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MEN AND MONEY  
Human Resources and Financial Management

A commencement Address

by

Andrew F. Brimmer  
Member  
Board of Governors of the  
Federal Reserve System

at

Moorhead State College  
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## MEN AND MONEY

### Human Resources and Financial Management

In flattering me with the invitation to speak at this year's commencement exercises, Moorhead College has given me another opportunity to visit Minnesota and to do so for the first time in a new role. Almost exactly one year ago today, I came to this State to address the Annual Convention of the Minnesota Bankers Association: that was my maiden speech as a Member of the Board of Governors of the Federal Reserve System. On that occasion, I came to talk exclusively about money and financial management. This time, however, I also want to ask all of you to join me in a brief consideration of some of the means by which we can harness more effectively a share of this Nation's financial capacity to assist in the development of our human resources.

This trip to the leading academic institution in this part of the Upper Midwest is a special delight for me. Having been born in the rural South, I am particularly conscious of the sense of contentment -- if not detachment -- which one can easily get from living in an environment where the pace of daily activity is less hectic than it is in our larger metropolitan areas. But also having lived for more than half my life in the vast urban communities of the Pacific Northwest and the Northeastern section of the country, I am even more conscious of some of the fundamental economic and social problems which cry out every day for attention. At the same time, of course, the need to get on with the vital tasks of human resource development exists in other areas as well, including this splendid region

which Nature has so well endowed with lakes, mountains and plains. If we are to be even partially successful in mastering these tasks, we will require a larger endowment of financial resources -- both public and private -- and above all better means of getting able men and women to lend their talents to the joint enterprise.

As a former academician myself, I know full well that the best service a commencement speaker can perform is to help speed the moment when the graduating class can actually commence the challenging journey for which its members have spent four years in preparation. But the assignment sets other objectives as well. A commencement address should also encourage the graduating class:

- To lift its eyes to the far horizon of man's hopes -- but not to overlook the middle distance where genuine improvements in our daily lives are possible.
- To be suspicious of conventional habits of thought and behavior -- and yet not lose faith in our inherited democratic institutions.
- To be willing to accept some of the burden of advancing the welfare of the general society -- while pursuing one's own personal goals.

Please accept my appeal to all of you to do all these things.

But in this troubled spring of 1967, I know only too well that virtually no one in this audience would have the slightest interest in suffering through such an excursion in rhetoric. Instead, I will ask you to wrestle for a few minutes with some vital questions thrown into focus by two of the most agonizing issues confronting American society today:

- The military conflict in Vietnam, and
- The quest for ways to ensure a meaningful life for Negroes and other minorities in a free and peaceful society.

Yet, I do not propose to enter the continuing debate over the appropriateness of our commitment in Vietnam. Nor do I wish to engage the prophets of "Black Power" in a dialogue about the wisdom of their prescription for making the Negro a free man. I would pose the question in different terms, although they stem from the same troubled soil:

- To what extent has the quickened pace of military activity in Vietnam forced a significant slowing in the pace of Federal Government spending on the development of the Nation's human resources?
- Can we devise means (using both public and private funds) to cope more effectively with the task of ensuring meaningful opportunities for Negroes and other minorities to participate fully in American society?
- And, finally, how far is it appropriate for us to rely on Government efforts -- especially if those efforts originate at the Federal level -- to help achieve our public objectives at the State and local level?

#### Federal Spending on Human Resources

If we want a simple answer to the first question, we can give an immediate and negative reply: the Vietnam military effort has not resulted in a sharp cut back in the pace of Federal spending for human resource development. While no clear-cut definition of such spending can be found in the Federal Government's budget, a good approximation has been provided by the Bureau of the Budget which has drawn together expenditures for health, education and training, and for programs designed specifically to aid the poor. In fiscal 1963, these expenditures totaled \$19.8 billion. Health and education each accounted for about \$4 billion of this amount, and roughly \$12 billion went for aid to the poor -- consisting mainly of cash benefits (particularly welfare payments).

By fiscal 1966, the aggregate amount of such outlays had risen to \$27.7 billion (a gain of \$7.9 billion in two years). This total was split almost evenly between programs to aid the poor and those to improve health and education. However, within the latter, a sizable increase occurred in Federal spending for education. In addition, expenditures on economic and community development activities (reflecting the launching of the Administration's War on Poverty) climbed to \$2.6 billion -- more than double the amount spent two years earlier. For fiscal 1968, starting in a few weeks, total outlays for human resource programs are projected at approximately \$39.8 billion, a two-year increase of \$12.1 billion. But the composition has shifted substantially. Education and health programs (each accounting for \$11 billion) are budgeted to absorb well over half the aggregate expenditures. An especially large increase (\$6 billion) is projected for the health field, as the recently enacted medicare program becomes more fully operative.

