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Some Thoughts on Unemployment

by

**J. L. Robertson, Member of the Board of
Governors of the Federal Reserve System**

at

**A Meeting of Bankers and Businessmen Held
in Connection with the Joint Meeting of
the Directors of the Federal Reserve Bank
of San Francisco and its Branches**

in

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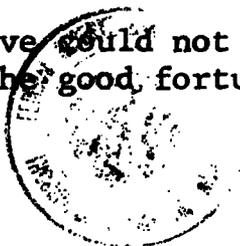
A funny thing happened in Washington last week. A gorilla walked into one of the posh bars in town, slapped down a ten dollar bill and asked for a martini. The bartender was not quite sure what he should do, and so he asked the head bartender, who said, "Go ahead and serve him, but charge him nine dollars. He won't know the difference." As the bartender served the gorilla his martini, he gave him a dollar change and remarked, "We don't see many gorillas around here." The gorilla looked doubtfully at the dollar bill and said, "At these prices, it's no wonder."

We are seeing many new faces these days, not only as a result of normal retirements, but also as the result of the appearance of a new frontier in Washington. This has produced a strange phenomenon which might be called "instant aging". Prior to January 20th I, for example, considered myself - an upstart from Broken Bow, the gateway to the sandhills of Nebraska - one of the younger officials about Washington. Over night I was transformed into a graybeard. But this has its compensations, for it makes it easier for me to don the robes of an elder statesman - that is one who is free to toss out, with impunity, ideas for solving difficult problems for which others have the responsibility for action.

Though faces change, the problems have a way of remaining. And today we are confronted with some "beauts". If the challenge of difficult problems is one of the things that keeps life interesting and sharpens our wits, we should not lack for stimulation in the months and years ahead.

One could not be as familiar with the Federal Reserve System as all of you are, or as close to it as I have been, without agreeing that Congress displayed great wisdom, in 1913, in erecting a broadly based monetary system - one which is equipped through Federal Reserve Banks and Branches in major cities throughout the land, each with directors even more widely dispersed, to provide a "grass roots feel" and help us to detect economic trends wherever they may start. I hope you also agree that the System in its formulation and execution of monetary policy over the last decade (which is the only period of its history concerning which I can speak from experience) has measured up to the highest expectations of its creators.

The Federal Reserve could not have achieved this record of performance without the good fortune of having attracted



men of the highest calibre - men of integrity, courage, and intelligence. The System as an institution, of course, is much greater than any man or woman in it, but if you asked me to choose an individual to personify the quality that has made the System what it is, I would unhesitatingly name the man who is about to retire after running the gamut of jobs here in the Federal Reserve Bank of San Francisco, from bottom to the very top. Hermann Mangels typifies the Federal Reserve ideal of public service.

Notwithstanding the solid contribution which the Federal Reserve System has been able to make toward the development of an economy that has enabled our country to become the leader of the free world, the System's powers are more limited than some people would have others think. No matter how much it may wish to do so, it cannot allocate credit to particular areas or industries that may especially need it - housing, for instance. It cannot control many of the most important factors that affect the economy, like public psychology; the spending habits and savings habits of people; changes in styles and consumer tastes; the budget; fiscal policy; and the interrelation of production, profits, and wages.

The most it can do, through providing reserves to the banking system or taking them away, is to promote a financial environment that is conducive to national economic stability and growth. Too little credit can inhibit growth and even normal economic functioning; it can prevent full utilization of our resources. But too much credit has the unhealthy - and, in the end, devastating - effect of stimulating an unsustainable boom. Some place in between, there is - we devoutly believe - an amount that is just about "right". Ascertaining this right amount is a difficult and agonizing responsibility. It is made even more so by the fact that whether we are increasing the money supply or contracting it, somebody feels the push or the pinch. And the tendency, in some quarters, is to throw all the blame for every economic maladjustment on monetary policy, even though it may have had very little to do with it.

Take unemployment, for example. No one could be more concerned about unemployment than we in the Federal Reserve

System. In formulating monetary policy we always bear in mind the latest available facts of employment and unemployment. But the causes of abnormal unemployment often are far removed from the ease or tightness of the money supply.

