A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1962 June

Contents

THE Trend OF BUSINESS

In March and April retail sales were at a record annual rate of 233 billion dollars—8 per cent above the same months of last year and 5 per cent above the previous high two years ago. Personal income has continued to rise and in March and April was 7 per cent higher than the year-earlier level. Construction contracts in the first quarter were 19 per cent above the same period of 1961, indicating a prospective rise in construction activity. Industrial production and nonfarm employment rose in April even though steel output declined sharply. Despite these and other evidences of a favorable trend in activity some analysts have revised downward their projections for 1962 as a whole.

The prime reason for downgrading earlier optimistic expectations relates to the failure of employment and production to rise more rapidly and make greater inroads on unused resources of manpower and facilities. This attitude also has been influenced by declines in interest rates and a sharp drop in the stock market in March and April. A few observers have suggested that the economy might "peak out" in late 1962 or early 1963.

The failure of unemployment to drop below 5.5 per cent of the labor force after the current business expansion had been under way for 14 months is, of course, disappointing, and widespread interest in the rate of economic growth naturally focuses attention upon any evidence of lack of vigor. However, developments thus far in 1962 provide a basis for optimistic expectations for the remainder of the year, perhaps longer. The fact that recent levels of activity have been attained in the absence of exceptionally rapid increases of inventories, capital expenditures and business and consumer debt coupled with competitive pressures which have helped to stabilize prices should support further sustainable growth.

Retail trade totals rise

Three times since the business uptrend began in March 1961 the rising trend of consumer buying has faltered, and in each case there was concern that retail trade would not support a further increase in general business activity. In April, August and December of last year total retail sales, seasonally adjusted, leveled off or declined. But each time the hesitation proved temporary and gave way to a renewed rise.

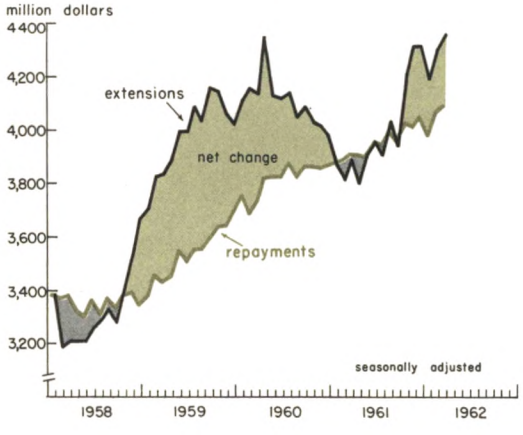
The most recent period of stability in retail sales extended from December 1961 through February 1962. This was followed by a rise in March and April in which most types of stores participated, including furniture and appliance dealers whose business had lagged other outlets. However, the movement was sparked by the surge in auto sales.

Early in 1962 it was common to point to prospective auto purchases as the key to total retail trade, perhaps to economic activity in general. If so, this key was "turned" in the early spring. Auto deliveries, including imports, reached a seasonally adjusted annual rate of about 7.3 million in April. Only in

1955 was such a rate of deliveries exceeded or even approached on a sustained basis. Moreover, because of the higher level of prices now prevailing, the dollar volume of auto sales was substantially greater than in 1955.

Consumers have stepped up the use of credit as their purchases of autos and other hard goods have risen. New extensions of credit thus far in 1962 have been at a new high. However, with repayments at a very high level the expansion of net instalment debt has been limited. In March extensions of instalment credit exceeded repayments by 269 million dollars on a seasonally adjusted basis. About half of the March rise was accounted for by automobile paper. While this increase was the largest since last November, it was well below the gains recorded in 1959 and 1960. For the first quarter as a whole instalment credit outstanding rose by about 700 million dollars on a seasonally adjusted basis. A year ago there was a decline, entirely attributable to a drop in the auto segment, but the comparable periods of 1959 and 1960 saw increases of 1.1 and 1.2 billion dollars, respectively.

Instalment credit rises as auto sales spurt



The immediate burden of consumer instalment credit is determined largely by the volume of repayments of principal and interest relative to current income. Repayments were at an annual rate of 48.6 billion dollars in the first quarter and equaled 12.9 per cent of disposable personal income. This ratio was the lowest since the fourth quarter of 1959.

Construction picking up

Last November Government officials estimated that total new construction which reached a record 57.4 billion dollars in 1961, would be about 5 per cent higher this year. Outlays in the first four months exceeded those of the same period of last year by about this proportion. The large volume of new construction contracts in recent months indicates that this margin of increase will be matched or exceeded in the months ahead.

In the first quarter construction contracts reported by F. W. Dodge were 19 per cent above the same period of last year which, in turn, had been close to the record high for the period in 1959. Contracts for apartments and manufacturing buildings exceeded the first quarter of 1961 by more than 50 per cent. In the Midwest, where total contracts were 11 per cent above last year in the first quarter, the largest gains were for public works and public utilities.

Last November the Government projection pointed to a 6 per cent rise in housing construction in 1962. In February the rate of housing starts dipped to the lowest level in over a year, possibly because of exceptionally severe weather. In March, however, there was a sharp rebound to a rate of 1.4 million which was followed by a further rise in April.