But when we look more closely at the trend of expenditures on human resources in the last three years, it is evident that these programs have developed less rapidly than they probably would have in the absence of the expansion of military activity in Vietnam. It will be recalled that the military effort was stepped up considerably in late July, 1965, almost at the beginning of fiscal 1966. At that point in time, a substantial increase in funds for health, education and anti-poverty programs had already been approved by Congress or were well along in the budgetary process. As a result, such outlays rose by \$5.1 billion in fiscal 1966, an advance of

one-quarter from the previous year. Moreover, this rise was achieved to a considerable extent by net reductions (amounting to \$2 billion) in other non-defense Federal programs. Another sizable increase (\$6.6 billion) was registered for human resource development in fiscal 1967, and other civilian programs also rose sharply. But over two-thirds of the rise in the human resources expansion could be traced to medicare and other health programs.

For fiscal 1968, however, non-defense spending as a whole is projected to grow more slowly than at any time in recent years. Planned outlays for human resources as estimated in the budget would rise by \$5.0 billion, compared with a rise of \$6.6 billion in the previous year. This would represent an annual growth rate of about one-sixth -- in contrast to one-quarter or more in the preceding two years.

Thus, it is evident that Federal Government investment in the development of the Nation's human resources has moderated as defense outlays have climbed. Moreover, in view of the trend of such expenditures before the Vietnam effort was stepped-up, it is reasonable to conclude that the actual level of program commitment is well below what both the Administration and Congress were initially prepared to undertake.

But, given the burden of competing claims on the Federal budget (especially during a period of rising inflationary pressures), it is reasonable to expect some moderation in the growth of spending on human resources. Though it may be trite to say so, we cannot pursue all of our national goals simultaneously. While defense spending declined by \$4 billion in fiscal 1965,

since the Vietnam military effort became more extensive, such expenditures have risen sharply -- by \$7.5 billion in fiscal 1966 and by \$12.5 billion in fiscal 1967. Moreover, the fiscal 1968 increase of \$5 billion projected in the budget will undoubtedly be exceeded. In the face of this kind of budget pressure, one would not expect an acceleration in the rate of Federal spending for human resource development.

On the other hand, given the already sharply reduced rate of expansion in non-defense expenditures as a whole -- and given the continuing and pressing need for investment to improve the lives of our people -- I think all of us should have serious reservations about aiming for sizable cutbacks in the existing level of Federal spending on human resources. Undoubtedly some cuts can be achieved without severely damaging particular programs. However, exactly what these are can only be known in the first instance by Administration officials responsible for the programs and secondly by Congress which appropriates the money. Moreover, even at existing levels of funding, improved administrative arrangements can make a significant contribution to the effectiveness of the programs.

Yet, beyond these considerations, we are still faced with a difficult -- but ~~critical~~ -- choice: can we carry on with our programs of human resource development at home while supporting the military effort in Vietnam? Personally, I am convinced that we can. But to do so may well require that the Federal Government enlarge its revenue by an increase in taxes. In a different context (in the consideration of the appropriate mixture of monetary and fiscal policies required to avoid inflationary pressures) I have already suggested that it

appears desirable to obtain some form of an increase in corporate and personal income taxes. I have now concluded that the achievement of the needed improvements in our human resource programs may also require a tax increase.

### The Expansion of Economic Opportunity

As I mentioned at the outset, we also need to make a greater effort to cope with the aggravating problem of helping Negroes and other minorities to participate more fully in the mainstream of the Nation's economic life. I am certain that for this audience there is no need for me to recite the catalogue of difficulties which must be faced on this front.

However, I would like to stress the urgency of the unemployment problem among Negro youth and young people from other minority groups. You already know the statistics describing their plight: unemployment rates for young nonwhite males averaging 20 per cent, compared with 10 per cent for young white males. For young nonwhite females, the rate jumps to almost one-third, compared with 12 per cent for their white sisters. While all of these unemployment rates are obviously too high, they actually reflect a situation amounting to a permanent depression among Negro youth.

We all know the reasons behind these conditions: a legacy of poverty, lack of skills, and racial discrimination. No one -- certainly not Negro youth and their families -- expects this legacy to evaporate immediately. But what they do expect -- and so should all of us -- is that we will make a vigorous effort to eradicate it through enlightened public policy.

In this connection, I think it is especially important that we attack the obstacles posed by a lack of marketable skills. Here I am not advocating



the enrollment of every unemployed youth in a four-year college -- nor even in a two-year trade school. Instead, I think it would be far more fruitful to concentrate on the acquisition of skills through on-the-job training.

