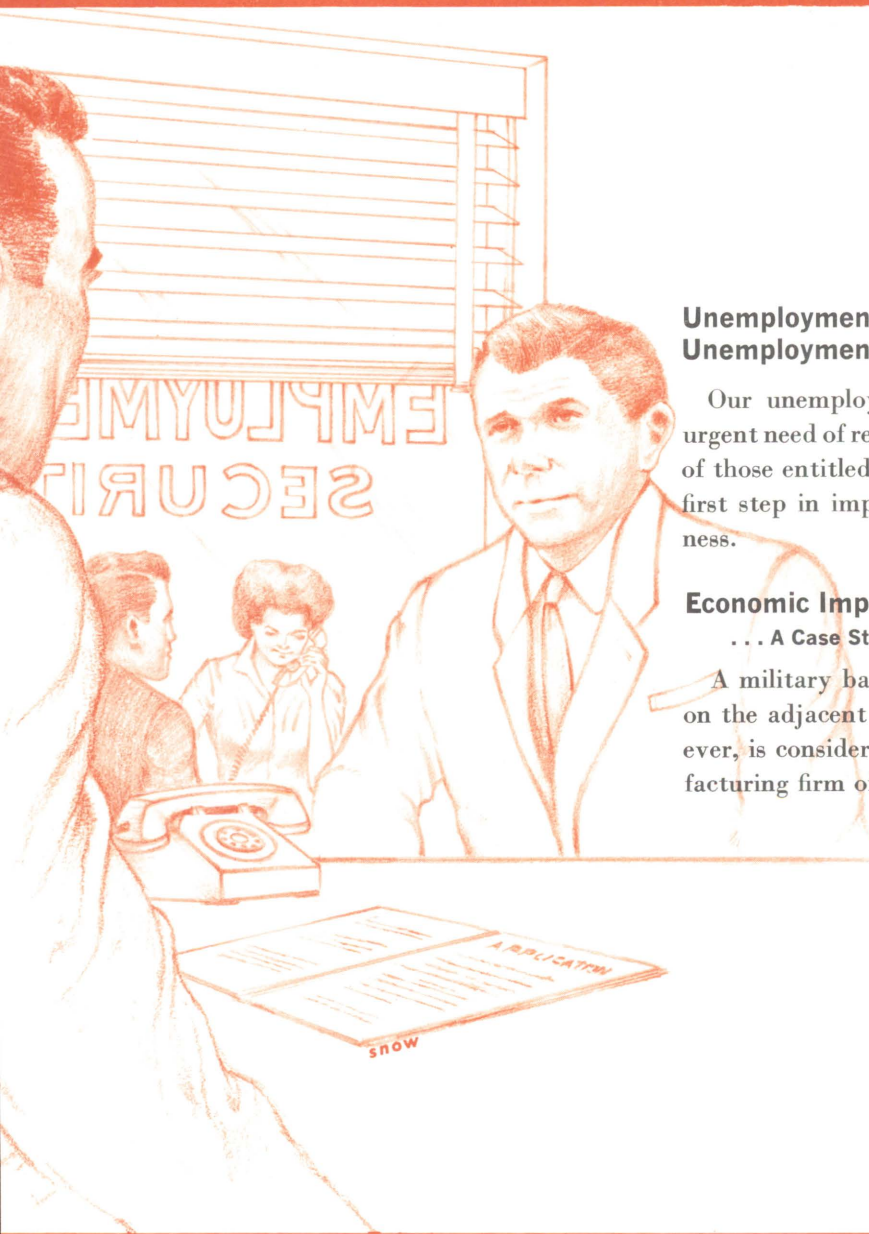


NEW ENGLAND BUSINESS REVIEW

OCTOBER
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Unemployment Compensation and Unemployment: Part I . . . Eligibility

Our unemployment insurance system is in urgent need of reform. A more logical definition of those entitled to receive benefits would be a first step in improving the System's effectiveness.

Economic Impact of a Military Base

. . . A Case Study of Fort Devens, Massachusetts

A military base has many diverse influences on the adjacent community. Its impact, however, is considerably less than a private manufacturing firm of similar size.

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NEW ENGLAND BUSINESS REVIEW

Unemployment Compensation And Unemployment: Part I . . . Eligibility

ONE of the most radical programs instituted by the United States in the midst of the great depression of the 1930's was the unemployment compensation system. Since its institution, the system has been generally accepted and major changes in its structure have been relatively few. The program, however, contains broad eligibility provisions which diminish its effectiveness.

