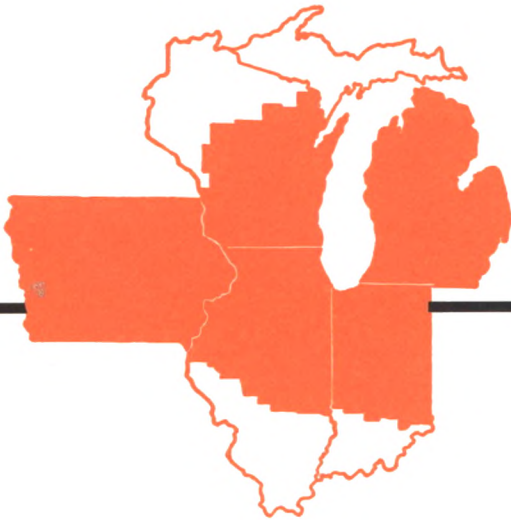


Business Conditions

1968 July



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America's work force— trends and prospects

Price inflation since mid-1965 has been closely associated with strong pressures on the nation's labor force. In these years, as in earlier periods when unemployment dropped well below the 4.5 percent level, increases in labor costs and related increases in commodity prices have played an integral role in the disruption of stable economic growth.

Employment growth accelerates

More than 82 million people were in the nation's labor force in mid-1968—at work, seeking work, or serving in the Armed Forces. The total is up 10 million since 1960 and 20 million since 1948. The labor force has been increasing even faster since 1965—at a rate of almost 2 million a year.

Despite the rapid influx of additional workers—larger numbers of young people reaching working age, mature women attracted by expanded job opportunities, and continuing net immigration—the labor force has been used more intensively since 1965 than at any time since the Korean War. An average of 3.8 percent of the civilian labor force was unemployed (without a job but

seeking work) in 1966 and 1967, compared to more than 5 percent in the late 1950s and early 1960s. So far in 1968, the rate has averaged even lower—about 3.6 percent.

Moreover, there has been a further rise in the labor-force participation rate—the proportion of noninstitutional population 16 years and over in the labor force.¹ Last year, this proportion averaged 60.6 percent—a level that, despite continued trends toward additional schooling and early retirement, has been exceeded only once (in 1956) since World War II.

The labor force is not a fixed number of people even in the very short run. The dimensions of the force are highly elastic, varying with general economic conditions and individual circumstances. Almost all men between 25 and 55 are continuous participants in the labor force. But they account for only about 40 percent of the total. The rest of the population of working age—men older or younger than the middle bracket and women

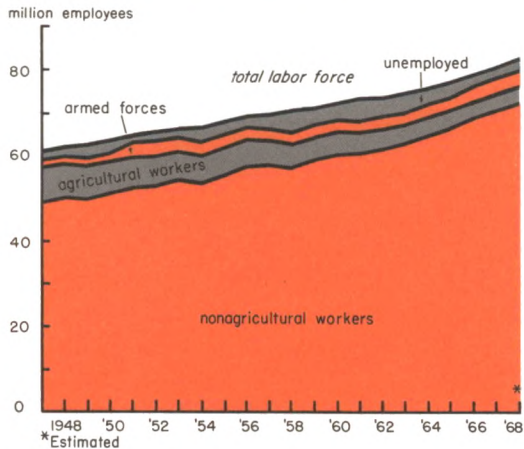
¹Noninstitutional population means those not in jails, mental hospitals, sanatoriums, or retirement homes.

BUSINESS CONDITIONS is published monthly by the Federal Reserve Bank of Chicago. George W. Cloos and Lynn A. Stiles were primarily responsible for the article "America's work force—trends and prospects."

Subscriptions to **Business Conditions** are available to the public without charge. For information concerning bulk mailings, address inquiries to the Federal Reserve Bank of Chicago, Box 834 Chicago, Illinois 60690.

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Growth in nonfarm employment has been rapid in the Sixties



of all ages—may participate periodically or not at all, depending on family duties, educational goals, needs or desires for income, opportunities for suitable work, preferences for leisure, physical conditions, and other considerations.

Employer demand has been particularly strong in recent years for all types of professional and technical personnel, and for skilled workers in the metalworking and building trades. But shortages of readily trainable workers without specific skills have also been widespread, especially in the Midwest.

Pressures on the available work force are largely responsible for the accelerated rise in worker compensation (wages and salaries, plus other benefits) from a 3-percent gain in 1965 to perhaps 6 percent in 1968. Accompanied by a slower rise in output per man-hour, higher worker compensation has sharply increased unit labor costs. Higher production costs have been associated with an acceleration of price inflation from a mild 1 percent a year in the early 1960s to 3 percent in 1967

and 4 percent in more recent months.

Increasingly, labor supplies are being bolstered by larger numbers of people completing schooling. Reflecting the rise in birth rates after World War II, 3.8 million Americans reached 21 in the year ending July 1, 1968—about 1 million more than in 1967 and 1.5 million more than in 1961. The number of people reaching maturity each year will remain high, rising to more than 4 million in the 1970s. The potential work force will also be broadened by programs to train and rehabilitate the disadvantaged in urban and rural slums.

In 1967, the median number of school years completed by the civilian work force was 12.3—up from 10.9 in 1952. The additional education increases people's potential, in most cases, to produce goods and services, and thus, in the long run, helps dampen the wage-price spiral. But the trend toward longer education also reduces the supply of young people available for work and tends to increase the opportunities and compensation of those at work.

