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REGIONAL ECONOMIC PROBLEMS AND NATIONAL ECONOMIC POLICY

HEARING
BEFORE THE
SUBCOMMITTEE ON URBAN AFFAIRS
OF THE
JOINT ECONOMIC COMMITTEE
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CONTENTS

WITNESS AND STATEMENTS

WEDNESDAY, SEPTEMBER 15, 1976

	Page
Moorhead, Hon. William S., chairman of the Subcommittee on Urban Affairs: Opening statement.....	1
Greenspan, Hon. Alan, chairman, Council of Economic Advisers, accompanied by John Davis, Special Assistant to the Chairman; and Barry Chiswick, Senior Staff Economist	3

SUBMISSION FOR THE RECORD

WEDNESDAY, SEPTEMBER 15, 1976

Greenspan, Hon. Alan, et al.: Prepared statement.....	7
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REGIONAL ECONOMIC PROBLEMS AND NATIONAL ECONOMIC POLICY

WEDNESDAY, SEPTEMBER 15, 1976

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON URBAN AFFAIRS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2261, Rayburn House Office Building, Hon. William S. Moorhead (chairman of the subcommittee) presiding.

Present: Representatives Moorhead, Brown of Michigan, and Roussetot.

Also present: Lucy A. Falcone, Louis C. Krauthoff, L. Douglas Lee, and Ralph L. Schlosstein, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., M. Catherine Miller, and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF CHAIRMAN MOORHEAD

Chairman MOORHEAD. The Subcommittee on Urban Affairs of the Joint Economic Committee will please come to order.

Today the subcommittee holds the first in a series of hearings on the economic difficulties experienced by the various regions and areas of our Nation. These hearings will examine in detail, the economic conditions of our Nation's regions as well as the relationship between regional economic conditions and national economic policies. It is my hope that these hearings will lay the groundwork for the development of economic policies that are more sensitive to the economic conditions of individual regions and areas.

In the past several years, it has become increasingly evident that all regions and areas do not participate equally in national economic trends. Some regions and areas experience high levels of economic activity long before the national economy reaches full employment. Other regions and areas, quite frankly, are left behind. When the national economy develops a cold, these areas contract double pneumonia and when the national economy recovers, these regions and areas are left behind on the sickbed. It is these regions and areas that will be the subject of today's hearing.

In the last 6 years, the Northeast, the mid-Atlantic and to a certain extent, the Great Lakes regions have experienced unemployment rates consistently in excess of the national average. In the 1970 recession, unemployment rose more quickly in these regions than in the rest of the Nation. Moreover, while the rest of the country experienced

a recovery through 1973, the New England and mid-Atlantic regions did not share in this recovery. By 1973, only the New England and mid-Atlantic States had unemployment rates above 1970 levels. Thus these areas never recovered fully from the 1970 recession.

The experience of these regions in the past recession and the current recovery appears to be quite similar. Unemployment increased at a quicker rate in the Northeast and the Great Lakes States than in the rest of the Nation. While accurate and timely data is difficult to obtain, the recovery in these regions seems to be lagging behind the national rate of recovery.

Many natural economic factors are responsible for the relatively poor performance of these regions. Wages are generally higher in these regions, energy costs are higher, State and local government taxes are more burdensome, land and energy are less readily available, and climatic conditions are often less favorable. It must be pointed out that movement in response to these forces probably has contributed to the overall efficiency and productivity of the economy. However, there is also a growing body of evidence that suggests that Federal Government tax, expenditure, employment, and regulatory decisions have abetted and even encouraged the decline of these regions. To the extent that Federal policies have contributed to the economic problems of these regions, these policies should be corrected. This subcommittee intends to examine the regional impact of Federal policies in greater detail in order to ascertain their precise regional impact.

Despite the role of the Federal Government, many have argued that the economic difficulties of the Northeast and Midwest are not a national problem but a local and regional concern. I disagree. There are in my opinion, several reasons why the Federal Government, this committee and the Council of Economic Advisers should be concerned about this problem. First, pockets of high regional or area unemployment are a major obstacle to the achievement of our national economic goal of full employment and price stability. As the national unemployment rate approaches 4 to 5 percent, many areas will continue to experience unemployment rates well above this average. At this point, additional economic stimulus will only create inflation in the tight labor markets while doing little to reduce unemployment in the depressed areas. Thus, unless targeted economic policies are developed by the Federal Government, unemployment in these areas will be permitted to persist and the national unemployment rate will be kept unnecessarily high.

Second, pockets of high unemployment interfere with the efficient utilization of public and private infrastructure.

Many of the areas that are not sharing fully in economic recovery have large amounts of underutilized public and private infrastructure already in place. Public transit facilities, sewer and water facilities, housing, industrial plants, and many other capital facilities are already in existence. It certainly makes good sense to utilize these facilities fully before expending vast amounts of public resources to build new facilities in other areas.

Finally, pockets of high unemployment can interfere with the existence of otherwise stable neighborhoods and families. Families develop social ties and economic investments in their homes and

neighborhoods that they rightfully are reluctant to abandon. It certainly makes good sense to bring jobs to these people, rather than to force them to dissolve these social and economic ties. Clearly these are good, solid reasons for the Federal Government to be concerned.

Despite the significance of this issue to the Federal Government, national economic policies have not been sensitive to the widely varied economic conditions that individual regions experience. Rarely have regional economic conditions or problems been discussed in the Economic Report of the President. Never has the regional economic impact of national decisions been considered.

That is why we are holding this hearing today. We hope to gain a more clear understanding of the relationship between regional economic conditions and national economic policies. We also hope that this hearing will encourage our Nation's top economic policymakers to be more cognizant of the regional impact of Federal Government policies.

Our only witness today is the Honorable Alan Greenspan, Chairman of the Council of Economic Advisers. Mr. Greenspan, we appreciate your willingness to appear before us and look forward with interest to your comments.

STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, ACCOMPANIED BY JOHN DAVIS, SPECIAL ASSISTANT TO THE CHAIRMAN; AND BARRY CHISWICK, SENIOR STAFF ECONOMIST

Mr. GREENSPAN. Thank you very much, Mr. Chairman.

Before I begin I would like to introduce my colleagues who have consented to join me, the Special Assistant to the Chairman, John Davis on my right. And senior staff economist Barry Chiswick on my left.

Chairman MOORHEAD. We welcome both of you here.

Mr. GREENSPAN. We are pleased to appear before this subcommittee this morning to discuss regional differences in the economic recovery and some of the problems which such differences may pose for economic policy.

Mr. Chairman, my prepared statement is a good deal longer than I would like to use, so I would request that the full text be put in the record.

Chairman MOORHEAD. Without objection, the full text may be made a part of the record. Also the various tables that you have attached to your statement will be included in the record.

Mr. GREENSPAN. Thank you very much, Mr. Chairman.

The recovery in production and employment has now been underway for about a year and a half. It has been a fairly strong recovery. From the second quarter of 1975 through the second quarter of this year, the last period for which our data are complete, production or real gross national product had risen by 7 percent. Employment, since the March 1975 recession low, has risen strongly—increasing by 3.9 million, seasonally adjusted. A record 88 million Americans are currently employed. Unemployment has declined but the decline this year has been moderated by an extraordinary increase in the labor force. Inflation has continued at a moderate pace.

As you are no doubt well aware, the rapid pace of the recovery has slowed a bit in the past several months. I do not regard this as unusual, and the most recent evidence suggests that another acceleration in the pace of the recovery is probably now getting underway. On balance, the recovery appears to be on a firm foundation. There is a singular absence of the imbalances which would normally portend a prolonged slowdown, and I am quite encouraged by the prospects for continued expansion in economic activity, rising employment and declining unemployment in the period ahead. I am sure you will wish to discuss these issues in greater detail. I mention them here as the background for our discussion this morning of regional disparities in the recovery.

The tendency for economic growth to be uneven geographically results from several factors. If the response to changing market conditions were instantaneous the movements of labor and capital facilities among geographic areas would prevent regional disparities from appearing. The only regional differences remaining would reflect the costs of moving, just as in the case for commodities, or commodity prices, where regional price differences tend to reflect transportation differences.