One reason for the lack of reform is that any change adversely affects some group. The conflict is not only between management and labor. The interests of particular employers and employees vary greatly, depending on whether their employment patterns are stable or volatile.

The unemployment insurance system was designed initially during the great depression of the 1930's to provide partial compensation for

wage loss to jobless persons willing and able to work. As knowledge has grown, economists have placed increasing emphasis on the system's ability to stabilize the economy by maintaining purchasing power during the low periods of the business cycle. Its effectiveness in accomplishing this latter purpose depends on the timing of the payments as well as on the amount of the benefits. If the system's funds acquired through a payroll tax on employers were to be paid out largely during recessions, the unemployment compensation system would be a highly efficient economic stabilizer and the whole economy would benefit. Moreover, if payments were restricted to workers strongly attached to the labor force, individual benefits could be increased from their present low levels. In many states, however, there is a substantial disbursement of funds even in periods of peak prosperity and to groups not clearly in the labor force. As a result, the financial reserves of the system are drawn down and its major objectives are not fully accomplished.

The problems of the unemployment compensation program can be classified roughly into two groups. The first — and the subject of this article — consists of questions about the eligibility of different groups for unemploy-

"The New England Business Review" is produced in the Research Department. Edwin C. Gooding was primarily responsible for the article, "Unemployment Compensation and Unemployment: Part I . . . Eligibility." A technical supplement to this article is available on request.

ment compensation. It includes such questions as the following:

1. Should all claimants waiting for work in their usual occupations be eligible for unemployment compensation? Do the present terms of the program tend to encourage unemployment by slowing down unnecessarily the adjustments which workers must make to get new jobs?

2. Should unemployment compensation be paid to workers who are retired? To the seasonally unemployed?

3. Does varying the employer's tax according to the benefits paid to his previous employees provide an effective weapon against questionable claims? Does it provide an incentive to smooth out employment patterns?

The second group of problems concerned with the cost to employers and the overall impact of the program on the economy will be discussed in a future article.

Comparing the Experiences of Different States

One of the most basic questions about the unemployment compensation program is whether it contributes to unemployment. Do some unemployed workers refrain from looking for new jobs quickly because they receive benefits? Can the system be changed to speed reemployment?

One technique for providing these answers might be through a questionnaire survey of the unemployed. However, such a survey might not be reliable. For example, a recipient of

benefits could hardly be expected to say yes to such a question as "Can you secure another job right now?"

An alternative method for judging the impact of the program — and the one used here — is to compare the experiences of the different states in the Nation. To illustrate, 15 states allow the recipient of benefits to wait for work appropriate for his ability, experience, and previous pay rather than to take any available job. How do unemployment rates in those states compare with the rates of the remaining states?

Statistical methods described in the technical note on page 7 were used to gauge the impact of different provisions in the various states, after allowing for differences in economic health. Simply stated, these statistical procedures show the average relationship in the 48 continental states between the various provisions and the covered unemployment rate during the 1960–1964 period. The covered rate is calculated by dividing the total number of persons receiving unemployment compensation by the total of those employed in industries covered by the unemployment insurance program. It is usually smaller than the total unemployment rate which is based on a sample estimate of all those looking for work. Historically, both rates move closely together.

Usual Work

What was the impact of the appropriate work provision in the 15 states where it was in effect? The statistics suggest that if it had been discarded the covered unemployment rate in those states might have been reduced from an average 4.1 to 3.5 percent.

Of course, everyone benefits if a worker can find a job compatible with his ability. Once a worker is employed in a job below his potential, it may be difficult for him to search for a better opportunity. A problem arises, however, when claimants without the desire or need to work steadily use the appropriate work provision as a means of refusing jobs. The real need then is to exert enough pressure on these workers to choose reemployment. This could be accomplished in part by making the time allowed for seeking suitable work dependent on the number of years the claimant has worked. For example, a teenager employed for only 2 years would be given little or no leeway under this provision while the older person who has been working for 15 years would be allowed the maximum period. Because older workers are in general less adaptable, more funds would be left for their use. At the same time, greater stress would be given to the need for mobility on the part of younger workers. At present, although administrative practice prevents some gross abuses of this provision, its application adds to the inflexibility of the labor force as well as to the costs of the system.

Merit Rating

The merit or experience rating provisions of the unemployment compensation laws make the tax on any particular employer depend on the number of claims filed by his previous employees. That is, an employer whose workers have had steady employment pays a lower tax than one with a widely fluctuating work force. The rates vary up to a fixed maximum.

All states now have merit rating systems but, when their reserve funds are drawn down below a critically low level, some states suspend the system and tax all employers at the maximum.