In the urban centers of the Seventh Federal Reserve District, permits for new homes were

9 per cent below last year during the first quarter, compared with an 18 per cent rise for the nation. Permits have lagged the early months of 1961 in most Midwest areas. Milwaukee and Chicago reported declines of 11 and 14 per cent, respectively. However, Indianapolis and a group of centers with under 150,000 population have shown increases.

In all areas there has been a strong trend in the construction of multi-unit housing. Between 1960 and 1961 the proportion of all new housing accounted for by units accommodating five or more families rose from 19 per cent to 25 per cent for the United States. In Milwaukee this proportion rose to 38 per cent and in Chicago to 34 per cent. Centers where apartments are relatively less important, like Detroit and Indianapolis, reported increases in the proportion of multi-family units to 9 and 11 per cent, respectively. This year the number of new apartment units under construction has exceeded last year even in areas where construction of one- and two-family units had declined substantially.

Growth in employment and production

In April employment at nonfarm establishments reached 55.1 million on a seasonally adjusted basis. In the past 14 months since the beginning of the current rise in business this total increased by 1.6 million, or 3 per cent. In periods of expanding business activity employment typically rises at an accelerated pace after the movement has been under way for some time—when overtime has been increased and salaried workers are being utilized more intensively. On the basis of the most recent data the 1961-62 rise apparently has followed this pattern. Nonagricultural employment rose by an average of 100,000 per month from February through December of last year. In the first four months of 1962 it rose at a rate of 150,000 per month.

Sharp rise in construction contracts point to further gain in activity

SOURCE: Department of Commerce and F. W. Dodge.

Unlike nonagricultural employment, industrial production has increased at a slower rate since the end of 1961 than during the preceding 10 months. From February to December, 1961, industrial production increased at an annual rate of 13 per cent. In January through April 1962, the rate of rise was 6 per cent but remained well above the long-term trend.

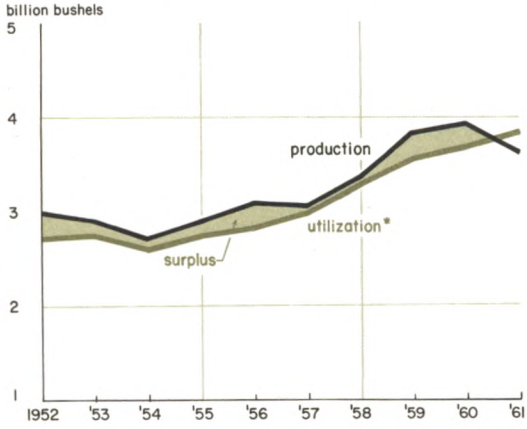
The sharp increase in total manufacturing activity during 1961 reflected very large increases in steel and autos. In recent months the rise in manufacturing has been widespread, with production of most types of business equipment, consumer goods and materials increasing. Most businessmen expect this trend to continue. In April 42 per cent of the members of the National Association of Purchasing Agents reported that new orders of their firms were higher than in March as opposed to only 14 per cent who reported a decline. Half of the Purchasing Agents of Chicago reported they expected business in the second half of 1962 to be "better" while only 17 per cent expected it to be "worse."

Corn production—potential unlimited?

In each year between 1952 and 1960, United States farmers produced more corn than was fed to livestock, consumed at the breakfast table and shipped abroad without Government aid. For the nine-year period as a whole, more than 5 per cent of total corn production was "surplus," that is, not sold at market prices for domestic consumption or export. This was reflected in a more than fivefold increase in Commodity Credit Corporation inventories of corn to over 1.5 billion bushels.

This is one result of the general surplus problem in agriculture—too much labor and capital devoted to producing agricultural products. In 1961 corn production fell below utilization for the first time in a decade but this was achieved through an expensive Government program of idling land which shifted the surplus problem from unused products to unused resources.

Production of corn rose faster than consumption in the Fifties



*Includes domestic consumption for livestock feed, industrial use, seed and exports.

Accompanying this nagging and seemingly unending problem has been continuing debate over the cause and the proper policy actions to "solve" it. In the mid-Fifties the prevailing view was that the problem was temporary and it would only be a short time until the expanding population and rising incomes would bring consumption of food into balance with output at "acceptable" levels of prices.

Reflecting this view, a number of actions were taken beginning in 1954. Price support levels were gradually reduced for almost all commodities. A modest program—the Soil Bank—was undertaken to temporarily retire cropland from production. And the Government's export disposal operations were accelerated chiefly under Public Law 480 which authorized sales for foreign currencies as well as enlarged donations and barter arrangements.

Despite these efforts, production of farm commodities continued to rise faster than demand. By the end of the Fifties it was generally recognized that both the duration and the magnitude of the agricultural surplus problem had been seriously miscalculated. In the case of feed grains, however, a number of people still held to the "temporary oversupply" point of view. Unusually favorable weather was cited as the principal reason for production climbing faster than consumption in the late Fifties. And, indeed, consumption was just a

jump or two behind. These observers currently suggest that the general direction of the agricultural programs of the Fifties was correct but that the programs should be enlarged. Others would eliminate surpluses by permitting prices to decline to levels where supply and demand were balanced.