Regional differences, however, do arise—largely because significant geographic movements of labor and capital facilities do not occur in short periods of time. The geographic movement of facilities tends to be quite slow because there are significant costs and time delays involved in the adjustment process. Since capital facilities cannot ordinarily be moved the adjustment process takes a different form. As plants depreciate and facilities are abandoned they may be replaced by facilities located in different geographic areas because of better overall economic conditions for the production of goods or changes in markets throughout the country.

Movements of people between regions also tend to occur rather slowly and such migration, of course, is not unrelated to the movement of capital. The two are inextricably intertwined. Both the economic and the personal costs of migration tend to make people reluctant to leave an area in which they have resided for a long time. Population shifts from region to region occur for many reasons, some of which are economic while others involve climatic conditions or other such factors. In many instances the movement of plant and facilities will tend to pull part or sometimes all of the associated labor force with it into the geographic areas to which it is moving. Just as often, however, movement of plant facilities is due to regional differences in labor supplies and skills.

Over time there has been very important differences in the growth in employment by region of the country. Locational shifts in capital facilities and by the labor force have been one important avenue through which a more efficient allocation of resources has been achieved. The differences in growth have generally reflected differences in regional comparative advantage, a highly mobile population and changing economic circumstances. One of the most dramatic characteristics of employment changes in the last three decades has been the narrowing of regional differences in types of employment—that is, a narrowing of regional differences by broad industrial sectors.

The extent of these shifts are suggested by the data from the Decennial Census of Population which we show in table 1.¹

In general, the different regions of the country have become much more similar as the manufacturing, construction and services industries which developed initially in the Northeast and Midwest have spread throughout the country.

While adjustments are often slow it is clear that over the long run economic forces and the geographic movement of both people and capital facilities do tend to balance the movements of supply and demand for labor. These locational shifts have resulted in a narrowing of the regional differences in income.

Over shorter periods of time there are many other factors, some of which are cyclical in nature, which affect regional differences in economic activity. Much of the observed diversity in patterns of employment and unemployment is due to regional differences in the industrial and occupational structure, the demographic characteristics of the labor force and the regional resource base. Employment in manufacturing tends to vary more over the course of a business cycle than employment in services.

Within the manufacturing sector durable goods employment tends to be more sensitive to movements in business activity than employment in nondurables. Therefore States in which manufacturing, particularly durable manufacturing and construction, are relatively important, experience relatively greater declines in employment during a downturn. States in which the more stable agricultural, service, or nondurable manufacturing industries are relatively more important are subject to smaller cyclical declines in employment.

On the other hand, employment and output increase most rapidly in manufacturing and particularly in durable manufacturing during business upturns so that employment tends to rise more rapidly in the regions with a relatively heavy concentration in those industries. As a consequence, the regional discrepancies in unemployment rates tend to decrease during periods of economic recovery as is also evident in table 2.²

The recovery from the very severe 1974-75 recession, though far from complete, has been quite widespread. Seasonally adjusted employment data are not available on a State breakdown so we cannot make comparisons over the entire recovery period. Between June 1975 and June of this year, however, the latest month for which State employment data are publicly available, employment increased in all but one of the nine census regions except for the mid-Atlantic area, which was unsubstantially affected by the approximately 70,000 cut in Federal, State, and city employment in the city of New York between June of 1975 and June of 1976.

Obviously, a finer delineation of geographic areas would reveal greater variations, but the point I would make is one generally agreed upon by economists—and supported by experience—that regions respond in a similar manner to overall movements in economic activity. The recovery in employment has tended to lag behind the national average in some of the Northeast and the North Central States—areas

¹ See table 1, p. 9.

² See table 2, p. 10.

where there is a heavy concentration of durable and capital goods industries. This is not surprising because the demand for heavy capital goods has recovered very slowly so far in the recovery. We expect capital investment to recover strongly in the period ahead and that should produce above-average employment gains in capital goods industries and in the regions in which they are concentrated.

The economic recovery has also resulted in significant and widespread reductions in unemployment. Unemployment is still far too high, but it has declined nationally and in all of the major regions of the country.³

I might say parenthetically that the decline in unemployment in the Middle Atlantic region while employment is down somewhat implies a decline in the labor force in those areas, apparently there has been some movement out of these areas.

You raised a number of questions in your invitation to appear before the subcommittee today involving the problems which regional disparities in economic conditions pose for the formulation of economic policy. Economists have been aware of these problems for some time and a fair amount of research effort has resulted. Before we begin to discuss these issues we should recognize several aspects of their work. One general conclusion has been that long-term adjustments have greatly reduced regional disparities in economic conditions within the United States. The structure and composition of economic activity within the various geographic regions of the country have become more similar. Another has been that the response of the various regions to national movements in economic activity are similar enough and the regional disparities are small enough that generalized fiscal and monetary measures are the preferred mode of dealing with macroeconomic problems.

There is some evidence, however, that the regional dispersion of unemployment rates has increased slightly in more recent years.

Some portion of this increase in dispersion is due to the generally higher unemployment rate for the country as a whole in the latter period. In our opinion, however, the structural differences in economic conditions among the various regions of the United States have clearly not increased by an order of magnitude as to suggest that macroeconomic policies are less effective tools than formerly.

The uneven geographic distribution of the increase in unemployment is a historic characteristic of recessions, as is the uneven increase in employment from the trough of a recession. With continued economic expansion, unemployment in loose labor markets, that is, those in which unemployment tends to be higher, will decline much more rapidly than in tighter markets. As we anticipate that the pattern of recovery in this recession will not be dissimilar to that of others, we do not foresee regional structural unemployment problems emerging as the national economy returns to more normal levels of labor market activity. Within regions and urban areas distressing problems will doubtless continue to exist. These structural problems can be ameliorated by policies, some of which are already in place. Under the Comprehensive Employment and Training Act funds for job training and public service employment are targeted to high unemployment areas. In addition, the President has proposed accelerated depreciation

³ See table 3, p. 12.

allowances for investments in new plant and equipment in areas of high unemployment by making it more attractive to locate job-creating facilities in such regions. Nevertheless, there is little doubt that the gains in the economy as a whole will have significant effects even in those local areas where structural problems and unemployment are most severe.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Greenspan follows:]

PREPARED STATEMENT OF HON. ALAN GREENSPAN

I am pleased to appear before this Subcommittee this morning to discuss regional differences in the economic recovery and some of the problems which such differences may pose for economic policy.

The recovery in production and employment has now been underway for about a year and a half. It has been a fairly strong recovery. From the second quarter of 1975 through the second quarter of this year, the last period for which our data are complete, production or real gross national product had risen by 7 percent. Employment, since the March 1975 recession low, has risen strongly—increasing by 3.9 million, seasonally adjusted. A record 88 million Americans are currently employed. Unemployment has declined but the decline this year has been moderated by an extraordinary increase in the labor force. Inflation has continued at a moderate pace.

As you are no doubt well aware, the rapid pace of the recovery has slowed a bit in the past several months. I do not regard this as unusual, and the most recent evidence suggests that another acceleration in the pace of the recovery is probably now getting underway. On balance, the recovery appears to be on a firm foundation. There is a singular absence of the imbalances which would normally portend a prolonged slowdown, and I am quite encouraged by the prospects for continued expansion in economic activity, rising employment and declining unemployment in the period ahead. I am sure you will wish to discuss these issues in greater detail. I mention them here as the background for our discussion this morning of regional disparities in the recovery.

The tendency for economic growth to be uneven geographically results from several factors. If the response to changing market conditions were instantaneous the movements of labor and capital facilities among geographic areas would prevent regional disparities from appearing. The only regional differences remaining would reflect the costs of moving, just as in the case for commodities, where regional price differences tend to reflect transportation differences.