Other states meet emergencies by stepping up the whole series of tax rates, thus preventing suspension of the merit system.

Merit rating was included in the original legislation in part to encourage employers to even out their hiring patterns. Most unemployment, however, results from impersonal economic forces which the individual employer can do little to prevent.

On the other hand, merit rating has proved quite significant in providing an incentive for employers to police the system. This is desirable because any government system involving several billions of dollars each year should have an effective system of checks and balances. Just as the claimant has an immediate financial incentive to protest an adverse ruling on his claim, the experience rating gives employers a similar direct incentive to protest questionable claims. For example, Rhode Island employers, who have never been provided with merit rating incentives, hardly ever challenge claims. In contrast, Massachusetts employers protested 12,000 claims in 1964 and won about half of them for a direct saving of about \$3 million for the system. However, these successfully protested claims represented only .1 of a percentage point of the state's covered unemployment rate in 1964.

To analyze the overall effect of merit rating suspension on the covered unemployment rate, the Bank made use of data from several states where merit rating was not in effect during the 1960–1964 period. The analysis is complicated because the states without merit rating also had higher than average unemployment rates. Despite this complication, the Bank's analysis

suggests that if these states had had merit rating in effect, the average covered unemployment rate of 5.8 percent might have been reduced by as much as .5 of a percentage point. Although the successfully protested claims probably represent only a small fraction of the covered unemployment rate, as in Massachusetts, the major impact of merit rating arises from the discouragement of marginal claims and the use of keener administrative practices because of the prospect of employer challenges.

The Retirement Problem

Should people who are retired and receiving Social Security benefits also be eligible for unemployment compensation? Thirty-two states have answered this question in the affirmative while the remaining 16 disqualify Social Security recipients or reduce their unemployment compensation benefit rates. Had the 32 states also disqualified such pensioners, statistical analysis suggests their covered unemployment rates would have dropped from 3.9 to 3.4 percent in 1964.

Providing benefits for Social Security recipients is extremely costly for unemployment compensation funds. In Massachusetts these costs amount to more than \$10 million annually. Paying benefits to someone over 65 would be justifiable if the claimant is involuntarily retired and is actively seeking work. Once a claimant applies for his old age benefits, however, the law requires that he take only part-time work or be disqualified from his pension. The question then is how many of these people are actively seeking work. Of course, a 65-year-old retiree frequently encounters considerable difficulty in finding any suitable work. Nevertheless, it appears significant that three-fifths of all

claimants over 65 in Massachusetts continue their claims until exhausted while less than one-fifth of the younger claimants exhaust their benefits.

There is widespread recognition of the need for adequate income for the elderly. However, the unemployment compensation fund was not designed for this purpose and offers no lasting solution because it provides only a temporary supplement to income. If the pensioners need more income, liberalization of Social Security benefits would be a more direct mechanism than the use of the unemployment compensation funds. Some steps have recently been taken in this direction both through increases in benefits and the enactment of a medical care program for the elderly.

Nonetheless, allowances could be made for pensioners with inadequate incomes who are actively seeking work. If the pension amounts received are very small, partial unemployment benefits would be justified.

Workmen's Compensation

Should a person who is temporarily disabled and receiving workmen's compensation payments also be entitled to receive unemployment benefits? The question arises when a worker receives a partial injury and, although unable to go back to his previous job, indicates that he is able to take on some other type of work. Half the states analyzed allow the payment of both workmen's compensation and unemployment benefits. The other 24 states do not allow the overlapping of these benefits and as a result reduce their rate of covered unemployment significantly.

Combined payments for a temporary disability sometimes provide an income close to or above that which was originally earned. Because these payments would often stop completely if the worker found another job, dual benefits could limit the incentive to find alternative work. Many states eliminate this problem by reducing unemployment benefits by the amount of workmen's compensation payments the claimant receives.

Seasonal Claims

Workers who are seasonally unemployed represent a large proportion of the total number of claims made against the unemployment compensation funds. In a recent Ph.D. thesis,¹ Charles Warden estimated that such claims amounted to at least one-third of the total.

By their very nature, these seasonal claims occur in years of prosperity as well as of recession. Because these workers usually have good reason to believe they will be rehired in their old jobs, they are reluctant to take on new work. Even if they were willing to accept alternative employment, they would be available for too brief a period to satisfy many prospective employers. Though general prosperity does shorten the duration of seasonal unemployment, a large amount is inevitable even in the most prosperous of years.