Recently, a different view of the surplus problem has received wide acceptance: continuing technological improvements will make surpluses permanent rather than temporary. Proponents of this view advocate strict controls on production and marketing as long-range policy to maintain farm prices and incomes at "reasonable" levels.

These conflicting views highlight the importance of correctly diagnosing the basic nature of the agricultural surplus problem. Only then can the various alternative solutions be properly evaluated. Since corn is the most important crop in American agriculture (grown on one out of every four acres of cropland), a review of corn production trends may help to shed light on the problem.

Acreage—trends and potentials

Between 1920 and 1960 total corn acreage in the United States declined by 18.5 million acres or nearly one-fifth. All of this decline, however, has occurred outside the region commonly known as the Corn Belt. In contrast, corn acreage in the 11 Corn Belt states rose by 3.9 million acres during this period. Currently more than 75 per cent of the nation's cropland devoted to corn production is in the Corn Belt compared with less than 60 per cent 40 years ago.

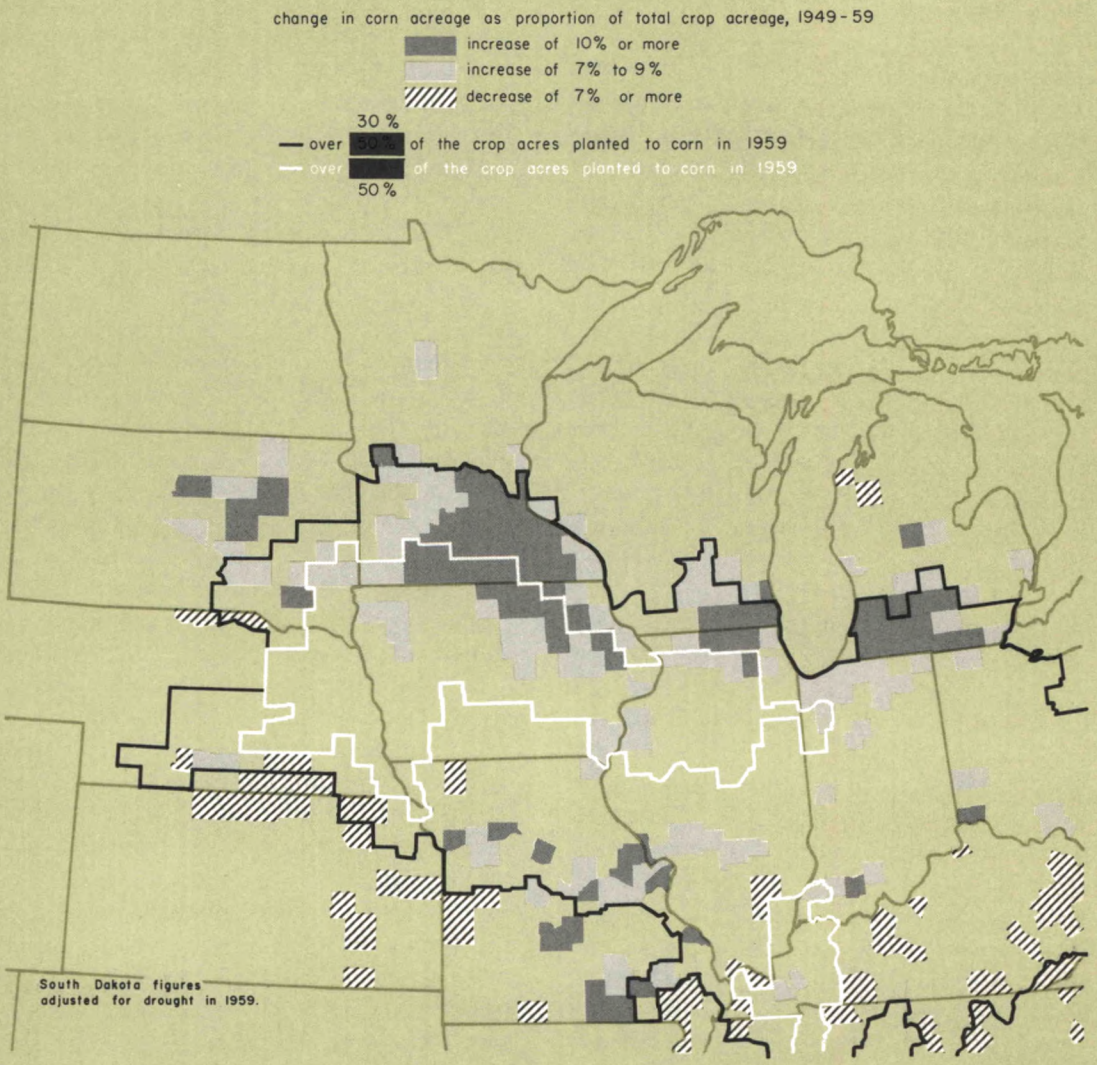
Land and climate, of course, are basic to farming. Corn requires a deep soil, rich in nitrogen and organic matter. The land must have a high moisture-holding capacity and be level or gently sloping to avoid serious soil erosion. Corn also requires a fairly long and warm growing season with ample rainfall. In the Corn Belt states these factors occur in a combination which is especially favorable to the specific requirements of the crop.

