

Chapter 2

Experience Under the Employment Act of 1946

THE REVIEW of developments in our economy is extended in this chapter to the whole period covered by the Employment Act, and particularly to the interval spanned by this Administration. In this connection, it is appropriate to recall the background and meaning of the Employment Act, and to point to some of the lessons that may be drawn from experience in administering it.

BACKGROUND AND MEANING OF THE EMPLOYMENT ACT

From its beginning, the United States economy has been organized on the basis of maximum opportunity for private competitive enterprise and the widest possible latitude for personal choice in making a living and spending one's income. Any narrowing of the horizons for individual initiative is alien to the nature of our enterprise system; and when controls and unusual restrictions on personal action have had to be introduced during an emergency, their abandonment at the end of the temporary period of crisis has been awaited impatiently.

In this tradition, the Nation approached cautiously the problem of Federal intervention respecting employment and the maintenance of economic activity generally. Appeals for such intervention were resisted, for example, during the sharp economic downturn in 1921, when occasional depressions were still regarded as inevitable and the belief that they could be significantly moderated through governmental action had not taken hold. But a step taken that year was important for later developments: the President's Conference on Unemployment was established to make studies that would increase understanding of the operation of our economy and thus help to avoid the recurrence of widespread joblessness. The work of this Conference, which made its final report only shortly before the Great Depression began, was reflected in the Employment Stabilization Act of 1931, which sought to provide for "advance planning and regulated construction of public works, for the stabilization of industry, and for aiding in the prevention of unemployment during periods of business depression."

Despite a series of countermeasures, the heavy unemployment of the 1930's persisted until the tremendous increase in production required in World War II and the service of 11½ million persons in the Armed Forces reduced it to a minimum and created even a degree of overemployment. With the

turn in the tide of war, however, memory of deep depression in the 1930's and the expected demobilization of the Armed Forces heightened concern for the Nation's economic future and aroused a keen interest in measures to help avoid the widespread unemployment that it was feared would result from demobilization and reduced spending on arms.

It was in this atmosphere of concern that the Congress turned its attention to legislative measures to cope with unemployment, should it emerge as a serious postwar problem. Congressional staff committees made comprehensive studies of the incidence and duration of unemployment and of possible methods for dealing with it. Extensive hearings were held, and a bill, the Full Employment Act of 1945, was introduced in Congress, providing for a considerably broader attack on unemployment than the public works program envisioned in the Employment Stabilization Act of 1931. The bill failed of enactment, but subsequently a revised version, the Employment Act of 1946, was passed overwhelmingly with bipartisan support in both houses of the Congress.

At the time it was approved, the Employment Act represented a major extension of our traditional concept of shared private and public responsibility for the Nation's economic growth and improvement. It gave explicit expression to a continuing interest on the part of the Federal Government in aspects of economic life that, outside the sphere of monetary policy, had previously received deliberate Federal attention only in such emergency conditions as depression and war.

It is useful to recall the language of the Act's declaration of policy: "The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

Thus, the Employment Act states that it shall be the policy of the Federal Government to promote conditions under which there will be afforded employment opportunities by methods that are consistent with the traditional American philosophy of individual freedom and competitive enterprise. Although the Act enlarges the area of explicit Federal concern to include the quality of our current and expected economic accomplishment, it does so without diminishing the scope of private, State, and local responsibility. Far from seeking to centralize economic decision-making in the Federal Government, or even to confer predominant respon-

sibility for economic growth and improvement on the Federal Government, the law explicitly acknowledges the multiple sources of economic strength in private individuals and groups and at the several levels of government. The theme of the Act is captured in a phrase used in the Economic Report of 1960 and in the present one: "shared responsibility for economic growth and improvement." This principle, manifest in our economic life as in other aspects of the American way, has carried us to the highest material well-being ever achieved, without hobbling the human spirit and without impairing our political freedoms.

The framers of the Act proposed high standards of economic achievement. They wisely omitted, however, any requirement that economic goals be publicly stated as fixed quantitative targets, although this fact gives no ground for indifference to failure to attain the best levels of production, employment, and income that are feasible and sustainable for any period. Such a requirement could invite broad, irreversible intervention by the Federal Government if the projected targets were not reached. The Act instead contemplates a framework in which the mainsprings of private individual initiative continue to function in behalf of brisk economic activity, and in which the individual retains a wide freedom of choice. In our economic system, the level of achievement is everyone's responsibility and cannot be guaranteed by the Federal Government acting alone.

It should be noted, also, that the Act states that the Nation's economic objectives should be pursued with due regard to other Federal objectives and obligations, which must include a stable currency and protection of the value of the dollar. The goals of economic policy, furthermore, are not ranked. They have to be pursued coordinately; emphasis on one to the neglect of others would soon prove self-defeating.