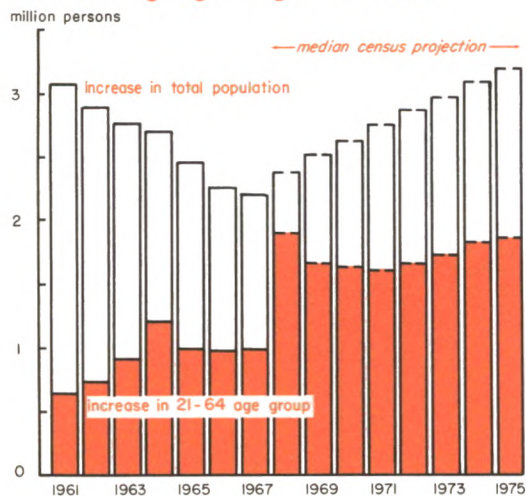
Population and the labor force

The nation's population passed 200 million in 1967, marking a rise of almost a third since 1950. The increase, resulting from the excess of births over deaths plus net immigration, was 3 million a year from 1956 through 1961. Since then, the annual rise has dropped steadily, with a falling birth rate more than offsetting other factors. Population growth will probably accelerate again this year and in future years. The median of four estimates by the Census Bureau—the estimates differ mainly because of different assumptions regarding fertility rates of women of childbearing age—show a gradual increase in population growth with the 3-million level regained by 1973.

Most of the experienced labor force is in the 21-to-64 age group. Because death rates and immigration can be anticipated within narrow margins, the number of people in the age group making up the experienced work force can be projected for years to come, and with a high degree of dependability. In recent years, this age group has increased about 1 million a year. Because of the sharp rise in births in 1947, the 21-to-64 group increased about 1.9 million in the year ending July 1, 1968. The group will continue to increase at 1.6 million or more through 1975.

If population trends follow the Census Bureau's median estimates, the increase in the 21-to-64 group will jump as a proportion of the increase in total population from 40 percent in recent years to 80 percent this year and continue at about 60 percent through 1975. The increase in producers, as opposed to consumers, can be expected to dampen inflationary pressures.

Large increases in population of working age begin in 1968



4

Note: Figures are for years ending July 1.

Labor force participation

In addition to population growth, the labor supply is determined by the proportion of potential workers that choose to work. Estimates of employment and unemployment are derived by the Bureau of Labor Statistics and the Census Bureau from monthly interviews of a comprehensive sample of 50,000 households. For purposes of the estimates, *employed* people are those that did any work for pay in the week preceding the survey and those that worked at least 15 hours as unpaid workers in family enterprises.

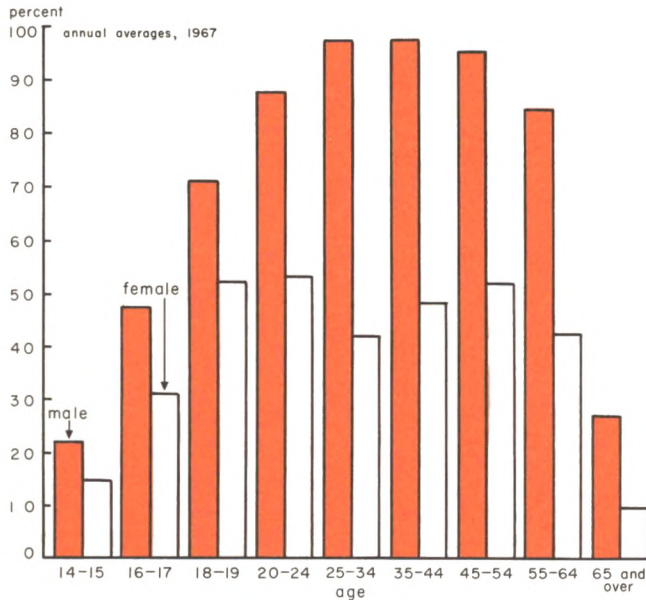
From 1965 through 1967 the participation of male workers in the labor force was stable at 81.5 percent of the noninstitutional population 16 and older. Because of longer schooling and earlier retirements, this proportion had been declining fairly steadily—from 87 percent in the late 1940s.

The participation of female workers in the labor force has been on a fairly continuous rise—from less than 32 percent in 1947 to more than 41 percent in 1967. Participation rates for women have increased in all age categories, except for those under 20 or over 64. The rates are substantially higher for nonwhites than for whites, especially among those 25 and over. The difference indicates a greater need for income.

For males, participation in the labor force currently reaches 88 percent in the 20-to-24 age group, 97 percent in the 25-to-44 group, and then declines gradually. For females, the maximum participation rate is reached in the 20-to-24 age group. It declines in the following years and then rises again in the groups 45 and older, for whom responsibilities for the care of small children have eased.

For many women, particularly married women, income obtained from working is a desired, but not an essential, supplement to their husbands' earnings or other income.

Almost all mature men are in the labor force compared with about half of the women



Note: Percent of noninstitutional population in the civilian labor force.

Their willingness to accept jobs is determined by the suitability of the hours, the location, and the nature of the work.