The boundaries of the Corn Belt are determined on the north by the length of the frost-free season—corresponding roughly to the limit of 140 consecutive frost-free days—and on the west by rainfall. While the western parts of the Corn Belt receive only 22 to 30 inches of rainfall annually compared with 30 to 40 inches in the remainder of the region, this drier section receives the bulk of its rainfall during the corn growing season and is

Midwest's share of the nation's total corn acreage is rising

*1956-58 acreage reduced by Soil Bank and 1961 acreage reduced by feed grain program.

Corn acreage has expanded sharply in northern fringes of Corn Belt



supplemented by irrigation in large areas.

Between 1949 and 1959 there were significant increases in corn acreage on the fringes of the major Corn Belt area, especially to the north. Development of short-season hybrids enabled intensive production of corn for grain to be extended as much as 100 miles further north in Michigan, Wisconsin and Minnesota. On the other hand, Kansas farmers have steadily reduced their corn acreage

since the Thirties as grain sorghum has replaced corn in areas of limited rainfall.

This trend toward greater concentration of corn production in the Midwest reflects the impact of changing technology. Field operations such as planting, cultivation and harvesting have been increasingly mechanized favoring production on large, level fields. Development of new hybrids and new chemicals for insect and weed control and greater applications of fertilizer also have made the highly productive level land in the Midwest even more advantageously suited for corn.

Until recently, corn had been planted on about as much acreage as had been considered feasible. Accepted crop rotation practices called for corn to be planted for two or three consecutive years, followed by oats and a legume, like clover. In the past, the practice of planting corn continuously without rotation "invited" a buildup of soil-born diseases and insects which attacked corn seeds, roots and stalks in addition to aggravating competition from weeds. Furthermore, the fertility and tilth of the soil declined if legumes were not planted in rotation with corn to replenish the supply of nitrogen, "loosen" the soil and add organic matter. Erosion, too, was a serious problem since with steady row cropping the soil became compacted and rain ran off fields carrying the surface soil with it, instead of being absorbed by the soil. Yields usually declined substantially if corn was planted year after year on the same field with no rotation of other crops.

In recent years, however, new hybrids have been developed which are resistant to diseases and insects. New insecticides and soil fungicides have also aided in maintaining yields in a continuous corn program. Chemical fertilizers have been made available at a cost much less than the "cost" of nitrogen provided by a legume rotation crop. The growing of more plants per acre, along with high levels of chemical fertilization, have provided the organic material needed for maintaining the tilth of the soil in the absence of rotation. New practices of minimum tillage—which compacts the soil only in the seedbed rows, leaving the middle relatively "loose"—combined with chemical herbicides for weed control have reduced the problem of soil compaction associated with the many trips of heavy machinery formerly needed in planting and cultivating corn.

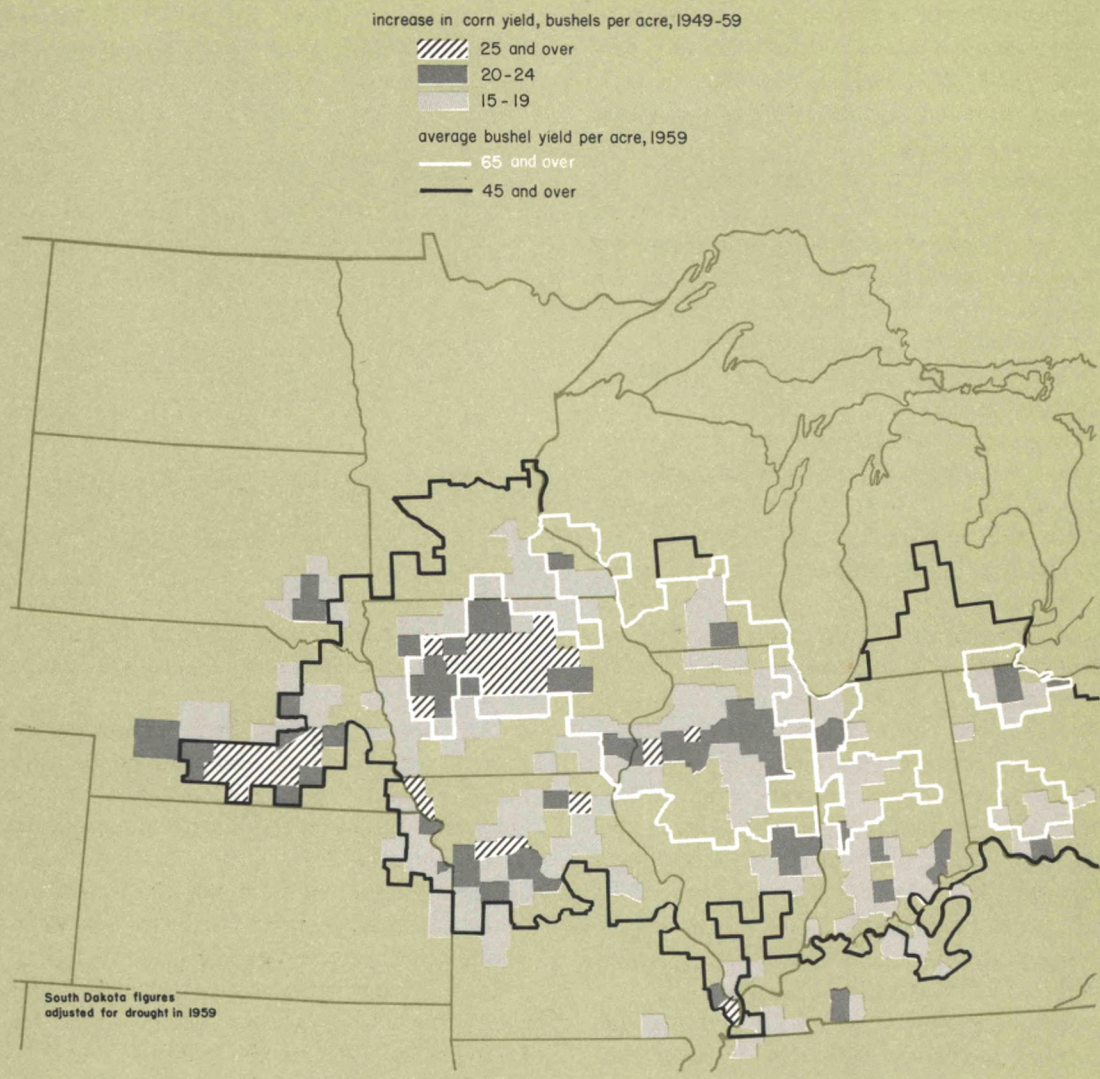
As a result, the amount of acreage planted to corn is no longer limited as severely as in past years by the requirements of a crop rotation system. Large areas of the Corn Belt, therefore, are now suited to continuous corn planting, including most of the fertile land with gentle slopes, if special management practices such as contour plowing and cultivation are used to control erosion. For the steeper slopes a rotation program which includes grass or legumes still must be used to minimize soil erosion caused by water runoff.

