRE. I want to be sure I understand that. You just said, as I understand it, you quoted the former Council of Economic Advisers as saying the experience of 1966 clearly suggests that "expanding demand can't lower the unemployment rate much below the present level without bringing an unacceptable rate of price increase." Then you use the quotation and other arguments to justify your failure to establish an unemployment target. But today we have a 5.5-percent unemployment rate, not 4 percent or less. So that it may be, although I don't necessarily accept that that demand can't go very much below 4 percent without serious inflation. But that does not argue that it can't go much below 5½ percent.

Mr. STEIN. We agree with that. I was trying to say 10 minutes ago that we believe expansion of demand and general expansion of the economy will reduce the rate significantly below 5½ percent.

Chairman PROXMIRE. Then why not set your target at 4 percent and make it clear and explicit? Previous administrations have done it as you just said, but this administration continues to back away from it.

Mr. STEIN. Well, I will come to that point.

Chairman PROXMIRE. All right.

Mr. STEIN. I am here talking about structural or manpower measures. The disagreement centers on the desirability and effectiveness of alternative approaches available to manpower programs. Some analysts feel that a great deal can be done along these lines and that it should be done whereas others are more skeptical.

Given the wide range of opinion about what the target rate of unemployment should be in today's context, we believe it would be counterproductive to establish any explicit number as a target. Such a number, in our opinion, would be either redundant to misleading. The proper course of action is for policy to seek an expanding economy, and a continuously expanding level of useful employment opportunities and to pursue such policies as steadily and for as long as possible. We regard this as the most efficient way of durably maximizing the level and growth of useful employment and of minimizing the level of unemployment. At the same time various forms of manpower policies that appear to be efficient can be used to reduce the level of achievable unemployment even further.

In our opinion the best contribution which macroeconomic policy can make to the future of employment and unemployment is (1) to steer the economy to the zone of full potential output; and (2) to do so in such a way and at such a pace that once having reached the zone of potential output the level of economic activity could continue to expand for a long stretch of time in line with the normal growth of supply capacity. This policy, if it can be carried out successfully, will maximize the level and growth of useful employment over time and thus minimize the longrun level of cyclical unemployment. A significant volume of noncyclical unemployment will remain. The proper cure for this phenomenon lies not in departing from the prudent path

of macroeconomic policies but rather in the development of structural policies, including effective manpower programs.

Chairman PROXMIRE. Exactly. And where are we?

Mr. STEIN. That is the objective of the present search.

Chairman PROXMIRE. You are looking for them. You can't tell us what they are after 4 years in office? You are looking for them?

Mr. STEIN. The development of manpower policies in its recent incarnation goes back to about 1961. We have increasing experience and we have an increasing number and variety of manpower programs. We have studied a number of alternative. One of our major efforts when we first came here in 1969 was to see if we could devise a tax incentive program to stimulate the employment of the hard-to-employ. We found that not to be practicable. Maybe we were not sufficiently imaginative. But at least a year's study in the Executive Office and the Treasury was devoted to that problem. There is a good deal of continuing work in the Department of Labor addressed to this problem and it will continue.

We are part of the continuing process of attempting to improve these programs. As I have said, we now have more people involved and are spending more time on it than ever before and we have people at work in trying to improve it. But I cannot—

Chairman PROXMIRE. That is really a very discouraging report, Mr. Stein. You are telling me that you have tried tax incentives; they didn't work. You have got more money and more people involved in this than ever before, but after 4 years, there is no recommendation. There is nothing explicit, no program. You are going to recommend to the Congress to begin to do something about these structural problems that you say are the main focus of your effort to get the unemployment level down.

Mr. STEIN. I haven't said they are the main focus and I don't think it is correct to say that—

Chairman PROXMIRE. Well, there are no other—

Mr. STEIN. We have said many times that this is a two-handed game. There is the macroside and there is the structural side and we are engaged in both. It is erroneous to say that we have not yet begun to do something on the structural side when we now have these very large-scale programs going on.

Chairman PROXMIRE. Well, you see, my reaction to that is that on the macroside—that is, the program putting people to work by spending more money than you are taking in, running deficits—isn't working, hasn't worked. It may work in the future, may not. On the specific side of providing particular jobs, you say you are studying it. You have tried one, it didn't work, but you have a lot of money, a lot of people working on it, but no specific program.

Mr. STEIN. First, I don't see how you can say the macropolicies are not working when there are 2½ million more people employed today than a year ago. In the second place, I don't see how you can describe what we are doing as a study when we are spending \$5 billion on manpower programs this year.

Chairman PROXMIRE. You don't have any specific recommendations. As far as 2½ million more people at work, we know we have an expanding population and we know we have a situation where many

that line as given with a great degree of certainty, and we think it prudent to prepare for the possibility on the one hand that as we approach this zone we may encounter developments which would call for slowing down the expansion and on the hand that an even higher level of output and employment may be attainable. This is a time for feeling our way, especially because it is so long since the economy was in the zone of potential output without serious inflation and we cannot be sure of what may have happened in the interim.