The strength of demand for workers since 1964 and the rise in requirements of the Armed Forces since 1965 have helped spur the employment of an additional 1 million women a year. Women accounted for two-thirds of the rise in total civilian employment in 1966 and 1967. More than 36 percent of all civilian workers are now women, compared with 32 percent in 1957 and 28 percent in 1947.

The industry mix

Civilian employment in May 1968 was estimated at 75.8 million. That was 2.3 mil-

lion more than in the same month a year earlier—which was slightly depressed by the economic slowdown. Civilian employment has been increasing an average of about 1.7 million a year since 1963. That is the largest and most sustained uptrend in employment since World War II.

The pressure on labor resources exerted by the rise in civilian employment has been heightened by the increase in the Armed Forces—from 2.7 million in 1965 to 3.5 million in 1968. The increase in requirements of the Armed Forces has been a fourth as large as the rise in civilian employment.

Moreover, the impact on the labor force has been relatively greater than the numbers would suggest. Young men in the Armed Forces have been screened for physical, mental, and moral defects that would hamper their usefulness as civilian workers.

Virtually all of them could get and hold civilian jobs. In addition, college enrollments are raised by young men who might otherwise enter military service.

The requirements of the Armed Forces have passed through two major cycles since World War II—rising because of the Korean War and the Vietnam War. From less than 1.5 million in 1948, the Armed Forces rose to 3.6 million in 1952 and 1953. After declining to 2.5 million in 1960, they rose again to the current level of more than 3.5 million.

No other type of employment has fluctuated as much as the military. Most types of employment have shown secular trends or have remained stable relative to the total.

Agriculture provides a spectacular example

of a declining employment sector. From 7.9 million in 1947, employment in agriculture has declined almost every year, reaching 3.8 million in 1967. During that time, agriculture dropped as a proportion of total civilian employment from 14 percent to 5 percent.

The exodus from the farm has provided many additional workers to the urban labor force. In some areas, it has also added to the number of unemployed, especially in the South. Reduced acreage allotments and increased mechanization there have reduced need for agricultural workers. Agricultural employment would decline still further if the entire rural labor force were used efficiently.

Among nonagricultural workers, the most persistent decline in employment has been in mining. Just over 600,000 workers are now employed in mining, compared with 1 million

in the late 1940s. During that time, mining's proportion of nonfarm wage and salary employment declined from more than 2 to less than 1 percent.

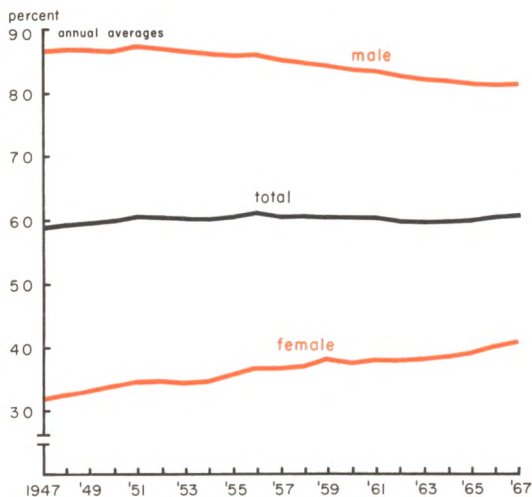
Employment in transportation and public utilities has declined as a proportion of total wage and salary employment from 9.5 percent in 1947 to 6.4 percent. Employment in these industries has increased in recent years, after a decline in the late 1950s and now approximates levels reached in the early 1950s.

The most persistent *increase* in employment, both in numbers and as a percentage of the whole, has been in state and local governments. The number of these workers has more than doubled in the past 15 years, partly reflecting the rise in public school enrollment. As a proportion of nonfarm wage and salary employment, state and local government workers have increased from 8.2 percent in 1947 to 13.5 percent in 1967. The federal government has accounted for 4 percent of total wage and salary employment since the Korean War.

Some types of wage and salary employment have remained fairly stable relative to the total. Total manufacturing dropped from 35 percent in 1947 to 30 percent in 1961, but it has remained near that level ever since. Manufacturing employment did not exceed the Korean War peak of 1953 until 1965. Within manufacturing, of course, more pronounced trends have been recorded. Non-durable goods, as a group, have continued to decline relative to total employment.

Retail and wholesale trade has remained close to 21 percent of the total since 1947. Employment in finance, insurance, and real estate has been 5 percent of the total, with little variation, for a decade. Employment in service industries rose for many years as a proportion of the total. In recent years, however, it has been stable at 15 percent.

Male participation in the labor force has declined while rate for women has increased



Note: Percent for noninstitutional population 16 years and older in civilian labor force.