ADJUSTMENT FROM WARTIME TO PEACETIME ECONOMY

When the Employment Act was passed in 1946, our economy was making the extensive readjustments required of a Nation in transition from war to peace. A year earlier, economic resources were still extensively committed to war and defense. Of the Nation's total output of about \$215 billion, expressed in current values, roughly one-third was for military purposes; and 11½ million Americans, nearly one out of every twelve in our population, were in the Armed Forces. Within a year's time, the proportion of our national output devoted to defense had been cut to less than 10 percent, and 8 million men and women had been demobilized.

Although this sweeping readjustment was not made without difficulty, it was completed with but a small rise in unemployment and with a relatively small drop in the Nation's output of goods and services. Sharp increases in the production of consumer goods and services, a quadrupling of the rate of expenditures on home building, and a great surge of investment by businessmen in new productive capacity and in the rebuilding of depleted inventories came close to offsetting the large cutback in defense

output. The year 1946, in which the Employment Act was passed, marks the beginning, therefore, of a period in which the central economic problem has been that of sustaining stable, inflation-free economic growth despite still large defense and defense-related burdens. It is, for this reason, a good starting point from which to review the performance of our economy against the standards implicit in the Employment Act.

EXPANSION OF NATIONAL OUTPUT

The postwar years have witnessed an enormous expansion of the Nation's annual output. Measured in current prices, the value of goods and services produced—gross national product—expanded from \$234 billion in 1947 to more than \$500 billion in 1960. After adjustment of these values to eliminate the effect of price rises, which were persistent and substantial during most of this period, it is seen that output rose by nearly 60 percent, or at an average rate of approximately $3\frac{1}{2}$ percent a year. By this broad measure, our economy's rate of expansion in the period of the Employment Act has exceeded by a significant degree the rate of growth from the beginning of this century to World War II.

All major components of output expanded at a high rate. Business fixed investment, which is largely for constructing and equipping new or improved productive facilities, increased rapidly as wartime deferrals were made up and extensive modernization programs were carried out. Nearly \$650 billion (in 1960 prices) was invested for these purposes in the 1946–60 period, equaling, in real terms, almost three times the investment of the previous 15 years. The output of consumption goods and services rose more than 50 percent. Home construction increased at a rate of about 7 percent per year; almost 20 million dwelling units were completed, a number equal to about half the supply of homes available when the war ended. By the end of the 15-year period, the housing shortage which had been so acute when war ended had been eliminated, and—what is especially important for the vitality and strength of our free institutions—some 60 percent of all dwelling units are now occupied by home owners.

Total purchases of goods and services for use by or through government also increased markedly. Federal, State, and local government purchases, as a total, almost tripled between 1946 and 1960; currently, they comprise almost one-fifth of the Nation's total output. In the years since 1952, State and local expenditures for education have more than doubled; and those for public health and sanitation, for highway construction, and for general government purposes have increased almost as rapidly.

Although the amount of the Nation's total output of goods and services that was directed to defense purposes remained high throughout the 15-year period, and especially after 1950, the proportion in 1960 was lower than in 1952; reflecting this, the output of goods and services for civilian use increased at a higher rate than total output. Thus, while total output increased from 1952 to 1960 by close to 25 percent, or at a rate of 2.7

percent per year, the use of goods and services for consumption, which includes private expenditures on education and medical care as well as all other consumer purchases, rose about 30 percent, or 3.6 percent a year. Expenditures on residential construction rose more than 40 percent, or 4.4 percent a year. Purchases of goods and services by State and local governments, through which community needs that cannot be met by private effort are traditionally satisfied, rose nearly 60 percent, or 5.9 percent a year, more rapidly than any other single major component of national output.

GROWTH OF RESOURCES FOR PRODUCTION

This impressive expansion of output illustrates the high and rising productive capability of our enterprise economy. Whether comparable or superior gains in real output occur in the future will depend in good part on the extent to which the resource base of our economy is maintained and strengthened through balanced growth. Therefore, it is a good augury for the future that significant increases and improvements in the quality of our productive resources have been registered in recent years.