The difficult policy question is: Should workers who are seasonally unemployed receive unemployment compensation? Unlike unemployment brought about by a general business decline or by the difficulties of an individual employer, seasonal unemployment occurs every

year and is generally predictable. Still employees knowingly accept jobs in seasonal industries for a variety of reasons:

1. Lack of availability of other jobs.
2. Higher wage rates. For example, employees in the private construction industry generally receive much higher wage rates than persons with similar occupations working for manufacturing firms or private institutions.
3. A preference for occasional short-term rather than steady year-round employment.
4. A desire for a long vacation during seasonal shutdowns.

Lack of availability of other jobs provides strong support for paying out seasonal benefits. On the other hand, when workers have deliberately selected employment in a seasonal industry, there would seem to be no pressing reason to grant them unemployment compensation. As a practical administrative matter, however, it is often impossible to divide the seasonally unemployed into either of these categories. In fact, in many cases, it is difficult to know whether a worker is unemployed for seasonal or other reasons. Nevertheless, some reforms do seem possible.

In many states workers are able to draw unemployment compensation even though they work only for a few months each year. To prevent this, many states have recently been increasing the requirements for minimum earnings and the number of weeks worked. Except for recession years, it might not be unreasonable to require 6 months of employment out of the previous 12 before a worker could qualify for unemployment compensation benefits.

The desire for seasonal work is well illus-

¹"Unemployment Insurance — A Statistical Study of Massachusetts Experience," Harvard University, 1963.

trated in certain New England mill towns with heavy concentrations of female garment workers. In some cases, employers subject to summer slowdowns that necessitate layoffs have less difficulty hiring workers than those who can guarantee year-round work to people with the same skills. Both labor and management cooperate to keep an individual employer's work force available to him alone, even if one employer is laying off stitchers while another is trying to hire them in the same town. Employers are unwilling to antagonize their work-

ers' desire for a "summer's paid vacation to take care of the children." Furthermore, the vacation is paid for almost entirely by the unemployment compensation fund rather than by the employer. Most seasonal employers pay the maximum tax rate for unemployment compensation and no extra costs result from more claims. Such employers have no incentives to police the system even though merit rating is in effect. As will be discussed in Part II of this series, the tax collection system could be reformed to encourage policing.

TECHNICAL NOTE

The statistical analysis used in this article was designed to measure the impact, if any, of the various provisions in unemployment programs on the covered unemployment rate. The basic statistical technique used was multiple regression analysis. The dependent variable was the covered unemployment rate for each state for each of the years 1960, 1962, and 1964.

Since other factors such as the general economic growth of each state affect the jobless rate, it was necessary to remove their effects. The most important of these other variables was judged

to be the change in nonagricultural employment. This economic variable was used as a proxy for current economic conditions and recent trends within each state as compared to all other states.

The unemployment compensation variables were largely dummy variables of the have or have not variety, based on a summary of the laws published by the U. S. Department of Labor. Special tests applied for the experience rating variable indicated that not all the coefficient value could be ascribed to the suspension of experience rating in the states where this took place.

Regression Format

$$\begin{array}{r}
 U = 5.78 - .35Y_2 - .77Y_4 - .34\Delta E - .57A + 1.27M - .53P - .55W \\
 \text{S.E.} = (.22) \quad (.19) \quad (.20) \quad (.09) \quad (.18) \quad (.38) \quad (.18) \quad (.16) \\
 T = 26.34 \quad -1.82 \quad -3.91 \quad -3.69 \quad -3.16 \quad +3.37 \quad -2.94 \quad -3.35 \\
 R^2 = .454 \qquad \qquad \qquad N = 144
 \end{array}$$

U = Covered unemployment rate (claimants as percent of total employed).

Y_2, Y_4 = Dummy variables to allow for differences in years (1962, 1964).

ΔE = Change in nonagricultural employment. One-year change for 1964, annual compound rate of 5-year change for 1960 and 1962.

A = Available for work coded (1), available for suitable work, et al., coded (0).

M = Merit (experience) rating in effect (0) — not in effect (1).

P = State disqualifies claims or reduces benefits to Social Security recipients (1), other (0).

W = State disqualifies claims or reduces benefits to workmen's compensation recipients (1), other (0).

N = Number of observations.

S.E. = Standard error of estimate.

T = Value of 1.98 or more shows significance at 95 percent confidence level.