Chairman PROXMIRE. I don't want to be unfair, Mr. Stein. Maybe I am being unfair the way I interpret that. If after almost 4 years in office for the administration and after the experiences that we have had in the past that are so vivid in our mind in trying to get unemployment down and the experience with inflation, you say this is a time for caution, for feeling our way along, for groping in the dark as if we are somehow blinded and have no sight or hearing and have no other sense except the sense of touch. It doesn't seem to make much sense to me. It seems to me when we have 5½ percent unemployment, we should not have to just grope along for fear we are going to push our way into a highly inflationary situation. We should be able to move along with real confidence that we can expand the economy, not only in view of the unemployment situation, but in view of the fact that we are running far below factory capacity; that we could increase output very greatly without getting into a demand inflation kind of situation.

Mr. STEIN. I think it is never redundant to advise caution. The fact is that we are in a kind of situation that we have never been in before.

Chairman PROXMIRE. That is always true.

Mr. STEIN. And therefore caution is always necessary.

But I think that our present situation differs in greater degree than usual—perhaps that is because I am so close to it or we are so close to it that it may seem so. We do know that there is great anxiety in this country about inflation; that we set off a rapid inflation once before by boosting the economy not deliberately but by allowing it to surge ahead too rapidly through the zone of potential supply; that we do not know to what extent we have really wrung inflationary expectations and momentum out of the system. It would be irresponsible for us to say we are going to go all out for this one objective without—

Chairman PROXMIRE. Well, that is right, but, Mr. Stein, just to recognize the fact that we have a situation now that we have not had before. We have controls. We have a situation in which our inflationary prospects have been greatly improved by the fact that wage costs have been extraordinarily stable in the last several months; that wage increases have been corrected because of increases in productivity and have been well below the guidelines. But we do have a control mechanism in place, in being. Under those circumstances, it seems to me we do not have to feel our way along very tenderly for fear we are likely to move into an explosion of inflation. It is quite different from what we had in the past, especially, as I say, with the great opportunity for us to use resources that were not used before.

Mr. STEIN. That is a possible view of the situation. As I look at the history, especially the history of foreign countries, that is precisely the line of reasoning that has led to the breakdown of control systems

and the resurgence of inflation; the policymakers begin to think, well, now I have the inflation side under control by these direct measures and I can pump, pump, pump on the demand side and I will get nothing but increase on the side of employment. What they do get out of it is a washout of the control system. So I do think caution is necessary.

I should point out, when I talk about caution and the rate of expansion in the economy, we are talking about an economy which in the past year has risen 7.1 percent. It is our goal to have the economy continue to rise at a rate significantly above the normal rate of expansion of the economy; that is, significantly above its 4.3-percent trend rate. I was only making what I would have thought was a truistic statement: That you have to be careful.

Shall I resume?

Chairman PROXMIRE. Well, yes, but you see, what I am concerned about is the constant emphasis on caution and care with respect to pushing the economy too much in view of the great emphasis that we have had on holding down prices.

I believe, of course, as you do in doing everything necessary to prevent excessive inflation. But as I say, I think one of the reasons why the control system was put into effect, as I understood it, was so that we could push the economy more vigorously.

Mr. STEIN. And we did.

Chairman PROXMIRE. Well, it has not given us the answers on unemployment. We still have a tragically high unemployment level. It has not worked. We have not gotten results. We have not pushed it enough, apparently. Now we are going with caution and feeling our way along, step by step.

But go ahead.

Mr. STEIN. Since about the middle of 1970, it has been the policy of the administration to promote a strong steady recovery of the economy back to the potential zone. We believed that such a recovery would be consistent with progress in reducing the rate of inflation.

In the middle of 1971 it appeared that some expansion of the economy and some reduction of the inflation rate had been achieved. However, the expansion was too slow and the inflation was still too fast. Therefore a new policy was adopted on August 15 to speed up the expansion and hold down the rate of inflation. Since then, production and employment have risen with exceptional speed. In the past year real output, as measured by the real GNP, has risen by 7.1 percent, almost 3 percentage points above normal. While the relationship between the growth of output on the one hand and the accompanying decline in the unemployment rate on the other is not a precise one, the best estimates of this relationship we have tell us that 1 year of fast growth at nearly 3 percentage points above normal growth, should reduce the unemployment rate by almost 1 percentage point, after a one-quarter lag. The forecasts made by the Council early this year projected a rate of growth of around 7 percent per annum from the third quarter 1971 level, and our projection of an unemployment rate declining to the neighborhood of 5 percent by yearend 1972 was based on this forecast and on the relationship cited above.

The 5-percent level for the unemployment rate projected for year-end 1972 was quite clearly not put forward as an ultimate target, and we find it extremely difficult to understand why it has been so frequently interpreted as one. Our expectation is that fast growth, significantly above the potential growth path of the economy, will continue in 1973 and that as a consequence the unemployment rate will continue to decline in 1973. We will, of course, make a more specific set of forecasts when the annual report for 1973 is submitted.

The behavior of unemployment during the most recent phase of expansion can also be described more directly in terms of what has been happening to employment and the labor force.

From the third quarter of 1971 to the third quarter of 1972, civilian nondefense employment rose by over 2.6 million. This represents a very large expansion by past standards: For example, it is about twice as large as the average annual expansion which took place in non-defense employment from 1964 to 1968, and almost three times as large as the corresponding expansion for the period 1960 to 1964.