Nonfarm wage and salary employment

Annual averages

	1947	1957	1967	1947	1957	1967
	(amounts in millions)			(percent)		
Total	43.9	52.9	66.1	100.0	100.0	100.0
Mining	1.0	.8	.6	2.2	1.6	.9
Contract construction	2.0	2.9	3.3	4.5	5.5	4.9
Manufacturing	15.6	17.2	19.3	35.4	32.5	29.3
Durable goods	(8.4)	(9.9)	(11.3)	(19.1)	(18.6)	(17.2)
Nondurable goods	(7.2)	(7.3)	(8.0)	(16.3)	(13.8)	(12.1)
Transportation and public utilities	4.2	4.2	4.3	9.5	8.0	6.4
Total trade	9.0	10.9	13.7	20.4	20.6	20.7
Wholesale	(2.4)	(2.9)	(3.6)	(5.4)	(5.5)	(5.4)
Retail	(6.6)	(8.0)	(10.1)	(15.0)	(15.1)	(15.3)
Finance, insurance, and real estate	1.8	2.5	3.2	4.0	4.7	4.9
Services	5.1	6.8	10.1	11.5	12.8	15.2
Total government	5.5	7.6	11.6	12.5	14.4	17.6
Federal	(1.9)	(2.2)	(2.7)	(4.3)	(4.2)	(4.1)
State and local	(3.6)	(5.4)	(8.9)	(8.2)	(10.2)	(13.5)

Although, relative to the total, some major categories of employment have been stable, the stability of their movements partly reflects the tendency of fluctuations in sub-totals to "wash." The general picture of the employment mix in industry suggests a great deal of flexibility in shifts of workers according to market needs.

Who are the unemployed?

In recent years, heavy reliance has been placed on the proportion of the civilian labor force estimated to be unemployed (without jobs and seeking work) as a measure of the economic wellbeing of the nation and the pressures on the nation's manpower resources. Unemployment has averaged less than 3 million since 1965, and the proportion of the work force unemployed has been less than 4 percent.

The experience since World War II indicates that excessive rates of price inflation have been associated with periods when the unemployment rate has been appreciably below 4.5 percent. Such periods came in

1947-48, the Korean War years, and the mid-1950s, as well as the current period. Obviously, demands on the labor force can be excessive as well as inadequate.

Unfortunately, over-full employment for the general economy has been accompanied by serious problems for some groups and regions. Unemployment has been much greater for nonwhites than whites, and rates have been disturbingly high in the ghettos of large cities, in Appalachia, and in parts of the South, the Mountain States, and the West Coast.

It should not be concluded that because the unemployment rate remains stable at, say, 4 percent for a year or more, one out of every 25 potential workers is continuously out of work. In most months, half or more of the unemployed are found to have been out of work less than five weeks. Any of the monthly surveys is likely to find that half or more of the people unemployed in the previous month have found jobs. More than four-fifths of the unemployed reported in recent months have been without work less than 15 weeks.

Most of the unemployed are clearly not "hard core" problem cases. Rather, they are "between jobs." The ability to draw unemployment compensation, union payments, and severance allowances, and to use accumulated savings allows workers to continue seeking employment suitable to their training and experience, rather than accept whatever job is available. The ability of workers to withhold their services without suffering hardship is greater now than ever before.

The unemployed must be looked on as a pool of workers with a constantly shifting composition. A special survey for 1966 re-

vealed that more than 11 million people had at least one period of unemployment sometime during the year. That is four times the number reported unemployed for any one survey week.

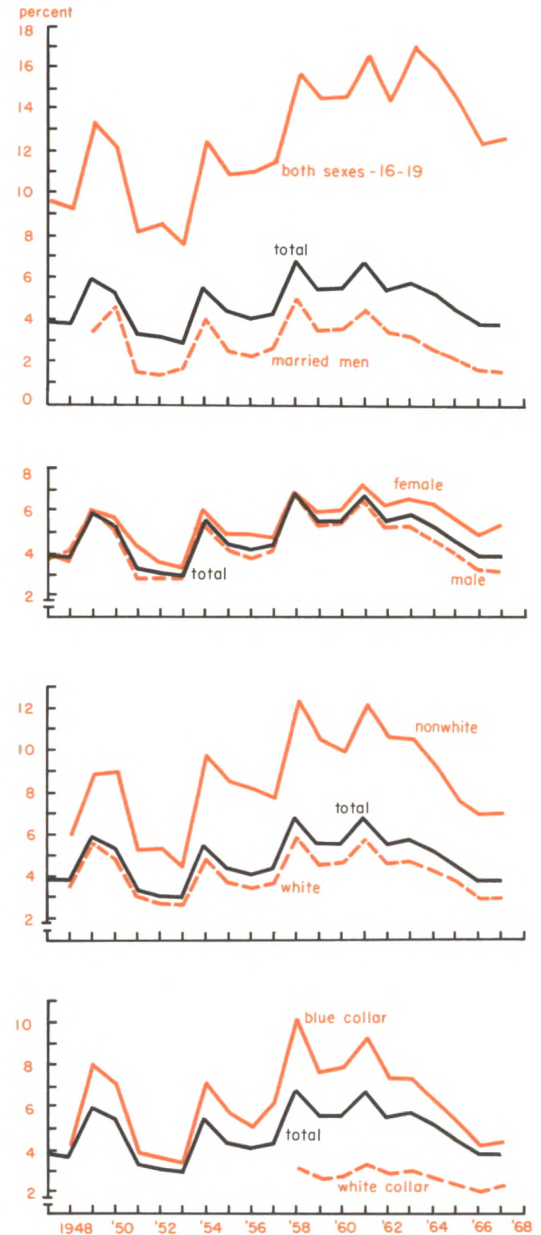
Another dimension of the unemployment problem is *underemployment*, usually reflected in short workweeks. This spring, about 7 percent of the men with jobs and 23 percent of the women voluntarily worked less than 35 hours a week. In addition, 2 percent of the men and 3 percent of the women involuntarily worked part time because full-time work was not available.