Conclusion

If all states took a more stringent view of unemployment compensation — specifically, if they

1. Limited the use of the usual work provision,
2. Used some form of merit rating,
3. Disqualified most of the Social Security and workmen's compensation recipients,
4. Tightened the eligibility requirements for seasonal workers,

how would the system be affected? While no precise answer is possible, a reasonable estimate is that the system could have saved about three-fourths of a billion dollars in 1964. The rate of covered unemployment could have been reduced by almost one-third from 3.8 to 2.6 percent. These estimates are not meant to

imply that these changes would in themselves have provided more jobs or that the total unemployment rate would have been reduced by the same magnitude. There is reason to believe, however, that actual unemployment would have dropped significantly as some disqualified claimants sought jobs more vigorously.

These improvements would permit an increase in the level of unemployment compensation benefits without a substantial rise in costs. At the present time unemployment benefits even in prosperous states do not cover basic food and housing costs except for the very lowest income groups. Moreover, reforms would increase the system's prestige as well as its effectiveness as a countercyclical mechanism. The latter will be discussed in Part II.

Economic Impact of a Military Base

... A Case Study of Fort Devens, Massachusetts

INCREASING effort has recently been devoted to investigating the broad ties between the Nation's economy and its defense spending. Relatively little consideration, however, has been given to the impact of defense spending at the local level. Yet it is in the area immediately surrounding large defense installations, more than in the Nation or large region, where the economic consequences of many defense policies and actions are most dramatically felt.

The impact of a military facility on the local economy can be evaluated in much the same manner as the economic impact of any private establishment of similar size. Yet, important differences exist in the expenditure patterns of these two types of activities. In general, the expansion in local employment generated by a military facility is not as large as that resulting from a private facility of comparable size.

In 1961, the Federal Reserve Bank of Boston sponsored a study of the economic impact of the Pease Air Force Base in Portsmouth, N. H.¹

¹*New England Business Review*, July, 1961.

This article is based on a graduate thesis by Ian Donald Turner at Harvard University. The study was conducted with the aid of a research grant from the Federal Reserve Bank of Boston. Copies of the complete report are available on request from the Research Department.

More recently, the Bank supported a research study of Fort Devens and its influence on the economies of Ayer, Massachusetts, and other towns within a 15-mile radius. In many respects, the conclusions of the Fort Devens study parallel those of the earlier investigation and reveal a general pattern of the operating and payroll expenditures for military installations.

The Background

Fort Devens is the largest military installation in New England. It was established in 1917 and served as a center for induction, training, and separation for both World Wars. After each war, it was closed and reduced to caretaker status. In 1946, a portion of the Post was leased to the University of Massachusetts as the site of a temporary college campus to accommodate veterans attending college under the GI Bill. The Post was reopened for the Korean War and since that time has maintained a relatively stable garrison of about 10,000 men. In addition, the Fort's community includes about 8,000 military dependents and 2,000 civilian employees and their families.

The Fort is located in Ayer, a small, semi-rural town in north-central Massachusetts. More than a fifth of the town's 8.8 square miles is occupied by the Fort. Only 20 percent of the

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remaining area is developed, mainly for housing. Commercial and industrial development encompasses less than 2 percent of the town area.

About 40 percent of Ayer's population of 4,900 is directly associated with the Fort. Military families comprise about one-fourth of the total and civilian employees and their families about 15 percent. In the past the town's economy was also heavily dependent on its large railroad classification yard and on a tannery, but neither of these is now in operation. After the destruction of the tannery by fire in 1961, the importance of manufacturing declined substantially. Of the six firms that remain in this sector, only one, a maker of industrial sewing machines, employs more than 50 workers. Nearly half of the people who work in Ayer are now engaged in wholesale and retail trade in which the pay tends to be relatively low. As a result average wage and income levels are considerably lower than in the state.

Because of the proximity of the Fort, per capita sales are more than double the state average and about three times that of similar-sized towns in Massachusetts. However, many of the needs of the soldiers stationed at the Post are met by base facilities, such as the Post Exchange and Commissary, which for military personnel generally offer lower prices than commercial establishments in Ayer. Thus, the leading retail products are those such as lumber, furniture, and automobiles, which are not sold on the Post. For example, the sales volume of automobiles in Ayer is four times the state average.

Although the presence of the Fort currently adds considerably to the town's economic ac-

tivity, it has one unfortunate psychological impact. Because many of the town's businessmen recall the closing of the Fort after each of the World Wars, they feel uncertain about its future and hesitate to invest in the town's commercial facilities. Underinvestment leads to increasingly older, unattractive, and less efficient facilities which in turn lead to by-passed sales and even less investment.