In spite of the large increase in employment, the number of persons unemployed has declined by only 220,000 over the same period. The reason, of course, is that the number of persons available for nondefense employment rose by an abnormal 2.4 million.

The reason for this large increase was that, in addition to the normal growth of the labor force based on population trends of 1.5 million, a cyclical upswing in participation rates added 0.4 million and a decrease in defense employment added slightly over 0.5 million to the labor force available for nondefense employment.

We expect that the last two sources of abnormal growth in the supply of labor available for civilian employment will be smaller in the future than in the past year. The strong expansion in the demand for labor is expected to continue. Part of the initial impact of a rapid expansion in output is reflected in a lengthening workweek, but later the impact shifts more fully to the level of employment. This means that some of the employment effect of the expansion we have already had is yet to come. In addition we expect that output will keep expanding at a rate faster than the economy's potential growth rate. These analytical reasons for expecting rising labor demands are reinforced by direct evidence in the labor market itself:

1. The ratio of civilian employment to the working population is high and rising. At 56.1 percent in the third quarter of 1972, this ratio is already higher than or close to peak levels reached in the past, such as the third quarter of 1948 (56.1 percent); the first quarter of 1953 (56.1 percent); the first three quarters of 1956 (56.1 percent); the second quarter of 1960 (55.3 percent) and the third and fourth quarters of 1969 (56.6 percent).

2. Job vacancies in manufacturing have climbed sharply in recent months.

3. The layoff rate in manufacturing has fallen to levels close to the lowest experienced since the Korean war, and the hiring rate for new employees has risen.

We want to make it as clear as possible that our policy is not to slam on the brakes to stop the economic expansion. Our policy is to

support economic expansion at a rate above the normal growth of the economy and thus steadily cut the unemployment rate. If we do this cautiously we have a good chance of avoiding distortions and renewed inflation on the way up and placing the economy in a sustainable high level orbit for the first time in a very long time. But to overstimulate the economy now, as part of a deliberate but short-sighted policy, or, as is more likely, by negligence and lack of discipline, would consign the country to another round of inflation followed by excessive unemployment.

We believe that to achieve the "maximum employment" goal of the Employment Act, strong steady expansion of demand must be supplemented by continuing vigorous efforts to improve labor markets, make more training and information available and reduce discrimination. The administration's devotion to this idea is shown by the provision of \$5 billion for manpower programs, the largest figure ever. The question is always whether any particular program works and are its benefits worth its costs.

Experience with these programs in the United States is limited, and evaluation of that experience even more limited. We believe that all possibilities must be explored and the promising ones followed up. Your committee has evoked some suggestions deserving further consideration, in the course of these hearings, and we compliment you for that.

Chairman PROXMIRE. Thank you very much, Mr. Stein.

Mr. STEIN. I want to get back to our discussions earlier and our exchange on the goal that is so simple and so important. Throughout the 1960's the 4-percent goal was accepted by the administration in office and generally by the economic profession. But ever since this administration has been in office, we have been trying to discover what its full employment goal really is. All evidence suggests that the goal has really been raised and you told us this morning that the only goal you are willing to specify, the only one you are willing to say explicitly is 5 percent by the end of this year. You say it should be lower than that, but you won't say how much lower.

Now, we have this problem. Secretary Connally, when he was one of the principal economic spokesmen for the President, said the 4 percent was a myth that we never got down to that level in peacetime and he said, "I don't think the American people are willing at this point in time to continue the work, to continue all it means in order to achieve a 4-percent level of unemployment."

Last year, Mr. Solomon, at a New York Institutional Investors Conference, said, and I quote, "If 4 percent was correct then"—in the 1950's—"then 4.8, 5 percent is correct now. If 4 percent was too optimistic then, then even 4.5 percent is too optimistic now."

Mr. SOLOMON. I must correct you on that for the third time, Mr. Chairman. I have seen that quote and asked for a transcript and it was a misquote. I wrote a letter to the New York Times, giving my exact quote.

Chairman PROXMIRE. We have a tape right here and we will run the tape of your statement.

Mr. SOLOMON. I have already corrected that. If that was the noise I made, I must have misspoken.

Chairman PROXMIRE. Let's see what you said.

(The following statement was transcribed from a tape played by the committee:)

... The structure of the labor force has changed dramatically—more women, more young people, more people looking for first jobs, who generally make the unemployment rate a little higher, because their search time is longer. This would add by most calculations at least half a percentage point, so if 4 was correct then it can't be correct now; 4.9 or 5 is correct now. If 4 was too optimistic then, then even 4.5 is too optimistic now.¹

Chairman PROXMIRE. That is your voice. It is what you said.

Mr. SOLOMON. It is my voice. Our calculations have shown—

Chairman PROXMIRE. It is not a doctored tape.

Mr. SOLOMON. (continuing). That on grounds of age composition of labor forces only, which is not the only basis, on those grounds alone, it has added a half of a percentage point to the basic unemployment rate itself. It is a matter of pure arithmetic. All you do is take today's labor force composition and apply it to the specific rates that existed at the time.