Thus, the acreage which could be devoted to production of corn is substantially above the record acreage planted in 1959 and 1960. In Iowa, for example, soil scientists at Iowa State University have estimated that some 14 million acres in that state are reasonably suited for intensive corn cultivation. Of this, between 5 and 10 million acres might be used for continuous corn production. Assuming present rotation practices would cause corn to be planted on only half of this land, this would mean an increase of 20 to 40 per cent from the 12 million acres planted to corn in Iowa in 1959 and 1960. Similar, though perhaps smaller, potentials exist in the other Corn Belt states.

Yields—trends and potentials

Production of corn can be affected as much

Corn yields have increased sharply in heart of Corn Belt



by yield per acre as by total acreage. Rapidly rising yields have brought new production records in 1959 and again in 1960. The 1961 crop was the third largest on record even though more than 20 million corn acres were retired from production under the feed grain program.

The 62 bushel average yield per acre in 1961 was half again as high as in the early Fifties. While there may be some question of the relative contributions of weather and tech-

nology in boosting yields in recent years, there can be no question that present yields are below potential levels. For example, wider adoption of practices now used by the more successful farmers could substantially raise corn yields. In addition, new developments "on the horizon" promise further substantial increases in yields.

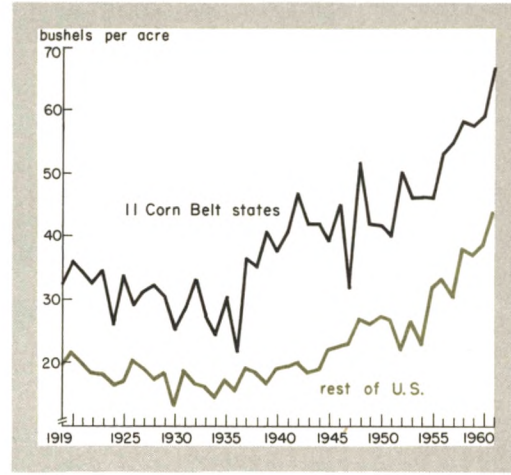
Current rates of fertilizer application are considered to be well below optimum levels. A U. S. Department of Agriculture specialist has estimated that the most profitable rate of fertilization for corn would be around 300 pounds of plant nutrients per acre—or more than twice as much as was used by Midwest farmers last year.

A group of agronomists from the Agricultural Experiment Stations recently estimated that, if "all-out" efforts were made to increase production of corn, through use of more intensive fertilization and adoption of other improved farming practices (without regard to costs or effect on prices), yields in the Corn Belt states could increase to more than 85 bushels per acre. This would be nearly 50 per cent larger than the 1960 yield and almost one-third larger than the record 1961 yield.

On the horizon are hybrids which are tolerant of close spacing, boosting potential corn seeding rates to 50,000 plants per acre—more than double the top rates presently used and three times the typical rate. With capacity to utilize higher rates of fertilization, these hybrids would raise yields.