Housing is another sector of Ayer's economy which is heavily influenced by the presence of the military. Due to the demand provided by civilian and military personnel attached to the Fort, Ayer landlords are able to receive high rents for their units, with the median rent of \$86 amounting to 15 percent more than the state average. This is true despite the age and poor condition of much of the town's housing. The 1960 Census of Housing revealed that over half the town's rental units were deteriorating or dilapidated in contrast to less than one-fifth for the state as a whole. Even the opening of several hundred new housing units on the Post did not reduce the demand for rental units in the town. The vacated units were rapidly re-rented as families living 10 or 15 miles away moved closer.

Another aspect of Ayer's economy where the military impact is important is municipal finance. Like many suburban communities, Ayer's tax rate has been climbing steadily. The rate nearly doubled between 1952 and 1963, rising from \$45 to \$80 per thousand dollars of assessed valuation. However, unlike most communities, the dominant reason for the rising tax rate has not been mounting school costs but a lack of significant growth in the town's tax base. Ayer's school costs, although rising,

are heavily supported by Federal funds. Under Public Law 874, the large proportion of school children who are dependents of Post personnel qualifies Ayer's school system for large Federal grants. About 73 percent of the town's school children are qualified for these grants. As a result, over one-half of Ayer's school expenditures are paid by the Federal Government.

Expenditures of the Fort

Annual operating expenditures of the Fort, excluding construction spending, total about \$70 million. Of this amount, approximately \$30 million is spent for procurement of supplies from commercial sources. The local impact of these procurement expenditures is modest, however, since less than 1 percent are made in Ayer with an additional 11 percent spent within a 15-mile radius of the Fort. On the other hand, about 62 percent of these procurement expenditures are made within New England, with Boston alone receiving 31 percent. Thus, the absolute effect of the Fort's procurement spending is felt more within certain of the region's

wholesaling sectors though the total impact on the regional economy is relatively small.

On the other hand, the Fort's annual \$10 million civilian and \$30 million military payrolls do have a significant effect on both Ayer and the surrounding area. In an attempt to determine where the military payroll was spent and to estimate its total effects, questionnaires were distributed to 1,000 soldiers on the Post. About 400 usable replies were tabulated. The data reveal a general pattern of expenditures for military personnel, the important determinants of which are the marital status of the soldier and his place of residence.

As might be expected, food and housing account for nearly 60 percent of married budgets. Other necessities account for most of the remainder, with only 5-6 percent allotted to entertainment and recreation. On the other hand, bachelors spend about 55 percent of their income for non-necessities such as entertainment, recreation, and transportation. They also save

Military Payroll Spending

(Percent of Income)

Location	Fort Devens			Pease Air Force Base		
	Avg.	Single	Married	Avg.	Single	Married
Post	41%	40%	41%	38%	37%	38%
Adjacent Town	10	9	10	26	15	28
Within 15 miles but excluding adjacent town	20	8	24	18	11	20
Beyond 15 miles	29	43	25	18	37	14
	100	100	100	100	100	100

Source: Fort Devens Survey Questionnaire. Laben, Pease Air Force Base Study.

about 15 percent of their incomes, almost twice the amount that married couples save.

Despite these significant differences in budget allocations, the survey reveals that both married and single soldiers spend about 40 percent of their income on the Post and about 10 percent in Ayer. However, bachelors spend about 43 percent of their income outside a 15-mile radius of the Post, compared to only 25 percent for married soldiers. This is, of course, due mainly to the greater mobility of bachelors. In addition, some married personnel live outside of Ayer but within 15 miles of the Fort and thus spend the rental portion of their budgets within the 15-mile ring.

The data reveal that where the soldier lives is the place in which he spends at least half of his income. The average soldier who lives on base, for example, spends only 10 percent of his funds in Ayer, but if he resides in Ayer, he spends more than half his income there. While housing automatically accounts for much of this "spend where you live" phenomenon, the geographic spending patterns for transportation, food, clothing, and savings also exhibit ties to one's place of residence.

The General Spending Pattern

As mentioned at the outset, the results of the Fort Devens study show a marked similarity to those of the earlier study of spending at Pease Air Force Base. As shown in the table on page 11, both studies reveal that typically 35 to 40 percent of the military payroll is spent on the base. As a result, the effect of military payrolls upon local trade and services is substantially less than that of civilian consumers with comparable income. By the same

token, the pattern of military procurement spending is considerably different from that of some manufacturing firms which rely heavily on the nearest community for supplies and services. This is not the case in most military installations which mainly purchase in national market centers.