First, our total labor force has increased at a rapid rate, substantially above what was expected when the Employment Act was passed; increases since 1946 have averaged about 850,000 a year. And there has been a marked improvement in the educational background and training of the labor force. In 1940, about 30 percent of the labor force 18 to 64 years of age had graduated from high school and 5 percent were college graduates; in 1959, the respective proportions were more than 50 percent and 10 percent. And in the age group 18 to 34, the representation of high school graduates rose during this period from 40 percent to 60 percent, and of college graduates from 5 percent to 10 percent. Since 1952, increases in school enrollments and in the numbers receiving college degrees have been especially large. The proportion of all persons 5 to 34 years of age enrolled in school rose from 47 percent in 1952 to 56 percent in 1960. As would be expected, educational enrollment increases were most rapid in the older age groups, reflecting the national trend toward wider participation in college and postgraduate studies. Also important has been the increasingly frequent establishment of on-the-job education and training programs by business firms, private trade schools, and labor organizations.

Second, as mentioned above, the Nation's stock of capital has been enlarged by substantial annual investments in new plant and in new machinery and equipment. As a result, the productive capacity of our economy has been greatly increased. This was especially true in the years immediately after World War II, when deficiencies that had developed during the war were made up, but the rate of increase has been high also in the past eight years. Increases since World War II in the capacity for producing steel, refining petroleum, and manufacturing paper range from 60 to 80 percent, and in other industries, such as aluminum, the growth

has been even more rapid. The capacity of our transportation system has likewise been greatly expanded.

Third, the Nation's intangible capital has been greatly augmented through heightened activity in research and development. Total expenditures for these purposes can be estimated only very roughly, but they are placed at about \$13.5 billion a year at the present time, having risen sharply from about \$1.8 billion in 1946. Even though somewhat more than one-half of this cost is Government financed and much of it is oriented toward military purposes, the benefits to private industry and to civilian objectives are real, persistent, and large.

Such increases in the Nation's stock of tangible and intangible capital, together with the improved skills of our working people and improved methods of business management, have been reflected in substantial improvements in productivity. Although there is no clear evidence that the rate of this improvement has accelerated in the years since 1946, it appears to have been higher, on the average, since the end of World War I than in the 30 years prior to 1919. The volume of output per man-hour of labor performed, one measure of productivity, continues on an upward trend, though year-to-year changes remain irregular and occasionally are downward.

STRENGTHENING OF OUR ENTERPRISE SYSTEM

The continuing vigor of the competitive enterprise system, which Government is called upon to foster and strengthen under the Employment Act, is clearly manifest in developments since 1946.

The rate of formation of new businesses was especially high in the closing years of World War II and the years immediately following, and it has continued high since then. Although the rate of discontinuance of businesses, including the termination of enterprises by failure, has tended to rise, the business population has made significant gains. The number of operating businesses has risen since 1946 by nearly 1.5 million, reaching more than 4.7 million in 1960. This rapid increase bespeaks the continuing openness of our enterprise system.

Two other sets of facts reflect the opportunity for entry into business, for innovation, and for success in business operation. First, recent studies have shown no clearly defined general tendency toward greater concentration in American industry, despite growth in the size of many individual concerns. While concentration has increased in some industries, the opposite trend is visible in others. Second, there has been a marked increase in the rate at which new products and new processes have been introduced, doubtless reflecting the greatly increased accent on research and development noted above. Large companies are in a good position to conduct research and development activities on an intensive basis, but small firms also play an important part in the introduction of new products and new technology, drawing on their independent research and development efforts

and, through licensing arrangements and participation in Government contract work, also on the research results of other firms. Companies of small and medium size have been aided in this connection, as well as in normal business operations, by the ready availability of private advisory and technical services and financing arrangements especially suited to their needs. Steps taken by Government in the last eight years to assist small businesses, and in this way to strengthen our enterprise economy, are described in the *Third Progress Report by the Cabinet Committee on Small Business*, issued in December 1960.

IMPROVEMENT OF PERSONAL SECURITY AND WELFARE

These advances in output and productive capability have made it possible to maintain the large military forces needed for our national security, to assist in the reconstruction of the war-ravaged countries of Europe and the Far East, and to aid in the peaceful development of the less industrialized nations of the world. They also have made possible remarkable improvements in the material well-being, culture, and economic security of the American people.

Since the passage of the Employment Act of 1946, the population of the United States has increased nearly 30 percent; in the same period, disposable personal income (in 1960 prices) has risen from \$231 billion to \$354 billion, or about 50 percent, and per capita disposable income (also in 1960 prices) from \$1,635 to \$1,969, or 20 percent. Since 1952, these increases in income have been 30 percent and 15 percent, respectively. Improvements in well-being are also reflected in changes in the distribution of families according to income in constant prices. Thus, 47 percent of all families had incomes of less than \$4,000 in 1947, but this proportion had dropped to 35 percent by 1959; at the upper end of the income scale, families with real incomes of \$8,000 and over increased during this period from 14 percent of the total to 24 percent.

