

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 17, 1945

To Chairman Eccles

Subject: Murray Full Employment Act

From Kenneth B. Williams *KBW*

Summary

The bill is a statement of goals, not an outline of policies.

It provides machinery to facilitate the adoption of policies intended to lead to full employment. The machinery consists of two innovations:

(1) The President is required to submit to Congress each year, along with the regular Federal financial budget, an analysis of the nation's total budget. If total national expenditures are indicated to be less than enough for full employment, the President is to recommend legislation or policies to make up the deficit in expenditures and employment. If prospective total national expenditures are more than enough to provide full employment, the President is to recommend policies to prevent inflation. Estimates of prospective total national expenditures, public and private, are to be revised quarterly in the light of actual events.

(2) Congress is to establish a new joint committee to receive the national budget, appraise the President's recommendations, hold hearings, and to report to Congress.

Evaluation

The immediate importance of the Act lies in the plans for using it to focus public and Congressional attention on the problem of full employment. Ambitious preparations are being made for speeches, magazine articles, and extensive hearings. Whether or not the bill is passed, the campaign for its adoption should have substantial, if subtle, influence on public opinion.

The Act does not itself create or provide any jobs. It merely commits Congress to acceptance of full employment as a primary goal of national policy.

The Act is no panacea and does not commit Congress to any specific program or policy. It merely provides an organized procedure for evaluating legislation and economic policies in terms of their relation to full employment.

The Act does not guarantee a job to any individual. It is, rather, intended to establish an economic environment in which adequate job opportunities are available. It does not contemplate the elimination of all unemployment. Some unemployment is desirable and necessary to assure flexibility in a dynamic economy. The Act does not contain a definition of full employment in terms of 60 million, or any other specific number of, jobs.

The Act will provide a powerful sounding board for those groups favoring full employment policies and the assumption by government of increased responsibility for the operation of the economy.

Even though the Act does nothing concrete about assuring full employment, opposition is substantial and will become greater. The opposition is not concerned with what the Act contains but with the economic philosophy underlying it. The Act implies, in the way it states the problem, acceptance of the over-saving thesis and many of its sponsors accept this analysis of the functioning of the economic system. However, the Act contains no commitment to the over-saving thesis and in the hands of a conservative President and a conservative Congress policies expressing opposite views about economic affairs probably would be adopted.

Meaning of Full Employment

The term "full employment" should not be taken too literally. No one favoring a policy of "full employment" contemplates making employment the only goal of society. If it were the only goal, we would discard democracy, free enterprise, and freedom of opportunity and obtain "full employment" easily by adopting Fascism or developing a slave economy. Within the context of the American or British environment, however, "full employment" is merely a convenient short phrase intended to mean that the economy should operate at full capacity, that it should provide jobs, higher living standards, and greater freedom of opportunity for most people. It is properly taken for granted that "full employment" is not to be obtained at the expense of individual freedom or by infringement upon the dignity of the individual as the fundamental basis of democracy. Thus, in this context "full employment" is eminently democratic and rigidly anti-fascist.

"Full employment" does not mean the complete absence of unemployment. In a dynamic economy there will always be some unemployment as people shift jobs, industries expand and contract, and markets change under the pressure of consumer choice. "Full employment" merely means that unemployment should be reduced to the practical minimum and that those who are able to work and want to work should not be forced to remain

idle for long periods. How large this minimum of unemployment should be is partly a matter of opinion. Some contend that unemployment of 5 million is permissible within the meaning of "full employment". Others say that no more than 500,000 should be unemployed. Most careful students of the labor market tend to place minimum unemployment in a range between 1 and 2.5 million. A great deal of additional research is required before any specific figure can be firmly established.

Conclusion

In my opinion the Murray Act is likely to have a great deal of influence in the right direction. It is an excellent first step toward obtaining agreement on the principle that government in modern economic society must be more than an umpire and must provide firm assurance of markets for business and employment for workers. The Act is in line with the best economic thinking of recent years. While the Act will not, nor does it pretend to, solve all our economic problems, it should be very helpful in establishing a framework and a climate of public opinion which will facilitate their solution.