The development of dwarf and multiple ear corn plants may also serve to boost yields. Dwarf corn reduces the amount of nutrients—believed to be considerable—which are utilized in producing the stalks and leaves of the corn plant and thus makes more nutrients available for producing ears. Multiple ear corn, currently undergoing limited commercial production, has a large number of small ears which facilitates corn being planted and harvested in much the same fashion as oats or wheat.

Corn yields have risen rapidly in Corn Belt and other areas



Agronomists are also investigating the effects of new chemicals and minerals on crop yields. Modifications of the land itself, through improved drainage and irrigation, may also provide higher corn yields.

With adoption of minimum tillage, farmers can perform the planting operations in a much shorter time period, permiting use of longer maturing hybrids with higher yields. Through earlier harvesting (as soon as the corn is matured but not thoroughly dried) one USDA expert estimates reduced field losses can boost yields 5 to 7 bushels per acre compared with delaying harvesting until the corn has dried in the field to a low moisture content necessary for safe storage. Two new and quite different storage techniques have facilitated earlier harvest operations: artificial drying of "wet" or

high-moisture corn and airtight storage units for "preserving" high-moisture corn for later use in livestock feeding.

The economics of corn production

Recently two Iowa State University scientists, who studied the production potential for the Corn Belt, estimated that corn output in that region could be more than doubled from the record 1960 level. This alone would boost total United States production by 75 per cent.

Existence of this potential will not by itself increase corn output. Most of the techniques for increasing production require additional investment. Farmers must first decide whether the returns on this new investment are likely to be profitable or not.

Corn, however, is the most valuable crop produced in the Corn Belt and the economic incentive will be to devote greater acreage to its production. Furthermore, the new technologies tend to make corn even more profitable relative to other crops, since they bring large increases in production with relatively small increases in costs and thereby reduce costs per bushel. In 1959, for example, a group of family-size intensive grain farms in central Illinois produced corn for an average cost (including all operating expenses, plus depreciation, and returns to labor, capital and land) of 87 cents per bushel. Some farmers employing the latest technologies available have managed to reduce costs to under 75 cents. With the present Government corn support price of $1.20 per bushel and the cash price at the farm of more than $1.00 per bushel, efficient farmers have substantial incentive to expand corn production.

Surpluses—temporary or permanent?

The issue of whether surpluses are temporary or permanent revolves around the question of who is to receive the benefits of the new cost-lowering technologies—the consumers (through lower prices) or the producers (through higher profits).

If returns accrue to producers, say, through the maintenance of a price structure which disregards the factor of final market demand, farmers will have strong incentive for rapidly increasing corn acreage and yields whether or not this larger output can be utilized. Furthermore, the higher returns will ultimately tend to be capitalized into the value of land rather than raising labor income.

Thus, programs which allocate the benefits of technology to producers will encourage the purchase of unneeded resources for the production of unwanted agricultural products and will largely benefit land owners. This will also result in higher costs to the Treasury and taxpayers for purchasing, storing and disposing of the surpluses. On the other hand, if the benefits are passed to consumers through lower prices, the incentive for more intensive production would be correspondingly reduced and consumption of food products would increase somewhat.

The fundamental trends set in motion by technological change are almost certain to gain momentum. Continuous planting of corn apparently is being extended to more acres.

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Larger amounts of fertilizers, insecticides and herbicides are being applied to each crop acre. Improved seeds are continuing to be developed and additional investments are being made in better machinery and buildings.

The basic question is how fast and in what manner these and similar changes will take place. Given even modest economic incentive, the capacity of American farmers to produce corn—or for that matter most agricultural commodities—gives no evidence of limiting output to such a degree as to prevent surpluses.

Agricultural policy faces the challenge of aiding adjustment to modern, cost-lowering technology. It is necessary to reduce total resources employed in agriculture if surpluses are to be eliminated. High support prices, of course, tend to attract additional resources and encourage expansion of production; they must be accompanied, therefore, by strict controls over agricultural resources and marketings to prevent surpluses. An alternative approach would be to permit prices to respond to changes in supply and demand and to redirect Government programs toward facilitating the needed shifts of population and other resources out of the farm sector. This would enable farmers, consumers and taxpayers to share fully in the expanding abundance and rising incomes made possible by the modern technological revolution in agriculture.

New skills for the jobless: an aid to full employment?

A new opportunity for unemployed workers to sharpen their job skills or learn new ones to improve their prospects of returning to work is provided by the Federal Manpower Development and Training Act of 1962, which became effective on March 15. To pay for the cost of vocational services and to help support trainees while they are receiving instruction, 100 million dollars will be available in the fiscal year beginning July 1, 1962, and 165 million in each of the two years after that. An added 165 million in state funds would be provided on a matching basis for fiscal 1965.

By the end of the current fiscal year, upwards of 165 million dollars will have been spent for the whole range of the Federal Government's activities in manpower training—vocational education in the public schools, specialized instruction for defense technicians, vocational rehabilitation of the handicapped, veterans' vocational training, the Labor Department's apprentice program and initial activities under the new manpower act. Next year the total is expected to climb to nearly 300 million and possibly to as much as 354 million dollars if Congress approves certain legislation now before it.