Regional differences, however, do arise—largely because significant geographic movements of labor and capital facilities do not occur in short periods of time. The geographic movement of facilities tends to be quite slow because there are significant costs and time delays involved in the adjustment process. Since capital facilities cannot ordinarily be moved the adjustment process takes a different form. As plants depreciate and facilities are abandoned they may be replaced by facilities located in different geographic areas because of better overall economic conditions for the production of goods or changes in markets throughout the country. The rate at which these adjustments take place depends upon many factors including the rate of depreciation or obsolescence of existing facilities, the relative comparative advantage both of new facilities and of conditions of production in other areas, and the national growth rate. It is often more efficient to use partially obsolete facilities for a period than it is to scrap them and construct new facilities in a different area. It is rare for the regional distribution of capital facilities to change rapidly unless the national growth rate is so exceptionally large that the gross additions to facilities each year are a very large percentage of the capital stock in existence at the beginning of the year.

Movements of people between regions also tend to occur rather slowly and such migration, of course, is not unrelated to the movement of capital. The two are inextricably intertwined. Both the economic and the personal costs of migration tend to make people reluctant to leave an area in which they have resided for a long time. Population shifts from region to region occur for many reasons, some of which are economic while others involve climatic conditions or other such factors. In many instances the movement of plant and facilities will tend to pull part or sometimes all of the associated labor force with it into the geographic areas to which it is moving. Just as often, however, movement of plant facilities is due to regional differences in labor supplies and skills. The potential advantages of a desirable but not fully

utilized labor supply attracts new plants and businesses. These patterns not only exist inter-regionally but also reflect important movements into and out of inner cities to suburbs and into surrounding fringe metropolitan areas. Because it is costly to move, however, one would not expect substantial movements of people in response to cyclical fluctuations in employment, partly because many of the unemployed expect either to return to their old job or to find one nearby.

The movement of capital and labor are the result of the complex interplay of many diverse elements. Originally, for example, the steel industry in this country developed in the Middle West owing to the optimum balance of iron ore, coal supplies and closeness to the major steel markets. This attracted large numbers of people into the western Pennsylvania, Ohio and Illinois areas, partly from the farms. But soon the steel industry also began to spread into other regions with the development of new markets. With the population movements to the South and West and the growth in markets in those areas, first light manufacturing and trade developed and later heavy manufacturing.

The history of our economic development is replete with movements of industries, people and the associated economic infra-structure from one region to another, that were induced by external forces. The advent of air-conditioning, for example, clearly made industrial expansion in the hotter climates of the country more feasible just as it added to the attractiveness of these areas as places to live.

Other changes in economic and living conditions will undoubtedly cause similar locational changes in the future. The sharp increase in energy prices has rendered some portion of the capital stock less cost efficient and perhaps economically obsolete. It may also have led to regional distortions in the location of capital facilities. The gradual replacement of present facilities with more energy efficient and hence lower cost facilities may tend to accelerate the spread of new facilities in various areas of the country where energy requirements are lower.

Over time there have been very important differences in the growth in employment by region of the country. Locational shifts in capital facilities and by the labor force have been one important avenue through which a more efficient allocation of resources has been achieved. The differences in growth have generally reflected differences in regional comparative advantage, a highly mobile population and changing economic circumstances. One of the most dramatic characteristics of employment changes in the last three decades has been the narrowing of regional differences in types of employment—that is, a narrowing of regional differences by broad industrial sectors.

The extent of these shifts are suggested by the data from the Decennial Census of Population (table 1). The dramatic increase in agricultural productivity has led to a sharp movement of workers out of farming, decreasing employment by more in some areas (East-South-Central) than in others (Pacific). Manufacturing employment, on the other hand, increased in every region since 1940, but by less in the Northeast and by more in the South and West where manufacturing was relatively less important three decades ago. In general, the different regions of the country have become much more similar as the manufacturing, construction and services industries which developed initially in the Northeast and Mid West have spread throughout the country.

TABLE 1.—PERCENT INCREASE OR DECREASE IN REGIONAL EMPLOYMENT, 1940-70

	New England	Middle Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific	United States
Agriculture	-50	-57	-67	-65	-59	-84	-76	-52	-21	-67
Business and personnel service	70	73	180	82	57	107	128	249	224	85
Professional service	225	192	357	259	197	269	307	408	473	275
Mining	28	-76	-40	-42	-6	-52	61	8	-25	-31
Construction	92	60	186	104	94	139	176	206	168	119
Manufacturing	28	39	135	78	118	153	202	252	232	86
Transportation and utilities	41	37	119	42	32	78	95	101	154	67
Wholesale and retail trade	78	57	170	87	71	118	122	193	182	104
Finance, etc.	133	86	300	136	118	218	245	390	273	160
Increase in all employment	55	49	84	67	37	31	66	35	180	70
As percent of U.S. change	79	70	120	96	53	44	94	50	257

Source: Paul C. Mathis, "Long-Run Regional Employment Changes in Nine U.S. Industries," *Annals of Regional Science*, March 1975, computed from Census of Population.

The geographic movements of people and capital facilities have reduced income differentials among the various regions of the country. During the 1950's and 1960's Appalachia was a conspicuously depressed area. This arose from the decline in the demand for coal, from the mechanization of the mines and from the decline in its agriculture due to the poor quality of its farmland. The resources of the region were not easily adaptable to other industries and the personal and financial costs of moving to a different area impeded migration from the region. Such adjustments do not take place rapidly. Over time, however, out-migration from the region and the development of new industries have moved the occupational and industrial distribution of the region's work force closer to that of the country as a whole. As a result, although the unemployment rate in the Appalachian region (using work force concepts) was 8.6 percent in 1962 compared to the national rate of 5.5 percent, by 1971 it had fallen to 5.9 percent, the same as the national rate. With the increased demand for coal as a result of the oil price rise in 1973, the unemployment rate in Appalachia was about 5.6 percent in 1975, significantly lower than the national rate of 8.5 percent.

While adjustments are often slow it is clear that over the long run economic forces and the geographic movement of both people and capital facilities do tend to balance the movements of supply and demand for labor. These locational shifts have resulted in a narrowing of the regional differences in income.

Over shorter periods of time there are many other factors, some of which are cyclical in nature, which affect regional differences in economic activity. Much of the observed diversity in patterns of employment and unemployment is due to regional differences in the industrial and occupational structure, the demographic characteristics of the labor force and the regional resource base. Employment in manufacturing tends to vary more over the course of a business cycle than employment in services. Within the manufacturing sector durable goods industry employment tends to be more sensitive to movements in business activity than employment in nondurables. Therefore, states, in which manufacturing, particularly durable manufacturing and construction are relatively important, experience relatively greater declines in employment during a downturn. States in which the more stable agricultural, service, or nondurable manufacturing industries are relatively more important are subject to smaller cyclical declines in employment.

One result is that the absolute dispersion in unemployment rates among regions tends to increase in a recession as is shown in table 2. For example, from 1957 to 1958, when the unemployment rate increased from 4.3 percent to 6.8 percent the number of states with unemployment rates more than one percentage point above or below the national rate increased from 16 to 26 (of the 38 states for which comparable data are available). In the most recent recession the number of states with unemployment rates more than 1.0 percentage point above or below the national average increased from 22 in 1973 to 34 in 1974.

On the other hand, employment and output increase most rapidly in manufacturing and particularly in durable manufacturing during business upturns so that employment tends to rise more rapidly in the regions with a relatively heavy concentration in those industries. As a consequence, the regional discrepancies in unemployment rates tend to decrease during periods of economic recovery as is also evident in table 2.

TABLE 2.—DISTRIBUTION OF STATE UNEMPLOYMENT RATES¹

Year	National unemployment rate	Number of States with unemployment rates more than 1 percentage point below the national average ²	Number of States with unemployment rates within 1 percentage point of the national average ²	Number of States with unemployment rates more than 1 percentage point above the national average ²
1957.....	4.3	8	22	8
1958.....	6.8	17	12	9
1959.....	5.5	14	18	6
1960.....	5.5	13	28	10
1961.....	6.7	12	30	9
1962.....	5.5	9	32	10
1969.....	3.5	3	40	8
1970.....	4.9	8	35	8
1971.....	5.9	15	28	8
1972.....	5.6	23	19	9
1973.....	4.9	13	29	9
1974.....	5.6	20	17	14
1975.....	8.5	24	19	8

¹ Includes District of Columbia.² For 1957, 1958, and 1959 only 38 States are represented due to unavailability of comparable data for the other States. Data prior to 1970 are not fully comparable to data in later years due to a change in concepts and procedures.