Chairman PROXMIRE. Let me understand, are you telling us that this is your present position, too, that four percent, which might have been correct in the 1950's, is not correct in 1972? Is that right?

Mr. SOLOMON. Because of the changing age composition. Now, there are other changes which have taken place which nobody has documented and we are not sure in which direction they are moving.

Chairman PROXMIRE. Are you saying it is 4.9 or 5 percent now?

Mr. SOLOMON. No. I have not said it is 4.9. You can forget the 4.9 figure, because I didn't say it, or perhaps someone jimmied that or whatever—

Chairman PROXMIRE. We have not jimmied it.

Mr. SOLOMON. Your passion of finding it or recording it—I have written you twice on it.

Chairman PROXMIRE. It doesn't say anything but that we have you dead to rights.

Mr. SOLOMON. Why don't you recall the 10 times that I have refuted it and said I didn't mean it if I said it.

Chairman PROXMIRE. Perhaps I misunderstood you. I thought you to say that you did not say it. I did not ever before hear you say that you misspoke yourself, that it was your mistake.

Mr. SOLOMON. I might have. It is the first time I heard that tape. I don't even know where it was recorded.

Chairman PROXMIRE. It was made in New York at the Institutional Investors Conference, December of 1971.

Mr. STEIN. At any rate, Mr. Chairman, this administration has never put forward any employment target as a longrun goal above 4 percent. We have said 5 percent, in the neighborhood of 5 percent for the end of this year as a point on a declining path of the unemployment rate. As you know, for purposes of defining the full employment budget, we use the 4 percent rate.

Chairman PROXMIRE. For that purpose, but it seems to me you back away so clearly. When you and I appeared on the CBS morning

¹Mr. Solomon states: "It should be perfectly obvious from the context of the statement that 4.9% should read 4.5%."

show together a couple of months ago, the moderator asked you why the unemployment rate was not down to 4 percent put forward by economists as a full employment figure. You responded: "The fact that economists have hoped for it does not mean it is a standard by which policy should be judged."

That seems to me to be a pretty clear backing away from the 4 percent goal. We have heard Mr. Solomon, heard John Connally, heard Stein.

As you have said, you have not established another goal, which I think is unfortunate. You have backed away from 4 percent. Apparently, you feel 4 percent is too low, you feel it is unrealistic.

Mr. STEIN. We have not said that. In our first economic report, we set forward a goal of 3.8 percent in February 1970. What we are trying to get away from is the notion that the unemployment rate at this moment or some other particular moment must be judged either a failure if it is above 4 or a success if it is below 4.

Chairman PROXMIRE. You called my attention to something I have forgotten and I think this is very important. You said in your first economic statement, you made it 3.8 percent. That is no longer a goal which you will stand by. You indicated on CBS, Mr. Solomon has indicated, Mr. Connally has indicated, you are not going to accept even a 4-percent goal, let alone a 3.8-percent goal.

Mr. STEIN. But I am not going to accept a number bigger or smaller than that. If you would like, I will accept 2 percent. Two percent is my goal.

Mr. SOLOMON. Make it zero. I think it ought to be zero.

Chairman PROXMIRE. Well, let's be serious about this. We know that in the past administrations, when they said 4 percent, that was their goal, they adopted policies to do that. They adopted fiscal policies, monetary policies, explicit structural policies to try to achieve that. They failed in some respects and they got it down only because of the war. I agree with that.

Mr. STEIN. I don't think that is correct at all.

Chairman PROXMIRE. Well, they did. Again and again, Mr. Heller, Mr. Okun, the other people on the Council of Economic Advisers, expressed that as the goal.

Mr. STEIN. They expressed it as a goal, but what you are saying is they adopted policies which were calculated to achieve that objective. If you look at the economic reports during those years, you will not find many, if any, which project a rate of 4 percent by the end of the forecast period to which they were addressing themselves. This was a goal out there to be achieved along a gradual path by expanding the economy, just as it is for us. And we want to expand the economy in a steady way and get the unemployment rate down as low as we can by that process and we want to adopt all structural measures which have a prospect of yielding a result and reducing the unemployment rate. We are not committed to stopping at 4 percent.

Chairman PROXMIRE. Well, the experience I have had in the Senate tells me that if you set an explicit goal, you may not achieve it. It may be a very embarrassing goal. It may be politically costly, but it is the best way to make sure that your policymakers work to achieve a level that represents real progress.

Let me ask you this. We discussed before the fiscal and monetary policies to achieve unemployment and so forth and we have had an exchange on that. Have you investigated the job-creating potential of different types of Government expenditures? For example, the Bureau of Labor Statistics data—at my request they make this study—indicated that a billion dollars spent on education by State and local government yields 104,000 jobs, and that the same amount spent in the military or defense area would provide 57,000 jobs. Would you not think that an administration that wants to reduce unemployment would take these data into account in establishing budget priorities?

Mr. STEIN. I have never heard of these data.

Chairman PROXMIRE. Mr. Moore testified before our committee a month or so ago and gave us the figures—I guess 2 months ago.

Mr. STEIN. We think that the—

Chairman PROXMIRE. Because of the labor-intensive element involved in educational services as compared with the capital-intensive element involved in defense spending.