However, it is not enough to claim that responsibility for curing this, or any other recurrent economic ill, rests not upon us but upon the other fellow. Any problem as serious and difficult as this one deserves the thoughtful consideration of everyone. And so, with your permission, I would like to assume my new role of elder statesman.

Domestically we have the aching worry of excessive unemployment, much of it concentrated among workers who have become victims of rapid technological change. As we search for ways of ameliorating the suffering that this causes, and of curing the evil, we are chastened by the knowledge that we are living on the threshold of technological revolutions that, in the years ahead, will demand continuous adjustments of job skills and will place a tremendous premium on flexibility in our economic arrangements. I hope that we will be able to find acceptable answers, answers that will ease the pain of change but which will not impede the adjustments that are going to be necessary.

I am afraid that this is still one of the problems with which we are grappling without too much success. Consequently, I would like to take this opportunity to try out one or two suggestions which I think might be of some help. I would like just to "try them on for size", since I do not present them as elaborately developed proposals, but simply as ideas that perhaps deserve to be chewed over.

Economics textbooks generally pass over technological unemployment as a far less serious matter than cyclical unemployment. It is supposed to be transitory and subject to more or less automatic solution. I think that the postwar experience puts the matter in a different light. Our cyclical unemployment has been of relatively moderate duration, but the technological unemployment - using the term in a broad sense to include the curtailment of employment in entire industries

that have been adversely affected by changes in technology or in the demand for their products - has tended to be of long duration and a source of considerable suffering. The unemployed coal miners in Pennsylvania, West Virginia, and Kentucky are well known examples. More recently, persistent unemployment has become a problem among durable goods factory workers in the Mid-west and aircraft workers on the West Coast.

In addition, we have what might be called disguised underemployment, or unemployment that has come about partly as a result of the great technological revolution in agriculture. In this great rich country there is still a substantial number of commercial farms (excluding those run by city dwellers who engage in farming as a sideline, or semi-retired gentlemen farmers) that have gross sales under \$2,500 a year. It is hard to say that these farmers are really fully productively employed, though their time may be quite fully occupied. Their plight is, in part at least, the result of the growth of large scale farming that has made it difficult for small farms with limited capital - like those that, in my youth, surrounded Broken Bow - to compete in today's market.

The problem here is obviously one of mobility - geographical mobility and occupational mobility. How can these unemployed workers and marginal farmers be induced to acquire the education and skills that are in greater demand, and move to areas where their services can be better utilized?

I suggest that government programs of relief and subsidy that do not provide such an inducement are counterproductive. Programs which give a strong inducement to the individual to stay just where he is are even worse. We are a rich country, rich enough to afford subsidies to individuals that would have been unthinkable a half-century ago. However, we are intelligent, as well as rich, and we should be able to devise subsidies to the unemployed and to the marginal farmer that will both permit and prompt him to increase his education, acquire new skills, and change his location.

Two of the most rapidly growing sectors of our economy in the postwar years have been the service sector and the

do-it-yourself sector. These two are not unrelated. Do-it-yourself activities have unquestionably been stimulated by the shortage, and hence, high cost of labor in the service field. The difficulty of getting good repairmen to service the growing array of durable goods that the American home owner now finds indispensable, is a real sore spot, judging from the complaints one hears throughout the country.

A program that would feed a substantial stream of trained labor into this area might well set off a "don't-do-it-yourself" movement that would have a measurable impact both ways. It might ease the problems of the chronically depressed and low-income areas from which these people moved. It also might help to remove the service area from the list of those which have in recent years pushed up the cost of living in both booms and recessions.

Therefore, I suggest that the government should consider the feasibility of paying unemployment benefits and providing loans or subsidies to workers and farmers, on the condition that they will avail themselves of educational opportunities, both technical and general, which the government would arrange. This re-education and retraining of adult workers might be accomplished by making better use of the great educational plant with which this country is already equipped, but which for the most part lies idle much of the time.

In addition to lack of appropriate education and skills, there are a number of reasons why workers find it difficult to move to areas where job opportunities exist. Home ownership, large families, age, and restrictive personnel practices make it costly to search for jobs in other communities. From my point of view, it would be preferable, and in the long run cheaper, for the government to financially underwrite the movement of workers, willing to move, than to subsidize them for many years in a community of unemployment.