The recovery from the very severe 1974-75 recession, though far from complete, has been quite widespread. Seasonally adjusted employment data are not available on a state breakdown so we cannot make comparisons over the entire recovery period. Between June 1975 and June of this year, however, (the latest month for which state employment data are available) employment increased in all but one of the nine census regions, the Mid Atlantic area. Obviously, a finer delineation of geographic areas would reveal greater variations, but the point I would make is one generally agreed upon by economists—and supported by experience—that regions respond in a similar manner to overall movements in economic activity. The recovery in employment has tended to lag behind the national average in some of the Northeast and the North Central states—areas where there is a heavy concentration of heavy durable and capital goods industries. This is not surprising because the demand for heavy capital goods has recovered very slowly so far in the recovery. We expect capital investment to recover strongly in the period ahead and that should produce above average employment gains in capital goods industries and in the regions in which they are concentrated.

The economic recovery has also resulted in significant and widespread reductions in unemployment. Unemployment is still far too high, but it has declined nationally and in all of the major regions of the country (see table 3).

TABLE 3.—UNEMPLOYMENT RATES BY REGION AND DIVISION, ANNUAL AVERAGES, 1955-76 ¹

Year	Northeast				North Central			South				West		
	United States	Total	New England	Middle Atlantic	Total	East North Central	West North Central	Total	South Atlantic	East South Central	West South Central	Total	Mountain	Pacific
1955	4.4	4.7			3.3			4.0				4.4		
1956	4.2	3.7			3.4			4.0				4.4		
1957	4.3	4.4	4.0	4.6	3.9	4.2	3.0	4.3	4.5	4.7	4.1	4.8	3.8	5.1
1958	6.8	7.3	6.4	7.5	6.8	7.8	4.1	6.4	6.7	7.3	5.3	6.8	6.3	7.0
1959	5.5	6.2	5.4	6.4	4.8	5.5	3.0	5.6	6.0	5.7	4.9	5.4	4.6	5.6
1960	5.6	6.0	4.9	6.3	4.9	5.5	3.3	5.6	6.1	5.5	5.2	6.0	5.6	6.1
1961	6.7	7.1	5.9	7.4	6.6	7.4	4.5	6.4	6.7	6.4	6.0	6.8	5.5	7.3
1962	5.6	5.9	4.4	6.4	5.1	5.7	3.6	5.5	5.6	5.7	5.3	6.0	5.0	6.3
1963	5.7	6.1	5.4	6.3	4.8	5.3	3.7	5.7	5.7	5.8	5.8	6.6	5.9	6.9
1964	5.2	5.5	5.0	5.6	4.4	4.7	3.6	5.2	5.1	5.7	5.2	6.2	5.7	6.3
1965	4.6	4.7	4.3	4.9	3.5	3.8	3.0	4.5	4.2	4.8	4.7	6.3	5.8	6.4
1966	3.9	3.9	3.3	4.2	3.0	3.2	2.6	3.8	3.6	3.9	4.1	5.2	4.8	5.3
1967	3.8	3.5	2.9	3.7	3.3	3.5	2.6	3.9	3.8	4.2	3.7	5.5	4.9	5.7
1968	3.6	3.2	2.9	3.3	3.0	3.2	2.4	3.7	3.6	4.2	3.7	4.9	4.4	5.1
1969	3.5	3.2	3.0	3.2	2.9	3.2	2.4	3.6	3.4	3.7	3.7	4.9	4.2	5.1
1970	4.9	4.6	4.8	4.5	4.5	4.9	3.4	4.6	4.1	5.2	5.2	6.9	5.7	7.2
1971	5.9	6.2	6.9	6.0	5.5	6.0	4.3	4.9	4.5	5.2	5.2	8.1	6.1	8.7
1972	5.6	6.3	6.9	6.1	5.0	5.5	3.9	4.8	4.6	4.7	5.1	7.1	5.3	7.7
1973	4.9	5.4	6.1	5.2	4.3	4.5	3.6	4.0	3.9	3.7	4.3	6.4	4.7	7.0
1974	5.6	6.2	6.6	6.0	5.2	5.7	3.9	4.8	4.9	4.5	4.8	7.1	5.4	7.6
1975	8.5	9.6	10.4	9.3	8.0	9.0	5.8	7.7	8.5	7.7	6.4	9.2	7.4	9.8
June 1975 ²	9.1	10.2	11.1	9.9	8.8	9.9	6.2	8.3	8.9	8.7	7.1	9.7	7.8	10.3
June 1976 ²	8.0	8.7	8.5	8.8	6.8	7.5	5.1	7.0	7.2	6.9	6.7	8.9	6.8	9.6
Change June 1975 to June 1976 ²	-1.1	-1.5	-2.6	-1.1	-2.0	-2.4	-1.1	-1.3	-1.7	-1.8	-4	-8	-1.0	-7

¹ Methods for computing State unemployment rates were altered in 1970, making them more comparable with the concepts used in the Current Population Survey. The data prior to 1970 are not strictly comparable with the years that follow. Due to differences in concepts and calculations the U.S. totals are not fully comparable to the regional data.

² Not seasonally adjusted.
Source: Bureau of Labor Statistics, Department of Labor.

You raised a number of questions in your invitation to appear before the Subcommittee today involving the problems which regional disparities in economic conditions pose for the formulation of economic policy. Economists have been aware of these problems for sometime and a fair amount of research effort has resulted. Before we begin to discuss these issues we should recognize several aspects of their work. One general conclusion has been that long term adjustments have greatly reduced regional disparities in economic conditions within the United States. The structure and composition of economic activity within the various geographic regions of the country have become more similar. Another has been that the response of the various regions to national movements in economic activity are similar enough and the regional disparities are small enough that generalized fiscal and monetary measures are the preferable mode of dealing with macro-economic problems.

There is some evidence, however, that the regional dispersion of unemployment rates has increased slightly in more recent years, as is suggested by the data in Table 2. During the first three years of the 1960's, for example, when the national unemployment rate averaged 5.9 percent, an average of 21 states experienced unemployment rates more than one percentage point above or below the national average. During the past three years for which we have data, when the unemployment rate averaged 6.3 percent, an average of 29 states experienced unemployment rates which were more than 1 percentage point above or below the national average. Some portion of this increase in dispersion is due to the higher unemployment rate in the latter period. In our opinion, however, the structural differences in economic conditions among the various regions of the United States have clearly not increased by an order of magnitude as to suggest that macro-economic policies are less effective tools than formerly.

The uneven geographic distribution of the increase in unemployment is an historic characteristic of recessions, as is the uneven increase in employment from the trough of a recession. With continued economic expansion, unemployment in loose labor markets will decline much more rapidly than in tighter markets. As we anticipate that the pattern of recovery in this recession will not be dissimilar to that of others, we do not foresee regional structural unemployment problems emerging as the national economy returns to more normal levels of labor market activity. Within regions and urban areas distressing problems will doubtless continue to exist. These structural problem can be ameliorated by policies, some of which are already in place. Under the comprehensive Employment and Training Act funds for job training and public service employment are targeted to high unemployment areas. In addition, the President has proposed accelerated depreciation allowances for investments in new plant and equipment in areas of high unemployment making it more attractive to locate job creating facilities in such regions. Nevertheless, there is little doubt that the gains in the economy as a whole will have significant effects even in those local areas where structural problems and unemployment are most severe.

Chairman MOORHEAD. Thank you, Mr. Greenspan.

Before I get into specific questions, let me just give you a little of the political and economic flavor of the Nation.

When I first came to Congress in the very late 1950's and early 1960's it was generally thought that the rural South was lagging behind the rest of the Nation. Without exactly a conscious policy, the Southern Representatives fought very hard for breaks for their region, whether it was in defense contracts or in the formula for education programs. At that time the Northeast and Mid-west was doing pretty well. And while we didn't exactly support their policies, we didn't fight against them. So that there was a light tilt in Federal policy toward the regions which were generally accepted to be less well off to try to bring a balance.