Mr. STEIN. We have been concerned to some degree in the budgetary process with the relative job-creating effects of different programs. We have constantly worked with what we believe is, though it is hard to calculate, the difference in effect between purchase programs, transfer programs, grant programs, and so on. To some extent there has been concern about the geographical distribution of unemployment and the possible ways of remedying high concentrations of unemployment by the geographical placing of expenditure programs.

Chairman PROXMIRE. You have indicated in recent speeches that the proper course of economic policies is to hold expenditures down and to avoid any tax increases. I believe also that ought to be our policy. However, I have read a recent statement by Mr. Murray Weidenbaum, whom we all admire and respect, in which he said:

Our collective appetites for new and expanded spending programs have far outrun the ability of the existing tax system to pay for them. We literally have mortgaged available federal revenues for many years into the future. The Federal Government is running a \$35 billion deficit this year and little improvement is in sight for next year or the year after.

Yet, additional demands on the public purse are clearly visible. The pressure on the tax system is thus clear—the need to raise more revenue.

Many people agree with Mr. Weidenbaum. Certainly, the study of the Brookings Institution points to the same conclusion. These are gloomy prophesies, but they carry more weight due to the President's resistance to any reduction of military programs and other programs characterized by substantial waste. How do you propose to hold down expenditures without touching the vast expenditures for military programs? Indeed, the administration has urged a substantial increase in military outlays?

Mr. STEIN. We have never said that the defense establishment is exempt from the effort which is being made now to hold down the fiscal 1973 budget. I think Secretary Shultz has explicitly said that it was not exempt. So that qualification in your question is unfounded.

All that Mr. Weidenbaum says, and what everybody else says, is that our appetite for Government spending is outrunning the yield of the present tax system. But our appetite for tax increases is very

low, too, and I think there is very great resistance, both in the country and the Congress, to high taxes.

We believe that in this field as in many others, appetite will have to be curbed. We are now in the process of going through the fiscal 1973 budget and legislation with great care and developing a program, to recommend to the President, which will hold spending within the \$250 billion total.

That also has implications for fiscal 1974 because restraining spending in fiscal 1973 will reduce the base from which fiscal 1974 starts. So we are simultaneously looking at the fiscal 1974 effects and the President is determined to keep spending within bounds.

Chairman PROXMIRE. Is it true that the Council that made the recommendation that cuts to be made next fiscal year, could find only \$4 billion in nonmilitary programs that can be cut?

Mr. STEIN. No, we in cooperation with the Office of Management and Budget have looked at certain programs. We have not made an exhaustive analysis of fiscal 1974 but we have looked at some programs.

Chairman PROXMIRE. Have you made any study and have you found anything?

Mr. STEIN. We have some staff papers which are for consideration by Mr. Weinberger and me as inputs into preparing the fiscal 1974 budget. But that is the present status.

Chairman PROXMIRE. I suggest if you are having trouble sleeping at night and you want something which will help put you to sleep, you might read a book which I recently completed, published on October 6, called "Uncle Sam; The Last of the Big Time Spenders." I have a whole series of reductions which should take place, not only in the military but other areas. I recommend it to you.

Mr. STEIN. If you want to send me a copy.

Chairman PROXMIRE. It is \$6.95.

Mr. STEIN. We don't charge you for our reports.

Chairman PROXMIRE. Well, I think that both reports are priced right. [Laughter.]

One of your illustrious predecessors, Mr. Heller, has recommended that wage-price restraint could be concentrated on those firms, markets, and wage contracts which contribute the most to inflation. He recommends that we let the forces of competition take care of most wages and prices and that the Government intervene only in those areas where "competition is not an effective policeman."

As you know—you may not have heard about it—but we are having hearings next month, the middle of next month, beginning hearings on what to do after phase II expires. You may not have an opportunity to testify. You will, of course, give us your views when the report comes in next year. But because the law expires, as you may know, on April 30, we ought to get as much debate and discussion on this as possible before that. I think it would be very valuable this morning if you would give us your views on whether or not we might modify phase II and whether you feel we can do it and whether we can follow the Heller proposal of concentrating in those areas where the pressures are obviously greatest.

Mr. STEIN. I think it is a very good idea that you are holding hearings. I think we need to learn not only the sentiment of the country but the experience of people in the various sectors of the economy in living with controls and what ideas they have for the future. I hope you do not expect me to give you any blueprint of the administration's recommendations for next steps in this field. I can assure you we are now working very intensively on this question. We are quite aware of the fact that the law expires on April 30 and there are a number of other decision points that are being approached. But I do not think it would be useful for me to speculate about what our thinking is on this matter.

Chairman PROXMIRE. Could you give us a little more than that? We get the picture sometimes that the administration is thinking of letting the law expire, stopping controls within the next 6 months or shortly after the election. On the other hand, at other times we get the impression that they are still deeply concerned about inflation and think that controls can continue to be useful, some form of controls, for the next year or so. Could you give us a little better feel than just the notion that you can't tell us a thing?

Mr. STEIN. All I can say is that we share the concern that I am sure you share and everybody else shares who has some connection with this matter; that is, we are concerned about the possible revival of inflation. We would like to see inflation decline. We think that the controls on the whole have worked fairly well. And as I have said many times, they have worked better than I expected they would.