The 1962 manpower act follows a modest "pilot" scale vocational training effort established under the Area Redevelopment Act, which became effective in May 1961. While

the main features of that act are a number of financial aids for distressed or labor surplus areas—loans and grants for the construction of community improvements and loans to finance industrial undertakings—several other kinds of assistance are also offered. Training to help prepare workers for jobs in new and expanded local industries is one of these. Through May 9, 100 training projects in 30 states had been approved. These involved about 8,500 unemployed people, roughly half of whom had been out of work for six months or more. Program costs have averaged close to $1,000 a trainee.

Mechanics of the 1962 program

Under the more comprehensive new training act, funds are to be apportioned among the states without special regard for the presence of local areas having chronic unemployment or substandard levels of income. Among the factors that will establish each state's "share" in the available funds are its proportion of the United States labor force, total unemployment and insured unemployment, and the relation of average weekly unemployment compensation payments within the state to the national average.

Retraining courses, ranging in length from two weeks to a year, are to be established when there is reason to believe that jobs will be available for trainees. Responsibility for appraising local job market conditions and prospects rests with the Secretary of Labor, who also is to provide a system of testing, counseling and selection of candidates. Existing state vocational education facilities and services are to be utilized as far as possible, although private schools or other training institutions may be used. On-the-job training offered by employers and jointly by employers and local school boards is also eligible for Federal support under the program.

A major portion of the funds provided will be for subsistence allowances for those enrolled. The amounts paid will vary from state to state, roughly equaling average weekly unemployment compensation benefits. Trainees who have had at least three years' work experience and are heads of families or households will qualify for allowances at those rates. Payments to youths in the 19-21 age range, however, are limited to $20 a week, while no provision is made for allowances to those under 19 years of age.

Any subsistence payment

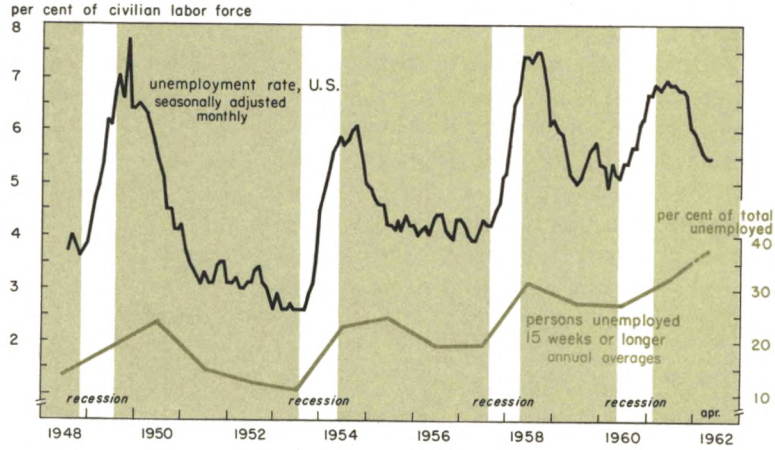
Manpower training programs in the 1963 Federal Budget and fiscal 1962

	Number of persons served		Expenditures of Federal funds	
	1962	1963	1962	1963
	(thousands)		(millions)	
Area Redevelopment Act of 1961	15	20	$ 11	$ 15
Manpower Development and Training Act of 1962 [a]	—	90	5	100
Youth Employment Opportunities Act (pending)	—	56	—	60
Voctional education programs [b]	1,120	1,300	54	63
Vocational Rehabilitation	382	422	90	111
Apprentice Training [c]	213	215	5	5
Totals	1,730	2,103	$165	$354

[a] Workload for individuals receiving both training and subsistence.
[b] Under the George-Barden, Smith-Hughes and National Defense Education acts.
[c] Trainee subsistence costs are borne by employers.

is, in effert, to be an offset to all or a portion of the unemployment compensation that the trainee otherwise would be entitled to receive. The program is not limited to individuals covered under unemployment insurance. Many of those eligible presumably will be youths, unemployed farm workers and others who do not qualify for jobless benefits and those from covered employment who have exhausted their unemployment benefits.

Long-term unemployment—a growing proportion of the total in the postwar period



Preference in training is to be given to the unemployed who have had at least three years of work experience. Youths of 16 and over who have been unable to find jobs are to be accommodated to the extent feasible, along with members of low-income farm families.

It is estimated that about 750,000 people will receive instruction of some sort during the three-year term of the program. Most, though not all, of these are presently among the "hard core" of long-term unemployed.

Special youth programs under study

Considerably more elaborate youth employment programs are proposed in legislation presently pending before Congress. Provision would be made for local "public service" work with public or private nonprofit institutions and for a new youth conservation corps patterned after the depression-era Civilian Conservation Corps.

The scope of the proposed youth conservation corps is still under debate. One plan would establish a relatively small-scale, three-year pilot undertaking designed to serve about 6,000 young people annually. The other—incorporating features of a bill passed by the Senate in 1959—would set up a program to accommodate 50,000 in the first year, building up to 150,000 two years later. Backers of the more ambitious version contend that experience with the CCC program makes an "experimental" approach unnecessary at the present time.

Prosperity and joblessness

The 1962 manpower act and the additional measures still under consideration reflect the heightened concern expressed in recent years over the persistence of relatively high unemployment in generally good times. Since the war, the "prosperity" level of unemployment appears, moreover, to have moved upward in successive stages of economic expansion.