It seems to me, looking at this more from a political standpoint, that not just in the very recent recessions, but beginning back 10 years ago, the tilt seemed to come at an accelerating rate. I am not talking about forced shifts of private industry, but just reversing the tilt that was in favor of the rural poor of the south, but which is now the economic wonderchild of the country, the Sun Belt. And we still preserve the historic tilt. The only ones that you have cited

are the CETA program and the proposed, but not yet put into effect, accelerated depreciation program. Yet I take it that the general thrust of your testimony is that with a little patch here and there natural forces will take over, and we don't need to concern ourselves very much, either because there isn't the tilt I describe, or that it will naturally come back into balance.

Am I correct in summarizing the thrust of your testimony?

Mr. GREENSPAN. Perhaps the best thing I can do, Mr. Chairman, is to summarize it in these terms. The evidence clearly suggests that most of the specific distress experienced in areas that have lagged is very significantly affected by movements in aggregative economic activity, and therefore by aggregative fiscal and monetary policy tools. I think it is very important to emphasize that. This is not to say that there aren't differences and a need to focus on elements which are not directly impacted by macroeconomic policy.

But it is important not to lose sight of where the real improvements in the conditions of many of these areas to which you have been referring will originate.

There are unquestionably many problems which cause considerable lags in economic development. They cause depressed areas, they cause regional pockets of unemployment. And this is a phenomenon, as you are well aware, Mr. Chairman, that has existed pretty much through this Nation's history. On the other hand an extraordinary mobility has characterized this economy over the years, and in my view this has been a major factor in the extraordinary success of the American economy and the very high standards of living of the American worker.

Although we must recognize that these pockets exist, and indeed have always existed, it is important to focus on the basic problems. And in many instances they are noneconomic. They are social, cultural and very substantially educational; we should focus on them. I believe that the basic underlying proposal, for example, which President Ford introduced in his budget at the beginning of this year is actually a much more important program for solving these types of problems than most people are aware. I am disappointed that it was not acted upon.

An appropriate balance of economic policy requires us to look at all aspects of it. And I would not characterize our view as saying that all that one must look at is macroeconomic policy. But it is important to recognize that that is where most of the potential improvements will originate. A heavy focus on what we might call microstructural policies, which may appear in the very short run to be useful for the problems of particular localities in my view could make macropolicy far less efficient and this would be to everybody's loss.

Chairman MOORHEAD. In your prepared statement, you said: "The structural differences in economic conditions among the various regions of the United States have clearly not increased by an order of magnitude as to suggest that macroeconomic policies are less effective tools than formerly."

I want to assure you that at least the Chair agrees that we have got to continue the overall macroeconomic policies. But we are talking about the problem of targeting these policies or other national policies,

because if we do have a situation where in one big region of the country their major problem is inflation, and another region it is recession and unemployment. There has got to be one adjustment.

Mr. GREENSPAN. I would certainly say, Mr. Chairman, that we are quite cognizant of the fact that we are not dealing with a homogenous set of problems. Moreover, there is a good deal more to economic policy than strictly macropolicy. I raise the issue, however, because there has been a sort of shift in emphasis in recent years which somehow suggests that aggregative policy instruments and tools and their impact upon the economy overall should be downgraded. And my opinion is that view is mistaken. If we start moving in that direction, we may find that the consequences are not what we would have liked.

Chairman MOORHEAD. What I am concerned about is, as you correctly point out, that this migration of capital and population is a slow process. It seems to me we can trace back the change, which I tried to describe, in the late 1950's in the rural poor South and the prosperous North which has been going on for about 10 years. So maybe what we are facing is actually an accelerating condition which we had better try to correct with a little measure today rather than heroic measures 5 years, 10 years hence.

Mr. GREENSPAN. Mr. Chairman, we have looked at that. And, as we point out in our formal text, there is some evidence of increasing dispersion of unemployment rates regionally, which is another way of coming at the same issue. But the changes are not of a magnitude as to suggest that the problems are significantly altered from what they were, for example, 10, 15, or 20 years ago. They appear at this stage, I believe, to be substantially more. But that, I think, is largely because of the question of heavy industry and capital goods which, as you know, are significant contributors to the levels of employment in the Middle Atlantic and New England States. And it is obvious that to date this is by far the most laggard part of the economic recovery. We are only now beginning to see evidence of, for example, increased plant contracts and construction, and increased capital appropriation. This evidence suggests that the heavier elements in the capital goods market are finally beginning to move. So we have to be somewhat careful in separating the longer term problems from the cyclical problems. And I think that there is a tendency, especially now, to interpret cyclical lags, which I think is largely what is happening in the Eastern part of the country, Northeast, as representing longer term trends. That is not to say that longer term there aren't those trends. There has been a definite downtrend in the proportion of employment in the general overall sense in a number of States in the North and the East. But this has been exaggerated by the cyclical patterns that we have seen over the last year or two.

In other words, the capital goods markets, the infrastructure of industries which support it, and employment in these industries have not recovered as rapidly as has the overall economy. But, as we point out in our formal remarks, we do expect that pattern to be reversed pretty much from here on in, I would think.

Chairman MOORHEAD. Mr. Greenspan, just so that we understand each other on cyclical, I am going back roughly 10 years. And I

think you have a table that was prepared by Mr. Schlosstein of our committee which shows, for example, that in 1969 to 1975 the unemployment in New England increased 240 percent, and has never recovered. In my book that isn't what I call cyclical or a 1-year thing.

You mentioned cyclical and 1 year. In other words, we have gone through several cycles, and yes, they may be cycles, but it is not in the singular cycle, it would have to be in the plural.

Mr. GREENSPAN. I don't disagree with the general substance of your remarks, Mr. Chairman. However, I think it is important to realize that if you look at our table 3 that, for example, back in 1970 New England's unemployment rate was approximately equal to the national average. And there is no question that it is—

Chairman MOORHEAD. What year was that, sir?

Mr. GREENSPAN. 1970. New England's unemployment rate was 4.8, and the United States as a whole was 4.9. And what we see now—and these data are not seasonally adjusted, so that you have to be very careful in your interpretation—is that the gap which showed up clearly by 1975 has closed quite substantially, though not fully during the past year. There is no doubt that seasonally adjusted or otherwise, New England's unemployment rate is still above the national average. But a good deal of that gap which opened up in 1975 has closed already, and we expect it to close further. So that is not to say that we are not going to have numbers of areas of the country remaining above the national average. You have to have some above the average as well as some below. There is no way to repeal the laws of arithmetic. But I think that a good deal of the very substantial widening—and it was a very substantial widening—of just about 2 percentage points in 5 years in New England, has already closed.

Chairman MOORHEAD. I was taking a 10-year period. And it seemed to me that even if there were ups and downs the trend was such that if we projected it, even though the last 6 months have showed some improvement, that the trend shows something that is accelerating and getting worse. I can speak about New England dispassionately, not representing that particular area.

Mr. GREENSPAN. I don't think one can project that, Mr. Chairman. The extrapolation is not the best estimate by any means, and what we have seen is the tendency for it to move in a different direction.

Your numbers seem to be pretty much the same as ours. Fortunately we do not have a difference of numbers.

Chairman MOORHEAD. That is good.

Mr. GREENSPAN. But I don't want to say that there are no problems. That is nonsense. There obviously are. But it is important, if you are going to address a problem to recognize it for what it is. A solution for a problem that doesn't exist is not going to cure the problem that does. And we do have problems, and incidentally I wouldn't discuss them only in terms of the unemployment rate. There is a tendency on our part to measure economic well-being by relative changes in unemployment rates even though there are many problems, frankly, which are hidden by this approach. But from what we see, we would not extrapolate the dramatic rise in unemployment which occurred in New England. This may have resulted from a number of factors, such as the differential rise in the cost of energy, which

unfortunately affected the east coast specifically with the sharp rise in imported oil prices in 1973-74. So all I can say is that we are looking at these regional and urban patterns directly and indirectly all the time. And I think that we must differentiate the types of problems which are fundamentally longer term from those which are cyclical. Although I certainly do not find the tendency in your remarks, Mr. Chairman. I sense in many of the commentaries on the subject a failure to distinguish between cyclical and longer term forces.

Chairman MOORHEAD. You said one thing that surprises me, Mr. Greenspan, and that is, you are going to keep watching this, because it may be just that you are wrong, that this trend is extrapolating and we had better move while we can. But if I know that the Council of Economic Advisers is looking at it I will sleep better at night.