I have quite a different suggestion to meet the problem of cyclical unemployment, which has been a growing source of anxiety for the past several months. As you know, unemployment has been increasing recently despite the fact that

this time monetary policy made a remarkably early start - prior to mid-1960 - to cushion the economic downtrend, and has been proceeding fairly vigorously ever since.

I would like to see the adoption of measures that would give industry a greater incentive to meet cyclical downturns in demand by reducing their prices rather than their output and employment. We know that by reducing production and laying off workers, some of our major industries - steel is a notable example - have been able to maintain or even in some cases increase their profits. How might this be altered?

Three years ago this month I was in Japan, and I saw something there that might help us find an answer to this question. Japan at that time was undergoing a recession, just as was our own country. But there was something different about the Japanese recession. There was relatively little unemployment. I recall visiting a textile plant in Osaka where I was told that despite a serious slump in sales not a single worker had been laid off. This, I gathered, was fairly typical of the way in which Japanese industry reacted to the recession. During that period wholesale prices fell nearly ten per cent in Japan, while in our country we had the phenomenon of rising prices throughout the recession.

The paternalistic tradition that prevails in Japanese industry has militated against the dismissal of surplus workers in times of slack business. This has meant that industry has not been able to sharply reduce variable costs and it has therefore had to attempt to meet slumps in demand by price reductions.

I am convinced that the employment policies of Japanese industry were an important factor in the behavior of Japanese prices in that period. And the behavior of Japanese prices and the intensified competitive conditions that were produced have been important factors in the surge of Japanese exports, which has been so striking in more recent years. On the other hand, our balance of payments problem has in some measure been worsened by the failure of American industry to fight to hold the competitive margin that it enjoyed during the early postwar period.

I doubt that we want to borrow the Japanese attitude of paternalism in industry, but we can achieve a similar result by the introduction of some more stable pattern of income for those workers who bear the brunt of unemployment during recessions. We moved a little in this direction with the adoption of the supplementary unemployment benefits now paid by many firms.

However, the time has come to consider whether we should not go farther faster; to consider the feasibility of some radical changes in our method of wage payments. I fail to see the justification for a "class" distinction between salary workers and wage workers. Why shouldn't blue collar workers have tenure, income security, status, and protection from recessions similar to that provided white collar workers?

I am aware of the fact that there are many businessmen and economists who would be quick to provide a list of reasons why this could not or should not be done. I, myself, would be more hesitant to recommend such a step were it not for the fact that I see in the Japanese experience evidence that something along these lines can be done without stifling dynamic economic growth. The performance of the Japanese economy over the past decade has been impressive by any standards, and the degree of protection afforded against cyclical unemployment does not appear to have been a handicap.

There are at least two other important steps that would have to be taken to permit arrangements of this type to work in our economy without doing serious harm. Both would require the understanding and cooperation of labor. First of all, we would have to revise the practice followed in recent years of passing on to the workers all or most of the benefits of increased productivity. Management would have to have greater latitude in this area if it were to assume the burden of providing a greatly increased measure of job security and also follow more flexible pricing policies. In addition, great care would have to be taken to insure that these arrangements did not become an anchor holding back technological progress. Indeed, I believe that in return for greater security against

cyclical unemployment the unions should willingly abandon existing restrictive practices that raise costs and hold back productivity.

It seems to me that there is more than a possibility - there is a probability - that a system that would provide for greater stability of income for the worker through increased job security would usher in a new era of growth, stable prices, and increasing productivity.

I will be the first to admit that I have no detailed blueprints to back up these proposals. I hope that my suggesting them may stimulate others either to work out concrete plans along these lines or to unveil ideas that are more satisfactory. If that is what happens, I will be most gratified. I only hope that, by our failure to take timely steps to deal adequately and effectively with problems such as unemployment, we are not reduced to the plight of the navy fighter plane that got badly shot up in a battle in the Pacific. The pilot radioed back to the carrier that he was in trouble; one engine was out, his tail was nearly shot off, his gas supply was virtually exhausted, and the other engine was beginning to sputter. He asked for instructions. The radioman on the carrier responded, "The only thing to do now is to head in this direction, and repeat after me, 'Our Father, Who art in heaven . . .'"