Means for protecting income and personal financial security have been greatly strengthened. The number of life insurance policy holders rose from 77 million in 1946 to 94 million in 1952 and 118 million in 1960, and the amount of life insurance per family increased from \$3,600 to \$5,300 and \$10,200. Between 1952 and 1959, the number of shareowners in public corporations increased from 6.5 million to 12.5 million.

A rapid extension of private and public systems of insurance has broadened measures to provide personal security in old age and to meet emergencies caused by unemployment, ill health, and death. The number of workers (including farmers and other self-employed persons) covered by the Federal Government's system of old-age, survivors, and disability insurance increased from 36.7 million in 1946 to 50.2 million in 1952 and to 59.0 million in 1960, and the percentage of paid workers covered rose in these periods from 65 to 79 and 87. The total amount paid to those eligible for benefits was \$378 million in 1946, \$2.2 billion in 1952, and

\$11.3 billion in 1960. The number of beneficiaries, which had been 1.6 million in 1946 and 5.0 million in 1952, was nearly 15 million in 1960.

Private insurance to meet health emergencies has also been extended and improved at a rapid rate. The number of persons covered by hospital insurance rose from 42 million in 1946 to 132 million in 1960. At the beginning of this period, 18.6 million persons were insured under private systems for the coverage of surgical expenses and 6.4 million for regular medical expenses; at the end of the period, the coverage of these two types of health expenses was 120 million and 86 million, respectively. Private insurance for major medical expenses has shown the most spectacular increase—from 700,000 persons in 1952 to 25 million in 1960.

Finally, unemployment insurance coverage under the Federal-State system rose from 31.9 million persons in 1946 to 37.0 million in 1952 and 44.0 million in 1960, and the percentage of those employed in nonagricultural establishments who are covered increased from 77 in 1946 and in 1952 to 83 in 1960. Average weekly payments to those out of work were \$18.50 in 1946; the average for 1952 was \$22.79, and it increased to \$32.75 in 1960.

GREATER ECONOMIC STABILITY

Although personal security is strengthened by insurance systems both private and public, it depends primarily on a high level of employment, the development of job opportunities for our increasing labor force, and the avoidance of sharp fluctuations in production and employment. The persistence of unemployment in some areas and the recent increase in the total allow no room for complacency, but the record of the past 15 years also shows good performance in maintaining high employment and avoiding wide swings in economic activity.

A large increase in jobs has been achieved since 1946. Total civilian employment rose from 55 million in 1946 to 61 million in 1952 and increased further, to nearly 67 million, in 1960. The number of persons unemployed and the rate of unemployment were somewhat higher, however, in the peacetime years of the 1950's than in the late 1940's. The contractions in economic activity since the Employment Act was passed have proved to be relatively moderate when compared with earlier cyclical adjustments. For example, the contraction that began in August 1957 lasted only 9 months; and the two previous ones, beginning in December 1948 and in August 1953, were ended in 13 and 11 months, respectively. However, the principal improvement in this respect lies in the fact that the declines were less severe than on most earlier occasions. Thus, personal income dropped less than $\frac{1}{2}$ of 1 percent in the contractions beginning in 1953 and 1957, contrasting with declines of 11 percent and 50 percent in the downturns that began in May 1937 and August 1929, respectively. Declines in employment and production were also appreciably smaller than in most earlier cyclical downturns.

The mildness of recent contractions relative to earlier experience reflects, in part, the stabilizing features of our tax system, the automatic operation of governmental programs that help to sustain income when production and employment recede, and a shift in the pattern of employment toward jobs that are relatively less affected by recessionary tendencies. It also reflects deliberate steps taken by the Government to offset the declines, and the greater stability of business enterprises.

While this record presents evidence of good progress, the further moderation of economic fluctuations remains a major challenge to Government and industry. In the contraction that began in August 1957, for example, industrial production fell by 14 percent and total employment by about 2 million even though the decline in personal income was small. The best thought and most determined action are needed to find constructive ways to make further advances in reducing this persisting problem of the enterprise economy.

LESSONS OF EXPERIENCE UNDER THE EMPLOYMENT ACT

These developments in our economy and the experience gained in administering the Employment Act teach certain lessons that must be kept in mind continually as we strive to attain our national economic objectives.

First, although great strides have been made toward understanding and moderating the cyclical behavior of our economy, difficult problems of diagnosis and prescription remain. Experts disagree on the meaning of unfolding events, and action to counter adverse developments cannot be finely predetermined, either in kind or degree. Moreover, the repercussions of countermeasures cannot be accurately foretold. Experience underlines the importance of the close surveillance of economic developments that is a responsibility of the Council of Economic Advisers, created by the Employment Act. It also emphasizes the need for constant review of administrative actions and legislation, to determine their potential or actual impact on the growth and stability of our economy. In addition, this experience shows the need for up-to-date, accurate, and comprehensive facts on economic developments as a basis for wise policy decisions by private groups as well as government.