Congressman ROUSSELOT.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Mr. Greenspan, I appreciate your remarks—and it is very natural for us to spend an awful lot of time in Congress looking at unemployment figures or percentages and sometimes fail to look at the increase in the number of people now being employed, which is now moving nationally at 88 million. And the same thing happens, say, in California and the Pacific area, even though unemployment rises, employment also goes up, which shows that the marketplace is in fact accommodating a tremendous number of new people coming on stream in jobs. Therefore sometimes with all the attention just on the unemployment figure, we don't look at the other economic factors that are improving, like the number of new jobs the economy is providing, the steadying out of food prices and other factors which clearly relate to the ability of people to cope with the problem of inflation that is constantly with us.

So I appreciate your helping us to remember that there are other figures to look at beside just unemployment, although that is a problem that all of us as individual Members have to be conscious of in our own district.

Is it possible that part of the regional impact of increases in unemployment might also be attributable to antagonistic local government policies, such as increases in taxes, increases in welfare payments, and other policies that drive up the cost of government, and increases in government services? In Los Angeles, Calif., right now, an increase to 21 percent over the next 3 years in wages is being demanded by transportation workers when our own State agencies has only recommended a 16-percent increase for 3 years. They arbitrarily say, however, that no, "we will not go back to work without the 21-percent increase." Don't these kinds of local government increases in taxes, increases in wages paid to government workers, like the whole New York City impact on the New England situation, driving businesses to other parts of the country, because obviously they cannot operate in a better environment—isn't that part of the regional problem?

Mr. GREENSPAN. There is no question that economic forces basically are among the most fundamental elements determining regional movements of capital and labor. Fortunately we have in a sense a common market in the United States so that there are few barriers to the movement of goods, services and people across State boundaries. The

different economic forces include such things as differential taxes that you point out. One often finds that different regions of the country are in a sense competing.

Representative ROUSSELOT. For those industries?

Mr. GREENSPAN. Yes. And it is typical to see various States advertising the characteristics of the particular State as a location.

Representative ROUSSELOT. So the competition among regions and States for those jobs, those people, though productive facilities does occur?

Mr. GREENSPAN. Yes. However, you can very easily exaggerate the impact of these forces. While there are differential taxes and differential policies in numbers of regions which do have effect, the effect tends to be overexaggerated largely because those factors are very visible. But if you look at less visible factors such as where population is moving, the costs of transportation, the costs of production, including energy changes in different areas, you will find that they tend to be more important factors. I am sure you would find that most businesses took all of those elements into consideration as they should.

Representative ROUSSELOT. There is the case, for instance, of corporate headquarters moving from New York City to Connecticut to upstate New York, to California. They clearly stated that part of their consideration was a more favorable environment as it related to taxes, et cetera.

Mr. GREENSPAN. You also have to realize that many of the moves have economic reasons which may not be stated explicitly.

Representative ROUSSELOT. Right.

Mr. GREENSPAN. And that you have got to be careful in taking the reasons people say they have for doing what they are doing literally.

I think there are a large number of elements which determine the movement or the direction of facilities by individual companies. And I would certainly say that if we ever start to fully list them we would be here for the next 2 hours discussing just that.

Representative ROUSSELOT. I appreciate your comment. We have been led to believe, though, that local governments and their policies can in fact influence regional economics. The so-called great migration of the New England textile industry to the South clearly, or at least partially, was stimulated by local government policies, at least the people moving said it did, higher taxes, unreasonable union demands, right-to-work laws in the South, et cetera.

Mr. GREENSPAN. I am not saying they are irrelevant, Mr. Roussetot. I am sure that they are relevant. It is just that perhaps as an economist I tend to be somewhat skeptical as to statements of why people are moving when I know that there are other stronger economic forces operating which tend to galvanize things of that sort.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Chairman MOORHEAD. Congressman Brown.

Representative BROWN of Michigan. Thank you, Mr. Chairman.

And it is nice to have you with us today, Mr. Greenspan.

Following on the colloquy that Congressman Roussetot had with you, you said that we should not put too much emphasis on these things that are quite visible. To recap, what would be your listing

of considerations, and in what order? The market certainly is a factor, labor force, et cetera. What would you consider to be the most significant factors that cause the mobility of jobs and employment?

Mr. GREENSPAN. First you have to distinguish between business moving to where people are and people moving to where jobs are. And these are actually intertwined and continuously interacting, so that you cannot say one is the cause of the other, but they tend to work in a general way.

So far as business is concerned, it depends to a substantial extent on what type of business you are in. In many instances where you are delivering, for example, bulk products, in which the costs of transportation of your finished goods is very important, the economics tend to force you to put your facilities fairly close to your markets. For example, cement manufacturers is a typical case. The cost of transportation of cement is extremely high, and as a consequence, if you are not regionally located appropriately to where in fact the market is, you will be in an uneconomic situation.

On the other hand, where the cost of transportation of the finished product is relatively low, relative, say, to the price—it may be transistors, or electronic equipment comes to mind—the tendency is to seek those areas where conditions of production or personnel would be most adequate. And this is one of the reasons we have often seen a good deal of electronic industries move into the Southwest and the West where the climatic differences are quite favorable, and the attraction of skilled workers is very strong.

So that the first issue is basically that question of transportation. And I would say that probably is the major difference so far as plant location is concerned.

Remember, manufacturing is only a relatively small part of the country's production. And therefore a very substantial part of the remainder—and that would include construction, retail and wholesale trade, services and the like—would tend to be very largely concentrated where the markets are almost by definition. And in that sense you are looking at a good deal of the movement merely following in this case the general population movement to the South and the West. In this case business would be following the market directly.

So the real key is the type of industry and the type of economic elements important to that industry which determine where it is going to be.

Representative BROWN of Michigan. I think in your statement you said that it is desirable to have in effect temporary cyclical assistance.

Mr. GREENSPAN. Yes.

Representative BROWN of Michigan. That brings me to a statement of the chairman this morning—and if I may be the devil's advocate, Mr. Chairman—you said: "To the extent that Federal policies have contributed to the economic problems of these regions, those policies should be corrected." And I totally concur with you. I just think it is unfortunate that when we had my jobs bill up in the conference that you didn't lend me a vote, because that was pure countercyclical, the money went where the unemployment was. But for some reason you and your colleagues on the majority side didn't see fit to support this purely countercyclical measure.

And you are going to have an opportunity this afternoon to help one of those regions hit by unemployment when the Clean Air bill comes up. And I assume that you will follow your statement and give us some support.

Chairman MOORHEAD. I have always considered you an ardent advocate for what is good for Michigan.

Representative BROWN of Michigan. I have no further questions, Mr. Chairman.

Thanks again, Mr. Greenspan.

I would like to point out one thing, and that is, in talking about macroeconomics, and sitting on the JEC as I have and hearing Mr. Shiskin when he comes in once a month, I know that we now have the highest percentage of our population included in for employment figures in the labor force, 61.9 percent. And we have the highest number of absolute jobs that we ever had historically, 88 million. Within the last month we had the greatest increase in manufacturing jobs that we have had for a long time. In fact manufacturing jobs had really stayed about the April level right along and then jumped up substantially in August, and when you get manufacturing jobs you are looking at a job that has more of a ripple effect than a job in the service sector.

So I think we have every reason to be optimistic. We have had come into the labor force already this year better than four-fifths of the number that have come into the labor force in any 12 months historically. So therefore we should expect that the labor force increases won't be as great in the remaining 4 months, unless there is a historic abnormality. And if you continue to provide jobs as you have in the first 8 months, we can expect less unemployment.

Unfortunately we will only have one more report before November 2.

Chairman MOORHEAD. We tried to keep this under regional problems, because I think we can isolate more of the policies from the economic.

But, Mr. Greenspan, when I was last interrogating you the question came up of whether this is really cyclical or structural. You were advocating, I think, that this is a cyclical problem, and that the Congress should look at it in that way. I would like to ask you to look at your table No. 3. If we take the columns "United States" and "Northeast" and the subheading "New England," in 1960 the unemployment rate for the United States was 5.7, but New England was below it at 4.9.