On the other hand, we see mounting difficulties. In our own experience and looking at the experience of others, we know that difficulties mount as time passes. You get farther away from the base periods from which standards are derived and in an expanding economy you encounter more and more cases in which there is demand pull and we know that the system doesn't deal very well with that.

So there are difficult choices to be made. There are risks, we know, of staying too long and there are risks of getting out too soon.

Chairman PROXMIRE. Here is the difficulty I have with this. This would seem to me to be the time, if there ever is a time, to change the phase II structure along the lines that Heller suggests. If we don't do it now, it seems likely that we will be strapped to controls for a generation—certainly a long, long time. It seems to me if we move into a phase where the economy is improved, if unemployment is less than it is now, the economy is expanding more rapidly than we expect it will, then it seems the case for controls would be much stronger and it would be far harder to get rid of them.

Mr. STEIN. We agree with that but I hope when you say this is the time, you don't mean this morning. That is, we recognize that we have major decisions to make about this subject and we will have to make them over the turn of the year and I expect we will do so. But it really would not be responsible for me to generate speculation about what these decisions will be. We have to weigh the considerations that are obvious. We don't have any secret considerations to weigh.

Chairman PROXMIRE. Since you became Chairman, Mr. Stein, I have been impressed with the accuracy and the conformity with pri-

vate consensus of your GNP forecasts. The pace where you deviate is unemployment. In your mid-year report, you repeat your earlier forecast of a yearend unemployment rate in the neighborhood of 5 percent. You fail to say anything about 1973. You have not discussed that this morning. Most private forecasters are saying the rate will not fall below 5 percent before the end of next year. What is your forecast? I am not asking for a goal, I am asking for a forecast.

Mr. STEIN. Well, on that specific subject, we think we will pass below 5 percent before late next year, that we will be well below 5 percent by the end of next year. I have said we think we will be moving down the range from 5 toward 4 next year. But I am not going to make any more specific forecast than that.

There is a little range in the private forecasts but I think the private forecasts one now sees show unemployment declining in 1973. They are at different speeds and I think we are among those who see perhaps a more rapid decline than some, but our view is not extreme.

Chairman PROXMIRE. You foresee a more rapid decline than almost all, if you say you will move down toward 4 percent during the year, well below 5. As I say, the consensus of private economists indicates that they expect unemployment to stay close to 5 percent until the end of the year.

Mr. STEIN. There are a number of forecasts which have the unemployment rate in the neighborhood of 5 percent for the year, and $4\frac{1}{2}$ percent in the fall, but I do not want to pinpoint the probable rate by the end of next year. There is no decision being made at this point which requires us to do that. We are working on the budget for next year and on economic policies for next year. We will prepare a forecast in connection with that work and it will be made available to inform you of the reasoning underlying our decisions.

Chairman PROXMIRE. The alert staff here called my attention to a statement which they say you made earlier this morning. You said unemployment will be below $4\frac{1}{2}$ percent by 1973 yearend. I had missed that. Are you correcting that statement now? You say it will be below 5 and—between 5 and 4, or will you stand by your statement that it will be below $4\frac{1}{2}$?

Mr. STEIN. Yes.

Chairman PROXMIRE. You will stand by your $4\frac{1}{2}$?

Mr. STEIN. Yes.

Chairman PROXMIRE. Below $4\frac{1}{2}$?

Mr. STEIN. Yes.

Chairman PROXMIRE. Now I would like to read you a statement made by John Ehrlichman. I think it is very important that we recognize who John Ehrlichman is. Abraham Ribicoff, former Secretary of the Health, Education, and Welfare, said on the floor of the Senate that in his experience under President Kennedy, and he said it is no different in his view than under President Nixon, it is very hard for a President to deal with his Cabinet officers on a day-to-day basis. He has to delegate that. President Nixon, like President Kennedy and other Presidents, has the responsibility to oversee and determine military policy. Now he is engaged in a political year, political problems, he has ceremonial responsibilities and so on. Mr. Ribicoff said the man

who is really running the economy on the domestic side as far as the Cabinet officers are concerned is John Ehrlichman. So his statements with respect to economic policy are extraordinarily important. Ehrlichman said this: "Unemployment is down to teenage blacks, welfare mothers, and folks of that kind . . . people who can't hold jobs."

No. 1, would you agree with this statement? Are these 4 million people presently unemployed entirely teenage blacks, welfare mothers, and people who can't hold jobs?

MR. STEIN. First, I would like to correct the characterization of Mr. Ehrlichman. He is not the man who runs domestic economic policy. In fact, he has relatively little to do with it. He does have a good deal to do with—

Chairman PROXMIRE. This is something that has happened in the last 2 or 3 days?

MR. STEIN. No, he has never had much to do with economic policy. He has had a great deal to do with many other domestic policies.

Chairman PROXMIRE. Who is the man in the White House who runs things as far as the economic policy is concerned? I don't mean this in any derogatory way. As I say, this is something all Presidents have to delegate. They can't handle everything.