The real problem types among the unemployed include those who have been out of work several months, those who experience frequent periods of unemployment or short workweeks, and those who have dropped out of the labor force, believing no jobs are available to them. Many of the long-term unemployed—whether or not they are seeking work—are considered unemployable because of physical handicaps, obsolete specialties, police records, inadequate educations, unsocial attitudes, or poor work records.²

Remedial programs are directed largely toward help for people in these groups. Their number, while not subject to ready measurement, is probably less than 2 million. The number may or may not be growing.

Problems of these hard-core unemployed are also typically the problems of young people, especially those who are high-school dropouts or graduates without adequate attainments. Although it has declined since the early 1960s, the unemployment rate for those 16-to-19 year olds has been about 13 percent since 1965. And the rate is even higher for nonwhites.

Unemployment rates are relatively high for teenagers, women, non-whites, and blue-collar workers



²See "Why unemployment amidst unfilled jobs," *Business Conditions*, July 1964.

That was not always the case. During the Korean War, when military requirements increased, relatively more jobs were available for the unskilled, especially in agriculture, and the teenage population was relatively small. The teenage unemployment rate was as low as 8 percent.

Unemployment rates have always been high for young people. In their early years, people are establishing work records and finding their proper niches in the labor force. The danger is that discouragement with their early efforts will channel some into the truly hard-core group.

At the other extreme from teenagers are married men living with their wives. Only in recession years has the unemployment rate for married men exceeded 4 percent. This spring, it was 1.5 percent—near the Korean War low.

It can be argued that the unemployment rate for responsible breadwinners is the most significant, but efficient use of the labor force requires that the other groups also be considered. Unemployment rates are typically higher for women than for men, for nonwhites than for whites, and for blue-collar workers than for white-collar workers. Of these the most striking difference is between nonwhites and whites. The ratio of unemployment rates has been more than two-to-one ever since the Korean War.

The employment problems of nonwhites and other disadvantaged groups have worsened in recent years as more and more operations formerly done by unskilled workers have been mechanized. The elimination of tedious, dirty, dangerous jobs is unquestionably a boon to the general welfare, but for some groups, such progress has probably increased the difficulties of finding employment. It is possible that as farm workers, dislocated by mechanization move to the cities, attention

is drawn to unemployment which was largely unnoticed in the rural setting.

Government and manpower

Government—federal, state, and local—played only a minor role in manpower utilization before the 1930s. Manpower legislation was confined largely to enforcing safety standards, improving working conditions, and limiting hours. The provision of adequate levels of aggregate employment was left to market forces.

The massive and extended unemployment that accompanied the Great Depression brought—in addition to other efforts to revive the economy—a variety of programs to provide jobs in the construction of public works (even in “make work” projects) and broad legislation to regulate maximum hours and minimum wages. Even so, the unemployment rate, while improved substantially, did not fall much below 15 percent until World War II spending caused labor markets to tighten.

Wartime mobilization reduced the unemployment rate to 1.2 percent in 1944, and millions of additional workers could have been used, had they been available. But there was general apprehension that large-scale unemployment would develop during the re-conversion to a peacetime economy.

Congress expressed its concern over the need for high levels of employment by passing the Employment Act of 1946, declaring:

. . . it is the continuing policy and responsibility of the federal government to use all practicable means . . . for the purpose of creating and maintaining conditions under which there will be afforded useful employment opportunities . . . for those able, willing and seeking to work, and to promote maximum employment, production and purchasing power.

Except for recession periods, monetary and fiscal policy was successfully used in keeping unemployment at relatively low levels from World War II until the late 1950s. In addition, minimum wage and maximum hour legislation of the 1930s was extended and strengthened.

Following the 1958 recession, unemployment remained at higher rates than in early periods of general prosperity. Some argued that the lack of jobs resulted from a deficiency of demand. The remedy, therefore, was to stimulate demand by suitably expansionary monetary and fiscal actions. Others questioned the advisability of such a course by contending that the underlying trouble was *structural*—a reflection of changes in skill requirements, rapidly changing technology, and sizable differences in the rate of economic development in different areas.

In the structuralist view, people were out of work while jobs went begging because job requirements did not match the experience and capabilities of people seeking work. Retraining workers to equip them with the skills sought by employers and providing inducements for businesses to move into distressed areas offered the best promise for solution to the unemployment problem. Such efforts would, of course, need to be accompanied by stimulation of total demand to open up jobs for retrainees and to provide markets for the newly established businesses. But monetary and fiscal expansion without parallel efforts to fit the unemployed to jobs would simply intensify upward pressure on costs and prices, which continued to rise during the recession.

Moderately stimulative monetary and fiscal policies were pursued until 1964, and the rate of unemployment declined from 7 percent in 1961 to 5.5 percent. Thereafter, under the impact of the large reduction in taxes in 1964 and a strong rise in government spending, un-

employment declined further—to 3.8 percent in 1967 and to 3.5 percent in April and May of this year.

Even with extremely low overall unemployment rates since 1965, rates have remained high for some segments of the labor force. The debate of the early 1960s as to whether unemployment was at least partly structural and therefore not susceptible to reduction through increases in aggregate demand appears to have been resolved.

The lesson of recent years is that both the expansionist and structuralist approaches are needed and that the lower the level of unemployment desired, the greater must be the weight given to measures that would improve labor markets and directly facilitate movement of the unemployed into jobs.