Now, if you jump down after the 1970 recession, in 1971, 1972, 1973, 1974, 1975, including June of 1975, in each one of those years the New England unemployment figure was higher than the national level. This has been a change which suggests to me something more than cyclical, that it is a longer term phenomenon rather than a cyclical one.

Mr. GREENSPAN. Well, Mr. Chairman, table 3 of my prepared statement shows the decline in the unemployment rate in absolute terms in New England from June 1975 to June 1976 is the largest of any region in the country. And just using the particular region groups that we have, observe that in June of last year New England had 11.1 percent, which was by far the highest rate of any major census region in the country.

However, by June of this year it had fallen quite significantly, and while still obviously above the national average, it is nonetheless by no means the highest rate, in fact it has fallen more than a percentage point more than on the Pacific coast.

Chairman MOORHEAD. I agree. You are saying—and this is where maybe we can reach an agreement—that the New England recovery is cyclical. I am saying that the long-term decline is more structural. It is still worse than the national average, but cyclically it is not as bad as it was a year ago.

Mr. GREENSPAN. In a sense, Mr. Chairman, I am saying that the New England unemployment rate has been above the national average. It was very significantly above the national average during the 1975 period, and it was unquestionably the region most severely hit so far as the broad regions are concerned during the recession.

Chairman MOORHEAD. The recession beginning in 1970?

Mr. GREENSPAN. I am sorry, in late 1974.

Now, it is not that the growth in New England is lagging; that has changed. But the evidence that that trend will continue to worsen is by no means clear. I think what we will find is that when the 1976 data are in on the unemployment figures, that a significant improvement will have been shown in this region.

But I reemphasize, I am not saying that there are not different trends and different problems in New England and in other areas of the economy. That has been the nature of American economic history since its beginning. Appalachia, as you know, was a very severely depressed region for a number of years in the not-too-distant past. And for basic economic reasons, it has made a major recovery. I think that is much too easy to write off areas of the country as being basically incapable of restoring the economic health that they have had in the past. Clearly the historic evidence is that, given the freedom of the market, and given the mobility of capital and labor, and given the different incentives that exist, the capacity of many of the regions which have been lagging in the recent past to show very substantial growth is more than we expect. So I would by no means agree that New England, for example—which was one of the areas in which this country began its major economic growth—should be described as having reached a point of stagnation. I would doubt that myself.

Chairman MOORHEAD. We do know that there are certain countries—England and France come to mind—where they have absolute requirements that you obtain permission to set up a plant, and you have got to locate in the north of England or outside of Paris in France, and so forth. I am not suggesting that kind of thing. But I am suggesting that even if it is only cyclical, which by my definition, going back to 1970, would be a pretty long cycle, that we can adopt Federal policies to at least dampen the swing in these towns and regions, because there is human suffering involved. If I owned a home in a New England town that was on the downside of a cycle, even though I knew I could get a job in Arizona, or I thought I could get one, I would be reluctant to abandon the home that I either owned or had a large equity in to move to the uncertainty of a new community. So that it seems to me that there are policies such as concentrating Federal expenditures, Federal procurement, in areas

of high unemployment to soften the suffering. Sure, we have defense manpower policy No. 4. But I think we would all agree that over the years it has not been really enforced. The Military go where they want to go, and give only lip service to the requirement that they give consideration to procurement in areas of high unemployment. Shouldn't we be really pushing this kind of a policy to dampen these swings, these regional swings?

Mr. GREENSPAN. I wouldn't want to comment on your evaluation of the Defense Department's policies, because my familiarity with them is a good deal less than yours. But there are quite significant limits on what one can do in this particular area. One, the procurement process that goes on within the Federal Government is always confronted with the optimum way to maintain efficiency in Government operations, in Government procurement, and the expenditure of taxpayers dollars? Clearly the implication of trying to shift procurement to areas other than those which would be optimum from strictly a budget and a management efficiency point of view by definition means it is going to cost more, or it is going to some how increase taxes one way or another. So it is not a free goods, so to speak. One is very clearly confronted with the situation where it usually does make a difference where you send procurement, one way or another, so far as costs are concerned.

Representative ROUSSELOT. Would the gentleman yield.

Chairman MOORHEAD. Certainly.

Representative ROUSSELOT. Also, hasn't Congress placed constraints on the Defense Department procurement procedure, that it be on the basis of competence and cost? And it may be that in a high employment area producers of those goods for the Defense Department don't necessarily meet those other criteria. Senator Proxmire has raised hell about that.

Mr. GREENSPAN. Mr. Rousselot, I am not familiar with the very complex procedures in the Defense Department procurement—I should say I am quite familiar with them, but not sufficiently familiar to be able to interpret them with any degree or sense of understanding.

Representative ROUSSELOT. But the Defense Department just can't look monthly at the charts and see where the unemployment is and say suddenly, we will shift our procurement there.

Mr. GREENSPAN. That is the point I want to get at there. In most of those things these are very long leadtimes. As you well know, there are very long lags in the appropriation and contract letting processes. And the time response of the impact of various differential policies is usually quite long. And while I wouldn't say it necessarily corresponds with our experience with public works, it has a lot of those characteristics. And as a consequence of that, the statement that, well, let's do it, presupposes that it can be done. The actual amount of procurement which can be moved expeditiously regionally is really in my view quite small.

Representative BROWN of Michigan. Would the gentleman yield?

Chairman MOORHEAD. Yes.

Representative BROWN of Michigan. Doesn't our economy adjust anyway? For instance, I know that the aerospace industry, when it ran into some problems, started diversifying somewhat. We find that the automobile industry in Michigan, with great emphasis on

public transportation, has attempted to get into the bus and railcar business in effect to take care of these peaks and valleys of their industry. And there is particular emphasis on production. You either let the markets do that, or the people that are making business decisions do it.

It seems to me that it is a much better system than having the Government decide—as I was jokingly saying, it is pretty hard to transfer a language contract to the aerospace industry.

Mr. GREENSPAN. Remember that the Defense Department is our major dispenser of contracts for large amounts of equipment. And the particular guidelines which they try to function under often times are at least on the margin contradictory. And there is a notion, which I think we all agree to, that we ought to get the most efficient contracting possible. But when you get down to the particular guidelines and the restrictions and the nature of the problems, I may say that I personally have a great deal of sympathy for the people who have to make those decisions. They are not easy to make.

Representative BROWN of Michigan. Even within the Industry—remember, Mr. Chairman, under the Lockheed guaranteed proposal, one of the arguments for it was that Lockheed should be better diversified within their own industry. So it is not just a matter of different products, but knowing where your market is, and getting your market more diversified, and not dependent upon the military.

Chairman MOORHEAD: I merely suggest that the Military direct procurement into high unemployment areas, as well as for small business. This has worked remarkably well for small business, because there seems to be some real desire to push that, whereas there doesn't seem to be any push for high unemployment areas. I am sure that in either case the decisions are difficult. Nevertheless, we should try to utilize overall Government spending to avoid a situation where we might have to have requirements that superseded good private judgment.

The other part about private judgment is that I don't know whether they take into account what I talked about earlier, the public infrastructure; the sewers, the water, the mass transit, and so forth. The expansion has been phenomenal, for example, in Arizona, which has led to extremely difficult water problems involving other States. I believe it has in your State, Congressman Rousselot.

Representative ROUSSELOT. Yes; they are upstream from us on the Colorado River.

Chairman MOORHEAD. So that I think that if you look at the totality of devoting our resources both public and private, I am not sure that the national policy shouldn't tilt in favor of the areas that are already built up and which won't create these new problems. Specifically I refer to the social problems of the people who either don't want to risk the move, or the people who really can't afford to make that move to the job area. And what I think I want to ask you is, can the Council of Economic Advisers consider, when public decisions are being made, whether and to what effect they would have regional economic impact that would be less than the most desirable.

Mr. GREENSPAN. I certainly say, Mr. Chairman, that any time we review generalized policies, the issue of its differentiation impact throughout the economy not only by region but by industry and by various other characteristics of our economics is almost surely evaluated. Perhaps not formally in an immediate way, but I think as economists the so-called micro impact of various policies are always in the back of our mind.