The U. S. Department of Labor has already made long strides in this direction. Their experience in the last few years clearly demonstrates the efficacy of this approach. Under the existing legislation, the Department is able to negotiate a wide range of contracts with private industry to provide training for low-skilled persons while they are actually employed. Currently, the average outlay is about \$560 per trainee, for whom the period of instruction averages 18 weeks. However, both officials responsible for the program and participating employers are far from happy with the impact they are making. In the first place, the average trainee entering the program today needs much more assistance than was the case five years ago. In 1962, for example, average expenditure per trainee was about \$300 (compared with over \$500 today) and the average training period was much less than 18 weeks currently prevailing. But in those earlier years, the typical trainee was a man already possessing some kind of skill and work experience who was temporarily unemployed. Today, however, the typical trainee is likely to be a young man who requires instruction even in basic education before he can begin to absorb the training relating to the specific job.

The consequence is a greatly increased need for more investment in the program. Even by next year, some officials estimate the average cost per trainee may climb to over \$900 -- especially if the program is to reach out toward more meaningful occupations.

In my judgement, this is a target worth pursuing. At the same time, I realize that such a program will require more public investment if it is to achieve its objectives. After all, when we ask a private business to take on and train a group of unskilled youth or adult members of the long-term, hard core unemployed, we essentially are asking that firm to become somewhat less efficient (at least in the short-run) in its operations. Yet, many companies -- recognizing their responsibility to help reduce the backlog of unemployment which is a burden to the community as a whole -- have chosen to participate in the program. Since they are taking on a good share of what is clearly a public responsibility, I think we should be willing to compensate them from public funds to a greater extent than we do now.

#### Ideology and Government Spending

Finally, I come to the most difficult of the three questions raised initially: what is the proper balance between Federal and State and local government efforts to develop our human resources? Obviously, there is no answer to this question. It falls essentially in the realm of ideology, and our personal preferences -- and to some extent upbringing -- will necessarily shape our response. However, we can provide an objective picture of the present scope of the Federal-State and local financial partnership.

For this purpose, it may be especially helpful to focus directly on the Upper Midwest Region. Perhaps the most convenient measure of the role of the Federal Government at the State and local level is provided by the figures prepared by the U.S. Department of Commerce showing the main sources of personal income.

In 1965, about 11.7 per cent of the Nation's personal income was derived from the Federal Government. About half of these receipts came through social security and unemployment compensation payments, and civilian payrolls accounted for just under three-tenths.

In this part of the country, however, the picture was quite mixed. The State of Minnesota (with 10 per cent of its personal income originating in Federal Government activities) was about in line with the rest of the country. But both North Dakota and South Dakota were much more heavily dependent on payments from the Federal Government. In North Dakota, the proportion was about 22.3 per cent, and in South Dakota it was about 19.7 per cent. In both of these States, payments to farmers (under the various agricultural support programs) represented the largest share of Federal payments -- one-third in North Dakota and one-quarter in South Dakota. In Minnesota, farm payments amounted to 1.4 per cent of total Federal disbursements, not appreciably different from the 0.5 per cent in the country as a whole.

State and local governments also made a sizable contribution to personal income in 1965. Throughout the country, this amounted to about 8.2 per cent of the total. But in all three States of the Upper Midwest, the proportion was higher: 8.9 per cent in Minnesota, 9.1 per cent in North Dakota and 9.2 per cent in South Dakota. In each case, nationally and locally, civilian payrolls absorbed virtually all of the outlays.

The role of the Federal Government at the State and local level can be put into even sharper perspective when traced over time. During the 17 years between 1948 and 1965 -- when this graduating class was coming to maturity --

Federal contributions to personal income rose from 8.6 to 11.7 per cent, a gain of one-third in the proportion. However, Federal expenditures in this part of the country rose much more rapidly, in relation to total personal income, than in the country as a whole: in Minnesota, the share rose from 6.6 to 10 per cent -- a 50 per cent advance; in both North Dakota and South Dakota, roughly a three-fold gain was registered, from 7.7 to 22.3 per cent and from 7.1 to 19.7 per cent respectively.

While we clearly cannot explore the intricate network of Federal-State and local relationships behind this pattern of Federal spending, a number of conclusions can be drawn:

- Whatever our personal preferences, the welfare of our citizens -- in the Upper Midwest as in the rest of the country - is heavily dependent on the activities of the Federal Government.
- This dependence has grown steadily over the years, and the trend is not likely to be reversed sharply -- because the basic needs for public services which stimulated it will continue to expand.

Thus, I come away from this review with the conviction that we ought to be devoting our time and efforts to the task of making the Federal-State and local partnership work more effectively -- and not to a search for ways to escape meeting our collective responsibilities.

I invite all of you --not only this graduating class but its parents as well -- to join me in this far more rewarding quest.

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