Training and retraining

Chronic unemployment in a time of general prosperity tends to concentrate among people lacking the experience, skill, or motivation to hold jobs. Among nonwhites, age 16 through 19, unemployment rates have remained above 25 percent. The result has been a shift in official manpower policy from measures to stimulate aggregate demand and employment to means of equipping (or re-equipping) the unemployed to fit specific job vacancies.

Government activities in connection with the structural aspects of unemployment have been expanded substantially since 1962. Most of the increased activity has centered in vocational training and basic education of the unemployed under manpower and “poverty” programs.

Although the Area Redevelopment Act of 1961 set a training program in motion, it was too limited in scale to be counted as more than a pilot program. The experience gained was drawn on, however, in devising the much

more ambitious Manpower Development and Training Act of 1962. That act, amended several times since 1962, has served as the foundation of the government's manpower activities since its adoption.

Four main categories of training are provided under the act: skill training for entry into jobs, basic education, communications skills, and employment skills. Both institutional (classroom) and on-the-job training services are offered.

During fiscal 1967, 310,000 people were enrolled under the program. Of those, 130,000 participated in institutional training, 100,000 were trained on the job, and 55,000 received combinations of on-the-job and institutional training.

Skill training. Institutional trainees are divided about equally between programs in five principal occupational categories: clerical and sales, machine trades, structural work, services, and a miscellaneous group that includes professional, technical, and managerial occupations, farming, processing, truck and heavy equipment handling, and service-station operation.

Under the clerical and sales heading, training is provided for typists, clerks, secretaries, and office-machine operators. In machine trades, metal-machine operation and auto mechanics and repair account for most of the trainees. Welding, flame cutting, and auto-body repair account for well over half the trainees for structural work occupations. Nurses aides and hospital orderlies are the major service groups for which institutional instruction is provided.

Basic education. This is elementary education in the three "Rs" designed to complement vocational training or not, depending on individual needs.

Communications skills. Training in this field overlaps with basic education, but it is

more selective. Unclear enunciation, extremely idiomatic speech, and marked dialect are examples of conditions this type of training is designed to remedy.

Employment skills. These are capabilities and characteristics other than vocational, basic, or communications skills that bear on a person's employability. Major attention is given to work habits, conformity to expected standards of behavior, punctuality and regularity of appearance for work, appropriateness of dress, personal cleanliness, ability to get about in search of a job and then to hold it, and attitudes conducive to satisfactory job adjustment.

Shifts in emphasis

Initial efforts in the early 1960s to deal with dislocations in the labor market were based on the premise that the uneven geographical impact of technological changes, coupled with the imperfect mobility of the labor force, resulted in pockets of distress.

Accordingly, the act of 1961 provided financial incentives for industrial development and the construction of municipal facilities that would complement industrial development in areas where unemployment was substantially higher than the national average. Vocational retraining was provided for, more or less incidentally, as a means of making sure that workers with the skills needed would be available to employers taking advantage of the inducements to move into afflicted labor market areas or expand their operations there.

Under the 1962 Manpower Development and Training Act, the earlier emphasis on distressed areas gave way to a concern over more generalized dislocations in labor markets. Where the 1961 program expressed public conviction that the paradox of joblessness in the midst of prosperity had an essentially

geographical dimension, the 1962 act acknowledged that unemployment and job vacancies often coexist within a labor market. This same premise is implied not only in the amendments to the act adopted since 1962 but also in the Poverty Program and other recent manpower measures.

In classroom training, which makes use of facilities in public and private vocational schools and, in some cases, the facilities of industry, trainees receive subsistence allowances roughly equivalent to the benefits otherwise available to unemployed people. Subsistence payments and the contract costs of institutional instruction are borne by the federal government.

Employer facilities are used in on-the-job programs. Instructors are provided either by the employer or, where appropriate, through agreements between employers and local school districts. Costs are defrayed by the government.

The programs were established initially for training periods varying from two weeks to a year. It was soon found, however, that many trainees were handicapped by poor educational preparation. Many had left school early and others had received substandard schooling. Accordingly, the maximum duration of the individual training programs was lengthened from 52 to 72 weeks in 1963 and to 104 weeks in 1965 to allow extra time for instruction in basic language and number skills.

In 1966, the program was further broadened to include job orientation as a bridge to employment for the disadvantaged. In 1967, 65 percent of all training opportunities under the Manpower Development and Training Act were earmarked for people with such problems as educational deficiency, minority-group status, prolonged unemployment, poverty, or old age.

Another major shift in emphasis came with the enlargement of on-the-job training activities and some lessening of institutional training. The shift helped bring the Manpower Development and Training Act programs more in line with stepped up efforts to encourage companies to take a greater part in tackling the problem of hard-core unemployment.

A related program has been initiated by the National Alliance of Businessmen, a group organized to support the government's re-employment activities. Under the JOBS (Job Opportunities in the Business Sector) program, Manpower Development and Training funds will be used to cover the extra costs of hiring and training 500,000 hard-core unemployed by 1971 (100,000 by September 1968) and finding 200,000 jobs for city youths this summer.

Manpower in the federal budget

Viewed as investment in *human capital*, outlays for training can produce rates of return that compare favorably with yields on other forms of investment. If the purpose of a training program is to move trainees from low paying jobs to higher paying ones, the government's interest in sharing the costs may be small. But the government has a clear stake when training is seen as a means of making them employable, rather than permanent public wards.