The accompanying table also discloses substantial differences in the amount of off-Post spending by military personnel which is "captured" by the nearest community. The data suggest that while the proportion of payroll expenditures made both on-Post and outside the 15-mile ring are relatively fixed for most military installations, the distribution of the remaining expenditures among communities within the 15-mile ring is flexible. Thus Portsmouth received a much greater proportion of the off-Post payroll expenditures from Pease Air Force Base than did Ayer from Fort Devens. This is due in part to Portsmouth's greater size and more isolated position.

The Multiplier and Size of the Economy

Ayer receives most of its "export" income from sales to military personnel stationed at Fort Devens and from the sale of a few industrial products. This is called export income since it is derived from the sale of services and goods to those who live outside Ayer or to military personnel stationed at the Fort. As export income increases, so does employment. More jobs lead to further demand for goods and services which in turn contribute to more workers being hired. This additional income is either spent in Ayer or used to purchase goods and services from other areas. This series of events is known as the multiplier effect. Analysis of employment data for 1954 through 1962 yielded an employment multiplier of 1.2. Thus,

in Ayer every five workers engaged in producing services and goods for export out of the community generate one additional job in the local market. This low multiplier is typical of a town of Ayer's population.

The Results

Without Fort Devens, Ayer's economy would be considerably smaller than it is today. Altogether, 525 jobs (one-fourth of Ayer's labor force) are dependent on economic activity generated by Fort Devens. Of this total, 437 are directly dependent on income received from the Fort and its personnel. These jobs, in turn, generate the need for another 88 workers who provide goods and services for the augmented local population.

Fort Devens' influence is felt in another way. Today Ayer is an area shopping center because it has specialized retail stores offering a variety of lumber, furniture, and automobile products. Also, the town offers specialized services in such fields as dentistry. If, for any reason, Fort Devens were to be completely closed down, many of these larger specialty stores would go out of business. Ayer would lose much of its appeal as a shopping center. Residents from surrounding communities would do most of their shopping elsewhere and many stores and service establishments in Ayer would lose a significant part of their business.

What would the total impact of a Fort Devens closing be on a community such as Ayer? Would 30 percent or more of the labor force be unemployed and move out of the community? The answer is quite clearly no. When Fort Devens closed down after World War II, the economy of Ayer did not collapse and its population did not decline significantly. A

number of stores went out of business, but most of the unemployed found work in Fitchburg, Worcester, and nearby labor markets. Many of the replacement jobs were low paying or were otherwise unsatisfactory. Nevertheless, these new jobs brought income into the town of Ayer and kept the economy going.

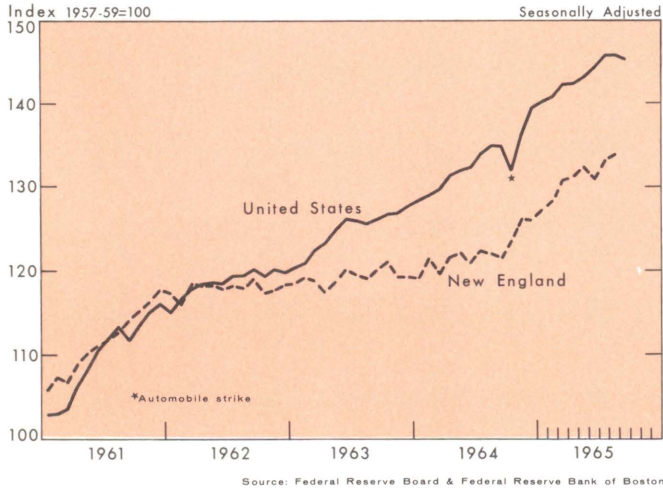
If Fort Devens had been a large private manufacturing firm rather than a military installation, the economic history of Ayer would have been entirely different. First of all, Ayer would have had a much larger population than it had in 1946. Unlike a military base, private firms generally sublet much of their work to local businessmen. They do not operate commissaries, PX's, and movies. Only occasionally do they build homes for employees. The result is that a much larger part of a private firm's income and that of its employees is spent in the local area and helps to build the local economy.

When a civilian facility with, say, 12,500 employees closes down, however, the local impact is always serious and often disastrous. The complete loss of such a firm might well permanently cripple a town the size of Ayer. On the other hand, a military installation with the same number of employees procures most of its materials and equipment from national markets and provides a great variety of consumer goods and services to its personnel. In short, military facilities are largely self-sufficient and their closing down leaves a much smaller impact on the surrounding communities.

In the case of Fort Devens, however, the installation is far from closing. Recent construction and new training commitments suggest no downturn in economic activity in the foreseeable future.