MR. STEIN. I would say if you asked who is the leading figure in the administration with respect to economic policy aside from the President, it is the Secretary of the Treasury. Although he is not in the White House, he is very close. He sees the President a great deal as other members of the administration do. But economic policy, by and large, does not go through the Ehrlichman channel, whatever Senator Ribicoff may remember of the Kennedy administration.

Chairman PROXMIRE. He wasn't speaking, perhaps I misspoke when I said economic policy. What I had in mind was the debate over H.R. 1, welfare policy. And of course, that isn't entirely economic policy, but it has enormous economic impact, has great relevance to unemployment.

This statement by John Ehrlichman, it seems to me, reflects on the views of the administration with respect to—

MR. STEIN. Well, it doesn't. I don't know exactly what John Ehrlichman said. I know that he did feel that he was misquoted and wrote a letter to Time about it, but I don't want to enter into that debate. The statement is incorrect. It is not correct that unemployment consists entirely of teenage blacks and whatever else was listed in the statement you read.

Chairman PROXMIRE. You would agree that we have serious problems with respect to married men and so forth, that that is much higher than it was in 1967, 1968, 1969, higher than it should be?

MR. STEIN. It is higher than it was, higher than it should be, yes.

Chairman PROXMIRE. We all expect a very large Federal deficit again this year, with or without spending reductions promised by the President. Taking place during a business recovery, won't such a deficit have to be financed largely by the Federal Reserve to keep a new credit crunch from nipping the recovery in the bud?

MR. STEIN. We believe in the first place that the common estimates of the deficit do not take realistic account of the administration's determination and the President's determination to hold down expenditures in fiscal 1973. We believe that we will succeed in holding

expenditures down to \$250 billion, which will give us a deficit in our most recent estimate of the revenues of about \$25 billion. With the economy in its current condition, this deficit can be financed without what is sometimes called a credit crunch and without forcing the Federal Reserve into an inflationary policy, which I do not believe they would adopt.

Chairman PROXMIRE. Are you saying that you can finance the kind of deficit you would get with a \$250 billion expenditure with present revenues—what is that, about—

Mr. STEIN. About \$25 billion.

Chairman PROXMIRE. A \$25 billion deficit. Do you think that can be done without inflationary monetary policy?

Mr. STEIN. Yes. We had nearly that large a deficit in fiscal 1972.

Chairman PROXMIRE. Well, we still have a very serious inflationary problem in spite of controls.

Mr. STEIN. Oh, yes; but we made progress on it during the last year and we expect to make progress on it during 1973.

Chairman PROXMIRE. This is based on the assumption, of course, that the President can hold the spending down. You are not relying on any kind of assistance from a tax increase in 1973?

Mr. STEIN. No, we are not.

Chairman PROXMIRE. Mr. Stein, the striking difference between our country and others having far lower unemployment among youth is the existence of much more comprehensive apprenticeship systems in those countries. That was emphasized by Mr. Feldstein, when he appeared before us, as you know. Is there not a strong case for improving and expanding such programs in the United States?

One of our witnesses has stated that the record of the Bureau of Apprenticeship in the Department of Labor in insuring nondiscriminatory entry into its youth programs has been "shameful" and that the record of the Government in general has been poor. This is not recent. It extends over other administrations, too. Do you believe something should be done to improve performance in this regard, and if so, what?

Mr. STEIN. I was impressed with what Mr. Feldstein said about the necessity to improve the process of transition from school to work. As I recall what he said, he did not particularly look to the Bureau of Apprenticeship and Training to make any great contribution there. Its activities are really very limited. I would not want to characterize their activities. I do not know enough about them to do that.

But I think that there is a major need to effect improvements which have not so far been yielded, apparently, by the money we have spent in vocational training, which is very large. Additional money has been put into counseling and additional money has been put into the employment of youth. I think we have to do more to improve the performance of these programs.

Chairman PROXMIRE. Well, we put additional money into it, but we are certainly not getting the kind of results we should. One of the big differences, maybe the major difference, between unemployment here and in England is that their teenage unemployment is very low, about as low as other groups. Here it is very high. They have an apprenticeship program; we don't. That is generally true of European countries.

I shouldn't say we don't. We don't have an effective program, a comprehensive program, a program that provides skills for young people so when they finish schooling, they have someplace to go to get the training that they need to become employed.

Mr. STEIN. I think to be fair to everybody concerned, it should be noted that Mr. Feldstein pointed out a great many other reasons for the higher unemployment rate of young people in this country than in England or the Continent.

Chairman PROXMIRE. Yes, but this was the sharpest and clearest difference, the area where it seems to me we can do the most.

Mr. STEIN. This is the area in which most can be done, I would agree. But I think his analysis suggested that probably some difference would remain in any case.

Chairman PROXMIRE. Did you tell me that you thought that the \$25 billion deficit is appropriate for macrostimulation at this point. You said that that is what you would expect it to be but is that what you think it should be?

Mr. STEIN. Yes.

Chairman PROXMIRE. How do you answer those—and this is not my view, so I am asking in behalf of a very large number of people in the economic profession who say it ought to be \$35 billion if you are really going to expand this economy from a macrostandpoint. The stimulus just is not enough on the basis of the present program; it ought to be bigger, \$10 billion bigger.