Training programs also strengthen the social structure by broadening participation in industrial society. Those condemned to subsistence standards in an alienated subculture may threaten the stability of society. Fitting a chronically jobless person for meaningful and gainful employment can also help break "cycles of poverty" that otherwise extend into future generations.

Manpower programs account for \$2.1 bil-

lion in proposed new federal spending authority for the fiscal year ending June 30, 1969. This compares with \$1.6 billion for fiscal 1968 and \$1.5 billion for fiscal 1967. The dollar-amount proposed for this year is expected to bring manpower services to nearly 1.3 million people, compared with 1 million in each of the two previous fiscal years.

This spending proposal covers a variety of activities, including on-the-job and institutional training under the Manpower Development and Training Act, the Job Corps (under the Poverty Program), school and summer work for youths, and the federal-state job-placement program.

Under the Manpower Development and Training Act alone, the budget submitted January 29 recommends \$400 million in new spending authority for on-the-job training, more than twice the amount spent in 1968. For the program's institutional or in-school training, which received \$250 million in 1968, \$310 million is proposed this year.

Congressional action on the manpower spending proposals is still to be taken. Under the agreement to reduce total proposed budget expenditures by \$6 billion, the level of spending remains uncertain.

Evaluating the program

Although federal manpower programs have now been in operation six years, evaluation of the results is still difficult. The environment in which the programs have operated has changed rapidly, and important changes have been made in the programs.

In a review of the effectiveness of manpower training, the Secretary of Health, Education and Welfare concluded recently that, "within the limitations of available funds," the program has been successful. But he adds that it "cannot be expected to meet the nation's need for training of unemployed or

disadvantaged persons unless it is drastically expanded."

Training reaching an average of 300,000 people at any one time cannot make serious progress in dealing with an unemployment problem of the current magnitude. There is, for example, also the steady addition to the pool of unemployed from which trainees are drawn. According to the Secretary:

Each year 30 percent of all students leave school before graduation from high school. To this number must be added another group of unknown size who are graduated from high school without having attained 12th grade performance levels.

Although measurement of the effects of the training programs is difficult, results appear encouraging. A more incisive evaluation is needed before the most effective segments of the programs can be identified. Once such information is available, it should be possible to concentrate on an approach that will maximize benefits under given budget allocation.

Wages and productivity

Salaries and wages in most nonfarm industries range from 10 to 45 percent of sales. But the supplies and equipment these industries purchase also have substantial labor input. Altogether, wages and other compensation of employees amounts to about 65 percent of gross corporate product, which nets out inter-industry sales. The rest of the corporate product is divided between taxes, capital consumption, and profits.

Compensation of employees as a proportion of gross corporate product rose slightly between 1965 and 1967, but the 65-percent ratio for 1967 was still close to the average for the years since World War II. These data suggest a close relationship between employee compensation and selling prices.

As the economy began to revive from the

1960-61 recession, there was widespread concern that rapid price inflation would return to plague the economy long before relatively full use of resources was achieved. Memories of the continued advance of prices during the 1958 recession were still fresh and some observers feared that the economy was in the grip of a spiraling of negotiated wage increases and "administered" price increases.

To help employers and unions arrive at noninflationary agreements, the President's Council of Economic Advisers offered its wage-price *guideposts* in January 1962. General price stability could be achieved, the advisers argued, if increases in worker compensation in each industry closely approximated the expected long-term rise in output per man-hour for the entire economy. For industries with productivity increases greater than the general trend, product prices would be expected to decline. For industries with less-than-average productivity gains,

prices would presumably rise.

The guideposts concept was a logical attempt to put economic theory into practice. The concept was offered, not to "replace the normal processes of free private decisions and negotiations," but to provide general standards for evaluating price and wage decisions. The guidepost formula set forth in 1964 suggested 3.2 percent as the long-run productivity gain to be compared with increases in worker compensation.

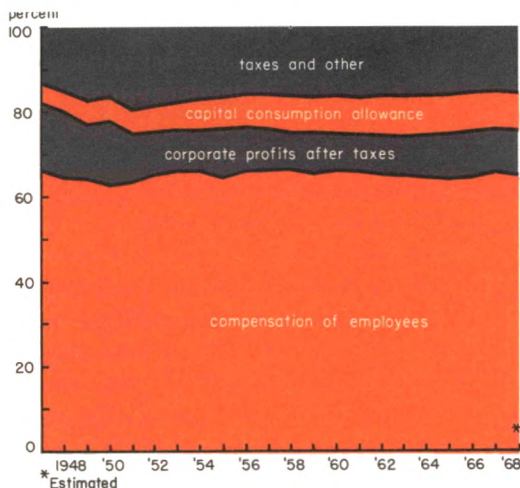
Opinions differ on the part the guidepost concept played in the wage and price developments of the early 1960s. Apart from the deliberate application of such standards, margins of unused resources (in manpower and plant), together with increased imports of many products, certainly helped restrain price advances between 1960 and 1965. During that time, average prices of nonfarm products rose only about 1 percent a year.

From 1960 through 1963, increases in output per man-hour about balanced increases in hourly compensation. The result was little change in unit labor costs. In 1964 and 1965, however, unit labor costs rose about 1 percent as increases in compensation slightly outran increases in productivity.