Chairman MOORHEAD. Finally, we have the problem which I mentioned, that there are disparities within regions. I think that the proposal on the accelerated depreciation allowance, as I understand it, would not address this problem adequately.

I think that Congressman Rousselot mentioned a plant moving from New York City to some place in Connecticut. That plant, as long as it's within the New York economic region, would be entitled to accelerated depreciation. And yet that isn't, I don't think, what we are really aiming at. We are aiming at those regions and those areas within regions where there is real need. I wonder if we can target that accelerated depreciation proposal more narrowly than it has been described to me.

Mr. GREENSPAN. Apparently we already have implicitly—let my colleague, Barry Chiswick respond to that.

Chairman MOORHEAD. Proceed, Mr. Chiswick.

Mr. CHISWICK. The regions that would be involved in this proposal are small regions. They are not the nine census regions. So that if within a particular census region one locality had a very high unemployment rate, but another locality further away had a low unemployment rate, the low unemployment rate areas would not be eligible for these depreciation funds. But the high unemployment small area, even in a broad region which has a low rate of unemployment, would be eligible. So the program is targeted in the direction that you are suggesting.

Representative BROWN of Michigan. Do you do it as SMSA's, or what?

Mr. CHISWICK. They are in many ways comparable to SMSA's. But the problem with SMSA's is that a lot of the country is not in them. The areas outside of SMSA's are called CETA regions that are used for this purpose, as the Comprehensive Employment and Training Act has defined regions.

Representative ROUSSELOT. The economic areas as set up by CETA.

Mr. CHISWICK. Yes.

Representative BROWN of Michigan. In this region discussion we are constantly being reminded that the Northeast, the upper Midwest, and the State of Michigan in particular, doesn't begin to get back in the way of Federal expenditures the percentage of dollars that other areas get. Has there been any study by the Council as to the wherefores and whereases of that?

Mr. GREENSPAN. You mean the distinction between Federal taxes and—

Representative BROWN of Michigan. And revenues returned.

Mr. GREENSPAN. No; we haven't. The Treasury Department has. It is obvious that this is a much more difficult calculation than most people realize, because you have to distinguish the question of source of taxes, places where taxes are paid, and places where taxable income

is created. For example, the obvious example is New York City, where corporate headquarters create very substantial payments of corporate taxes. The actual taxable earnings from which the taxes come are really diffused throughout the country, and indeed throughout the world. So it is not a simple study to make that particular judgment. We ourselves have not endeavored to do so. But I would presume that there are other agencies of Government which have those data in far greater detail than we would.

Representative BROWN of Michigan. I can see that what you are saying would be applicable to some time in the past when, for instance, excise taxes on automobiles were probably all credited as taxes raised to Michigan, when actually the taxable products probably went all over the country. But since excise taxes have been eliminated pretty much, that is no longer a reason for saying that the figures that come out of a State like Michigan for revenue raised in Michigan and sent to Washington, are not accurately reflecting where the taxable subject was produced.

Mr. GREENSPAN. I am not saying that they are not relevant. Of course they are, Congressman Brown. I am saying that to get the appropriate calculation it is important also to try to differentiate where the taxes were earned, if I may use a phrase which is not exactly accurate. For example, you have, say, corporate pretax income earned in an auto assembly facility in California. The actual tax paid against that earnings is paid out of corporate headquarters. The regular figures that we report by IRS regions don't make this adjustment, and for certain purposes one should and for certain purposes one shouldn't. For example, it depends upon what use or purpose one would want to make out of the data themselves.

Representative BROWN of Michigan. Thank you.

Chairman MOORHEAD. Congressman Roussetot.

Representative ROUSSELOT. Mr. Greenspan, in your testimony, as the others have indicated, you have discussed the desirability of accelerated depreciation allowances for investment as a method of improvement in Federal policies relating to employment. Has your Council had a chance to review the Kemp bill which is cosigned and supported by roughly 135 of us, and is very much related to this subject?

Mr. GREENSPAN. We as well as other agencies have looked at that among a number of other similar types of legislation. We did an analysis and report of our findings to the President.

Representative ROUSSELOT. Have you made those findings public?

Mr. GREENSPAN. We have not.

Representative ROUSSELOT. Do you intend to?

Mr. GREENSPAN. If the President chooses to, that is at his discretion.

Representative ROUSSELOT. Because in a meeting with the President, 4 weeks ago he said he still hadn't had adequate input. And that was as of 4 weeks ago. This bill has been in the hopper for better than 6 months. I just wonder how soon we might reasonably expect some kind of response as to what portion of it has merit and what portions don't?

Mr. GREENSPAN. Of course, we are not the only agency involved.

Representative ROUSSELOT. I understand. There are others.

Mr. GREENSPAN. On issues such as this our function is to act as advisor to the President. And as you know, it is conventional for us not to make public internal presentations to the President. So really there is nothing more I can say on the question without violating that rule.

Representative ROUSSELOT. When were your comments on it submitted to the President, roughly?

Mr. GREENSPAN. Frankly, I do not recall. It was a while back.

Representative ROUSSELOT. More than 2 months ago, roughly?

Mr. GREENSPAN. Let me say that the discussions of related issues have come up all the time. And as you know, there have been many amendments to that particular bill as well. So that in that sense, without going back and looking at my records I couldn't give you a specific history of just when and what.

Representative ROUSSELOT. Do you think that the high levels of unemployment in many of these impacted areas that are shown here would be helped by an increase in the minimum wage mandated by the Federal Government?

Mr. GREENSPAN. I think if you ask an economist about the minimum wage you will tend to get an answer which will differ from that of most other people and the population's view of that. We are not great fans of increasing the minimum wage.

Representative ROUSSELOT. We are not running a popularity contest here today. I just wonder what your judgment was, since we have you here on this subject, and especially relating to the problems of unemployment, if this Congress were to pass an increase in the minimum wage mandated by the Federal Government; would it improve the unemployment picture in these regions?

Mr. GREENSPAN. In my view; no.

Representative ROUSSELOT. Why?

Mr. GREENSPAN. Largely because of evidence that economists have developed over the years. It has been the fairly general consensus of the profession that a minimum does not increase but tends to decrease employment opportunities for certain elements of the population.

Representative ROUSSELOT. What would be the impact on so-called youth employment? As you know that was one of the areas of unemployment that clearly went up last month. What would be the impact on that group if the minimum wage were to be increased?

Mr. GREENSPAN. There have been a number of discussions and analyses on this issue. There are differences of opinion on the impact among the various economic advisory groups in this administration, both in terms of the impact on teenage unemployment and on adult unemployment. And I would not say that there was a consensus on this question. If one reads the economic literature he will find that economists generally but not always come down on the side that the minimum wage has had some negative effect on teenage unemployment. What its other effects are, or what the impact would be if it were changed, is a different question and only one of numerous considerations in national economic policy. I don't want to imply that somehow this administration is about to come forth with a suggested change in this policy. I know of no such suggested changes that are about to emerge.

Representative ROUSSELOT. What is your judgment as to what it will do to teenage unemployment?

Mr. GREENSPAN. I have already said.

Representative ROUSSELOT. You kept mentioning the consensus.

Mr. GREENSPAN. I agree with other economists on this point, I find their evidence rather compelling.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Chairman MOORHEAD. Thank you very much, Mr. Greenspan. I hope that you are right, that this is merely a cyclical phenomenon, and that we will proceed as much as possible on a national front with recovery rather than these regional ups and downs. I am frankly not as optimistic as you are. So I hope that at least the Council will keep an eye on the other side just to be sure that you are right, and that the Federal Government can preserve a more or less neutral position on it. I personally believe that it is more structural, and that the Federal Government can take at least a neutral position. I think the Government can ease out some of the hardships and make adjustments which in the long run will be less expensive to our resources.

But whichever way it turns out, I certainly do appreciate your taking the time to come up here and help to educate the subcommittee. Thank you very much.

Mr. GREENSPAN. Thank you, Mr. Chairman.

Chairman MOORHEAD. The subcommittee stands adjourned, subject to the call of the Chair.

[Whereupon, at 11:30 a.m., the subcommittee adjourned, subject to the call of the Chair.