Following the 1948-49 recession, the United States unemployment rate declined to

about 3 per cent—having been almost 8 per cent in late 1949. After reaching roughly 6 per cent in the 1953-54 recession the rate again declined, but this time only to about 4 per cent. Similarly, the appreciable rise in 1958, to 7½ per cent, was followed by an interlude in the 5-6 per cent range before the climb to 7 per cent during the recent 1960-61 setback. In April 1962, more than a year after recovery from the 1960-61 recession got under way, nearly 4 million people—5½ per cent of the labor force were out of work. Almost 1.5 million had been unemployed for 15 weeks or longer, nearly half of them for at least 26 weeks.

The uptrend in the unemployment rate indicates a rise in the number of people whose skills and places of residence are out of touch with labor market requirements. Some unemployment of this sort is inevitable within the context of a continually changing economy. The amount, however, generally remains within narrow bounds. The unemployed are motivated to migrate to communities where jobs are to be had or to switch to occupations in which work is available. Business firms, too, tend to move into and to expand within communities where labor is abundant. Evidence that the volume of transitional unemployment recently has grown, both in numbers and as a percentage of the labor force, suggests that the "corrective" process has not worked rapidly enough to do the job cut out for it. Reasons for this may be found in such factors as the accelerated pace of industrial and office mechanization and the redirection of defense procurement from heavy ordnance and aircraft to electronic devices and missiles as well as the widespread work force curtailments in coal mining and the railroad industry.

Aftermath of the birth upsurge

Population and labor force developments foreseen for the next several years have also been influential in stimulating interest in job retraining. The most recent official projections indicate a record 13.5 million net increase in the labor force between 1960 and 1970. This compares with a gain of only 8.4 million in the Fifties. Moreover, it is estimated that some 26 million young people will enter the job market for the first time during the present decade, as against 19 million during the Fifties. While the number of youths seeking their first jobs averaged 1.9 million annually between 1950 and 1960, the number at present is about 2.3 million and by 1970 it is expected to reach 3.0 million.

It also has been estimated that some 7.5 million, or nearly 30 per cent, of all young people entering the labor force in the current decade will be school "dropouts." Of these, 5.2 million will not have finished high school and 2.3 million will have left school before finishing the eighth grade. The growing awareness that job opportunities are diminishing for individuals with limited education and skill has focused increased public attention on the "dropout problem."

The present-day Federal manpower programs are, of course, not the first governmental efforts in the field of vocational training and retraining. In the Thirties the Federal Government sponsored a variety of retraining projects under the Work Projects Administration and subsequently, during World War II, conducted a widespread training and retraining program for personnel employed in war production plants.

Many local communities for years have offered instruction in job skills to those receiving public assistance, usually as a condition of continued eligibility to receive aid. In the Midwest, Chicago, Detroit and Milwaukee are examples of communities where retraining efforts have been tied in with the administra-

tion of public assistance. Such programs usually concentrate on people who appear to be more or less readily trainable and, therefore, are available to relatively few.

Openings for trainees?

The ultimate success of any manpower retraining program obviously depends upon the availability of jobs. In fact, the rationale of such an undertaking is its ability to help bridge the gap between workers looking for jobs and jobs looking for workers.

It need not follow that the number of unfilled jobs at the moment sets a rigid ceiling on the number who can be reabsorbed into gainful employment after receiving training. If job openings available now were to be filled, total income and spending would rise and this, in turn, would help to stimulate activity and thus generate jobs for more workers.

Retraining is not likely to be a cure-all for unemployment. Those unemployed who have had only limited schooling and therefore need to learn to read, write and do simple arithmetic may be a long way from the threshold of a training program that could equip them to work as automobile repairmen or machine operators, stenographers, practical nurses or radio-TV maintenance men.

Individuals lacking basic skills in reading and writing seldom will be promising candidates for vocationally directed, short-term courses. More extensive training than this is needed if these people are to be fitted into productive employment. Similarly, it may be doubted that older workers who have only a few years to go before reaching 65—particularly those with limited educational attainment—can expect to derive appreciable benefit under such a program. Prospects for workers in both of these categories remain dim under present labor market conditions and may well deteriorate further as employers' educational and skill requirements continue to rise.

Manpower Development and Training Act of 1962: the spending proposed and workloads anticipated

	Fiscal years		
Appropriations authorized	1963	1964	1965
	(millions of dollars)		
Cost of instructional programs	29	42	42
Subsistence allowances	62	111	112
Long-term unemployed	50	91	83
On-the-job trainees	8	15	19
Youths	4	5	10
Related activities	9	12	11
Research on manpower problems	2	3	3
Counseling services	3	3	2
Program development	4	6	6
Total	100	165	165*
Persons to be served	Estimated numbers (thousands)		
Total to receive counseling, testing and placement services	600	600	400
Training and subsistence	90	170	350
Long-term unemployed	60	110	200
On-the-job trainees	20	40	100
Youth trainees	10	20	50
Training only	20	50	80

*Additional 165 million dollars in state matching funds is expected.