Mr. STEIN. Of course, this goes back to the question we discussed earlier about the rate of expansion and the rate of decline of unemployment that can be expected on the basis of this fiscal program. We foresee a steady, strong reduction of the unemployment rate, but not at a pace which is going to upset the progress against inflation. So that is a quantitative matter. There are people who want to go more rapidly, but I remember that I heard these same arguments back in 1965 and 1966 and I think we regretted it.

Chairman PROXMIRE. One final question. When I look at the inflation rates for major Western European countries, they all averaged 4 percent or below throughout the decade of the 1960's. I have a table here, which I shall place in the record, what they were in every one of the major countries—West Germany, the United Kingdom, France, and Japan. The rate of unemployment for West Germany was nearly always below 1 percent, in France it was below 3 percent, and in the United Kingdom it was below 4 percent.

Japan had a higher inflation rate, but the unemployment rate was consistently below 2 percent.

(The table referred to follows:)

{In percent}

	West Germany		United Kingdom		France		Italy		Japan	
	Change in Consumer Price Index	Unemployment rate	Change in Consumer Price Index	Unemployment rate	Change in Consumer Price Index	Unemployment rate	Change in Consumer Price Index	Unemployment rate	Change in Consumer Price Index	Unemployment rate
1960	1.2	0.8	1.3	2.3	3.9	2.2	2.8	4.3	4.6	1.7
1961	2.4	.5	3.8	2.1	2.5	1.9	2.7	3.7	4.4	1.5
1962	3.5	.4	3.7	3.0	4.9	1.9	5.3	3.2	7.0	1.3
1963	3.4	.5	2.4	3.8	4.7	1.9	6.3	2.7	7.9	1.3
1964	1.1	.3	3.4	2.6	3.4	1.6	5.6	3.9	4.9	1.2
1965	3.3	.3	4.4	2.3	3.3	1.8	4.4	4.0	7.0	1.2
1966	4.2	.3	4.3	2.4	2.1	1.8	2.1	4.3	4.3	1.4
1967	1.0	1.0	2.0	3.8	3.1	2.3	4.2	3.8	4.2	1.3
1968	2.0	1.2	5.0	3.7	5.0	2.7	1.0	3.8	6.0	1.2
1969	2.9	.8	4.8	3.7	5.7	2.1	3.0	3.7	4.7	1.1
1970	3.8	.5	7.3	4.0	5.4	2.2	4.8	3.4	8.1	1.2
1971	5.1	.7	8.9	5.3	5.6	2.7	5.0	3.4	6.2	1.3
Average	3.0		3.9		4.0		3.8		5.7	

Chairman PROXMIRE. Why can't we make our economy perform in a similar fashion?

Mr. STEIN. Apparently, they can't any more. It has turned out not to be a durable situation.

Chairman PROXMIRE. Well, 10 years is pretty good, and they did it without controls.

Mr. STEIN. Yes; but they all now envy our situation.

Chairman PROXMIRE. They envy our 5.5 unemployment?

Mr. STEIN. They envy the fact that we are having simultaneously a strong recovery and reduction of the inflation rate.

Chairman PROXMIRE. But their growth, Japan's growth and Germany's growth and the growth of these other countries has been far better than ours. Their utilization of their resources is far better than ours. And as I said, during much of this period, without controls, their inflation rate has been better and they still don't have controls.

Mr. STEIN. But their inflation rate is much worse now.

Chairman PROXMIRE. Now it is more, I would concede. But it would seem to me that what you are saying is the one policy that concerns the administration is inflation to the exclusion of almost everything else.

Mr. STEIN. That is not what we are saying. What we are saying is we have to balance the objectives and that one naturally gives weight to these questions in the context of one's present circumstances and historical background. We had an Employment Act of 1946 because we had behind us a decade of enormous unemployment and that was, in everybody's mind, the overwhelming problem. Now we have behind us a more balanced view of what our problems are.

Even then, the Employment Act of 1946, if you read those debates, as I am sure you have, there were many people who urged the necessity of giving weight to other considerations and that was done in the act in rather cryptic language.

Chairman PROXMIRE. Mr. Stein, how would you feel about it, if in view of the refusal of the administration to set a target for unemployment, if we did what we did in the Housing Act? I put in an amendment in the Housing Act which set the goals of 26 million housing starts in the next 10 years. We have not achieved them, but I think the goals would be useful if the Congress went ahead and passed legislation to provide an unemployment economic goal.

Mr. STEIN. I don't know what the operational significance of it would be. I do not think it would be a contribution to public understanding of the problem.

Chairman PROXMIRE. But it is something to work toward and know which way we are going.

Mr. STEIN. We know which way we want to go.

Chairman PROXMIRE. Well, thank you very, very much, Mr. Stein. I hope that our exchanges and differences of opinion—I know that you recognize there is nothing personal about them. You know I have the highest regard and esteem for your ability and knowledge. The same goes for Mr. Solomon.

I did not mean, Mr. Solomon, by running this tape to do anything more than make the record clear.

Thank you, gentlemen, very, very much.

The committee stands adjourned.

(Whereupon, at 11:55 a.m., the committee was adjourned, subject to the call of the Chair.)