Second, a tendency for prices to rise has persisted in the period since World War II, even after prices reflected the inflationary pressures generated by war and even though our resources have not always been utilized to the full. To arrest this tendency, as we have largely succeeded in doing of late, and to attain our national economic goals in an atmosphere of reasonably stable prices must continue to be a major objective of private and public policy. Apart from the other adverse effects of inflation, its seriousness has been underlined by the growing recognition that reasonable stability of costs and prices is essential to balanced economic growth and to the maintenance of our competitive position in world markets.

Third, competing objectives must be taken into account in economic policy, and action in pursuit of any one goal must be taken with a recognition that to press it too far or too rapidly may prejudice other values that are in reach or in hand. Considerations of long-run benefit must be weighed against short-run advantage. The rate of economic growth cannot be properly evaluated without regard to its composition and balance or its sustainability. On the contrary, the unwholesome accompaniments of a forced, too-rapid expansion may impede further growth and even induce setbacks.

Fourth, it should be clear from the experience under the Employment Act, as it is from the longer history of our country, that Government action is not the principal, let alone the sole, determinant of the rate of economic growth. In our competitive enterprise system, growth requires that productive job opportunities be created in private employment. The creation of jobs, in turn, requires the presence of adequate incentives to private action and the availability of private capital and other needed resources, and it is heavily influenced by the state of demand, prices, and costs, and the desires and interests of the people. The Federal Government promotes economic growth mainly by the contributions that it makes to conditions favorable to the exercise of private, individual initiative and effort, and by facilitating and encouraging the execution of their respective responsibilities by private individuals and groups and by State and local governments.

Fifth, the language of the Act affords a fair degree of flexibility in its administration, which our experience shows to be necessary if economic policy is to accommodate new priorities and meet new challenges. Routine diagnosis and administration have no place in economic policy for growth and stability. The policy appropriate in one situation is not necessarily suitable in a later one, even when the circumstances are alike in many respects. Thus, in 1954, when the economy was undergoing a contraction, it was possible to execute a substantial reduction of taxes, and thereby to increase the purchasing power of individuals and of business firms, because governmental expenditures, previously expanded as a result of the Korean conflict, were being cut back. In the contraction of 1958, on the other hand, different actions were called for and taken: monetary and credit policies were adjusted; Government expenditures were maintained and in some areas increased, at the same time that revenues declined, and a substantial deficit was incurred; administrative actions fostered a higher rate of home building; the Federal-aid highway program was accelerated; and unemployment benefits were extended.

Actions and policies adopted during the period of the Employment Act have not insured against economic contraction, but they have proved effective in moderating setbacks. The Act has fostered a keener awareness of approaching downturns and a determination to meet them by positive action rather than by passive acceptance. And this change in attitude on the

part of the Federal Government has created an atmosphere of public confidence which in itself has helped to arrest recessions before they have become cumulative downward spirals.

Sixth, the remarkable advance achieved in the welfare of our citizens provides a basis for confidence in the future growth and improvement of our economy. From this experience it is clear that the same diffusion of power for economic decision-making which would render foolhardy the sole reliance on Federal effort to achieve the Act's objectives assures the broad public and private cooperation needed to attain maximum practicable economic progress. While neither the public nor the private sector can guarantee the final outcome of their policies, the results of their efforts can provide a basis for improving future decisions and performance. Greater public understanding of economic issues, and a better appreciation of the consequences of past decisions and action, help the citizens of a democracy to evaluate proposals to promote the growth and stability of the economy. For the Federal Government, which is the agent of all the people, this evaluation may point to the need for new or revised laws. Also, fulfillment of the Federal role may often be aided by positive statements of principles, needed policies, and goals. For the achievement of the common economic aims of a democratic society, it would be as much a mistake to ignore the value of this manifestation of leadership as to rely upon it solely. Psychological factors should not be overlooked in the emphasis on automatic and deliberate stabilizing and stimulating policies and actions.

In sum, experience has proved the Employment Act to be a helpful instrument for achieving important common economic goals in a framework of free institutions. Confidence that the concepts of economic organization and action embodied in the Act will serve us well in the future has been strengthened. The Act is a living document, adaptable to changing circumstances. Though improvements might be made, as suggested in the next chapter, the Act, even without amendment, can provide a useful guide for policy and action in new and unforeseen circumstances.