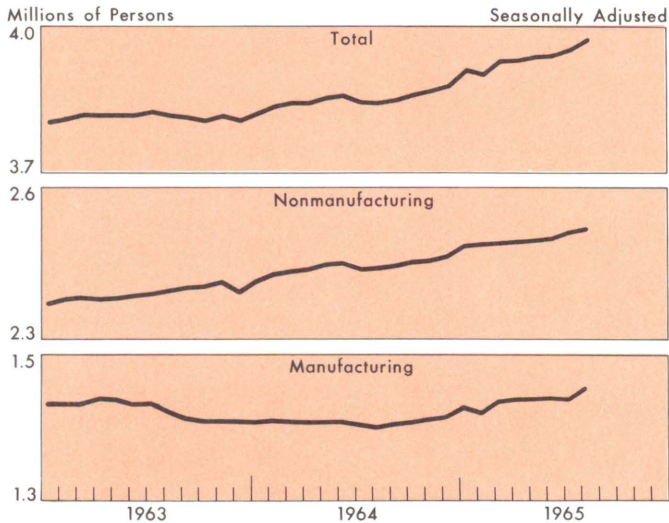
Some Economic Indicators

PRODUCTION INDEXES: TOTAL MANUFACTURING



Manufacturing production in New England continued to show a steady rise into the fall. The index in the Nation declined slightly in September mainly as a result of lower steel production.

NONAGRICULTURAL EMPLOYMENT New England



Total nonagricultural employment in New England shows a steady rise at a high level. Expansion is especially marked in nonmanufacturing and employment in manufacturing has also turned upward after declining during most of 1964.

Here's New England -

MANUFACTURING INDEXES (seasonally adjusted) 1957-59 = 100	NEW ENGLAND			UNITED STATES		
	pAug. '65	July '65	Aug. '64	Aug. '65	July '65	Aug. '64
All Manufacturing	134	133	122	146	146	135
Nonelectrical Machinery	145	147	131	162	162	144
Electrical Machinery	144	147	130	159	159	142
Transportation Equipment	171	144	131	151	150	136
<i>Textiles, Apparel, Leather</i>	107	109	103	135	135	126
Textiles	110	110	103	134	134	124
Apparel	111	116	109	n.a.	145	135
Leather and Shoes	99	102	97	n.a.	108	106
Paper	124	135	115	142	142	133
	<u>Percent Change From:</u>			<u>Percent Change From:</u>		
BANKING AND CREDIT	Aug. '65	July '65	Aug. '64	Aug. '65	July '65	Aug. '64
Commercial and Industrial Loans (\$ millions) (Weekly Reporting Member Banks)	2,197	+ 2	+19	46,827	+1	+21
Deposits (\$ millions) (Weekly Reporting Member Banks)	6,134	+ 1	+11	155,164	0	+ 9
Check Payments (\$ millions) (Selected Cities)	199,803	+ 3	+20	3,018.8	0	+13
Consumer Installment Credit Outstanding (index, seas. adj. 1957-59 = 100)	158.9	+ 1	+ 9	189.7	+1	+13
DEPARTMENT STORE SALES (index, seas. adj. 1957-59 = 100)	127	- 3	+ 2	n.a.	n.a.	n.a.
EMPLOYMENT, PRICES, MAN-HOURS & EARNINGS						
Nonagricultural Employment (thousands)	4,043	+ 1	+ 3	61,070	+1	+ 4
Insured Unemployment (thousands) (excl. R.R. and temporary programs)	84	-11	-22	1,129	-1	-14
Consumer Prices (index, 1957-59 = 100)	111.9 (Mass.)	0	+ 1	110.0	0	+ 2
Production-Worker Man-Hours (index, 1957-59 = 100)	101.0	+ 3	+ 6	111.5	+1	+ 8
Weekly Earnings in Manufacturing (\$) (Mass.)	99.23 (Mass.)	+ 1	+ 4	106.60	0	+ 3
OTHER INDICATORS						
Total Construction Contract Awards* (\$ thous.)	238,385	- 8	0	4,561,629	-4	+ 6
Residential	106,965	- 4	+ 8	2,001,084	-2	+ 6
Nonresidential	94,574	- 2	-15	1,583,257	-5	+12
Public Works and Utilities	36,846	-26	-36	977,288	-7	- 1
Electrical Energy Production (4 weeks ending Aug. 7th, 1965) (index, seas. adj. 1957-59 = 100)	150	- 3	+ 5	161	-1	+ 5
Business Failures (number)	71	+78	0	1,131	+5	- 3
New Business Incorporations (number)	851	-19	+ 5	16,114	-4	+11

*3-mos. moving averages June, July, Aug.

p = preliminary

n.a. = not available