The margin of compensation gains over increases in output widened after 1965. Unit labor costs increased 4 percent in 1966 and 5 percent in 1967. This trend coincided with an accelerated rise in nonfarm prices—2.1 percent in 1966 and 3.3 percent in 1967.

The rise in worker compensation relative to output gains cannot be blamed on union negotiations. The trend simply reflects heavy overall demand for labor. From 1964 through 1966, increases in compensation were higher in nonunion manufacturing plants than in plants where workers were represented by unions. Although union negotiations resulted in median increases of 5.5 percent last year,

Employee compensation accounts for almost two-thirds of gross corporate product



compared with 5.0 percent for nonunion workers, the differential for the entire 1964-67 period has favored workers in nonunion plants.

The large increase in labor costs last year resulted partly from a sharp drop in the rate of productivity gain that reflected slower growth in the economy as a whole. Productivity will probably increase more rapidly in 1968, but compensation per man-hour appears to be rising even faster than in 1967. Therefore, another substantial increase in unit labor costs doubtless will occur, although the increase will probably be less than last year's. As of midyear, the uptrend in prices does not appear to have moderated.

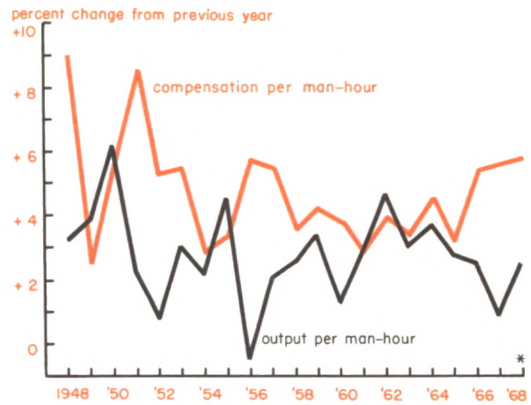
Controlling inflation

A form of guidepost system is used in several industrial countries, including, for example, France and the United Kingdom, to regulate wages and prices by administrative edict. The system has been characterized as an *incomes* policy. There are those who believe the United States would do well to adopt such a system. But this nation's experience in the early 1960s speaks for the effectiveness of general controls that permit a freer rein to market forces.

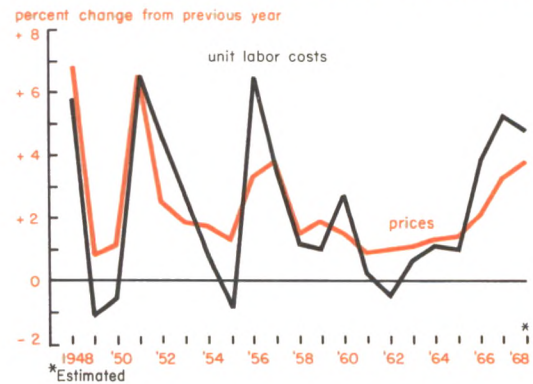
The American economy showed fairly stable growth from 1961 to 1965. Output and employment rose fairly steadily and unemployment declined—although not fast enough to satisfy enthusiasts for instant full employment.

Sometime in 1965, under the combined stimulus of reduced taxes, expanding credit, and rapidly rising government expenditures, especially those related to the Vietnam War, public and private demands for goods and services placed an overload on the productive system. The results are recorded in falling unemployment, rising labor costs per unit of

Compensation increases have outpaced productivity gains since 1965 . . .



. . . As a result, rapid increases have occurred in unit labor costs and prices



Note: Figures apply to nonfarm private economy.

output, and rising prices.

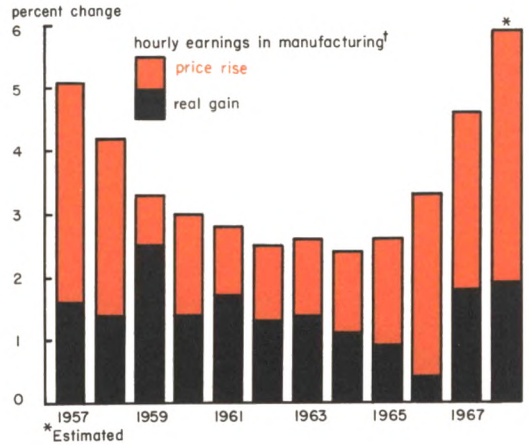
In retrospect, it is now known that greater restraint on demand through a balanced application of monetary and fiscal policy should have been applied in mid-1965 and maintained as long as pressures on resources were excessive. It will be difficult now to bring inflation quickly under control. The upward momentum in wages and prices is too great.

The American economy has witnessed

four periods of excessive price inflation since World War II—early in the postwar period, during the Korean War, in the mid-1950s, and now since 1965. Experience shows, however, that bursts of inflation can be restrained. The three previous instances of inflation ended, unfortunately, with a general business recession. But that need not be the case if credit and fiscal restraint is applied judiciously.

The country for a time may have to learn to live with higher rates of unemployment than in the recent past—perhaps 4 percent or more. The impact of higher unemployment probably would fall most heavily on depressed areas and disadvantaged people. To moderate this tendency, specialized efforts can be taken to alleviate impacts on the problems of these areas and groups concurrently with programs to regain economic stability.

Inflation takes major share of rise in hourly earnings



† Adjusted to exclude overtime and interindustry shifts in employment.