LABOR-MARKET POLICIES FOR FULL EMPLOYMENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH

OF THE

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CONTENTS

WITNESSES AND STATEMENTS

MONDAY, MAY 12, 1975

TUESDAY, MAY 13, 1975

TUESDAY, JUNE 3, 1975

SUBMISSIONS FOR THE RECORD

MONDAY, MAY 12, 1975

TUESDAY, MAY 13, 1975

TUESDAY, JUNE 3, 1975

LABOR-MARKET POLICIES FOR FULL EMPLOYMENT

MONDAY, MAY 12, 1975

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 318, the Russell Senate Office Building, Hon. Lloyd M. Bentsen, Jr. (chairman of the subcommittee), presiding.

Present: Senators Bentsen, Kennedy, and Percy.

Also present: Loughlin F. McHugh, Courtenay M. Slater, and Jerry J. Jasinowski, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN BENTSEN

Chairman BENTSEN. These hearings will come to order.

Mr. Meany, we are very pleased to have you here this morning. The purpose of these hearings is to consider the question of jobs, putting people back to work, getting this economy moving again. For generations we have had people coming to our shores because they were seeking opportunity, because they wanted to live better than their parents and grandparents did. That is what brought my ancestors to this country, and I would not be surprised, Mr. Meany, if yours came here for the same purpose.

But today we are looking at almost 9-percent unemployment. We are looking at projections by the administration of unemployment through 1976 of 8 percent. Furthermore, the administration projects from 6 million to 8 million Americans out of work for the next 4 to 6 years.

This subcommittee wants to look ahead and come up with plans that will be effective now and also in the future. As I look down the road, I get concerned that we might be too complacent. I read on the front page of the April 21 issue of the New York Times that most economists today say we are going to have to accept 5 to 6 percent unemployment in this country in order to stop the rapid inflation.

I just do not believe that. I think they underestimate the strength of this economy and its recuperative powers. They underestimate what a well-designed set of economic policies could do to get us to full employment without inflation. If the present economic policies are continued, we are going to have too much inflation and too much unemployment through the rest of this decade. We have to have a change in policy.

Mr. Meany, you have been critical of Congress for not being stimulative enough in its approach to the budget. I agree with that, and I

voted to increase the fiscal stimulation of our economy. I do not think that this is time for a timid approach. That would be self-defeating. We can get rid of the budget deficits, but we get rid of the deficits only by putting people on payrolls where they pay taxes and where they are not drawing unemployment compensation.

I say to the businessmen of this country that the way you make profits is not off unemployment pay, but from putting people on payrolls where they have disposable income to spend. The President, in fact, last month said that if this economy were back where it was a year ago, for the next fiscal year we would have a balanced budget.

Inflation has declined some what. But inflation has stayed too high because we have not effectively used our productive capacity. We are running at 60 to 65 percent of capacity. I understand from my own business experience what that means. It is less efficient for a plant to operate on one shift than on two shifts. It is less efficient for an airplane to run with half its seats empty than with full seats. The faster we move back toward full employment, the faster we move back to efficient use of the economy of this country. The President must understand that. The head of the Federal Reserve has to understand that.

Mr. Meany, what we need is less faint-heartedness, more confidence in what this system can do, and a program of growth rather than stagnation. That is why I am very delighted to have a man of your stature and influence give us advice on what our policies should be, both long-term and short-term.

I would like to call on Senator Kennedy for any comments he might have.

Senator KENNEDY. Thank you very much, Mr. Chairman. I want to commend you, Senator Bentsen, for calling these hearings on the matters that are of such importance and consequence to millions of Americans, not only those who are currently unemployed, but also those who have potential loss of their current jobs because of the mismanagement of our economy. I also want to thank President Meany for coming here this morning.

I look forward to listening to President Meany speak on the issue of jobs. Perhaps better than anyone else, he can look back at the difficult times the economy has faced and draw lessons for the present. He can remember, I am sure, the period of the 1930's, when there were millions walking the streets, looking for work. We had creative leadership. We had a dynamic policy. The great engine of the American economy began to provide opportunities for our workers.

In 1946, we faced the problem again. Millions of men and women came home from the Armed Forces. The challenge again was to develop the kinds of economic, monetary, and fiscal policy to get them back to work, and we did it.

More recently, in the early 1960's, we had 7-percent unemployment coming out of the recession of 1958. Again, we were able to provide economic leadership for the country, and we saw a reduction unemployment to 3½ percent by the end of 1965. At the same time, we had inflation under control. The consumer price index went up 3.5 percent, not in 3 months, but in 3 years. We had economic growth and price stability, and we put people back to work.

So we know that it can be done. We know that it must be done. We know that if we had the number of people working today that we had

2 years ago, we would have a surplus in the budget, because we would have vastly increased tax receipts and we would be saving billions of dollars in unemployment compensation. So the real question is leadership, and the development of programs to meet the economic plight we face.

The problems of jobs and unemployment are the key issue in my own State of Massachusetts and New England. We have seen that the administration's priority is in the problems of inflation, but the workers of my State are most concerned by the problems of recession.

We know that you have a wealth of experience and understanding about these particular issues, and as a member of this subcommittee, I look forward to your comments this morning. So I welcome you here.

Chairman BENTSEN. Senator Percy.

Senator PERCY. Thank you, Mr. Chairman.

We certainly welcome Nat Goldfinger and President Meany. If we address you as Mr. President, maybe the spirit will be catching for the three of us this morning.

I cannot help but feel that I trust that whatever issues are raised in this forthcoming campaign, we are going to concentrate heavily on building a better and stronger America. I think the best way for us to restore our image around the world is to run an exceedingly good country and take care of our own people. I cannot imagine anything that would do more to encourage confidence, than to have full employment.

I cannot help but think of the despondency, disillusionment, and despair of my own father in the depression, who was unemployed along with 17 million other Americans. I remember the hopelessness and the feeling of a man or a woman who has worked all their lives and then has no place to go. For that reason, I think we need a program that will provide public service jobs so that we will have work rather than welfare.

If the Government is going to pay it one way or another, how much better to pay it when we can provide services and at the same time provide dignity to the individual. Certainly, we must continue and extend our unemployment benefits for people who have worked and paid in. Those benefits should not run out. People should not have the feeling that they are on welfare when they have paid into a fund that should sustain them through this temporary period.

This is the time to expand our public service, but not to expand our public works.

We need to put people to work in very useful projects. Certainly, the concerns that families have today are very deep as they go off a payroll and realize they are losing their health benefits for their family.

That is the concern and fear that families have. We simply cannot permit or allow it. To permit home building to dip down below 1 million homes when we need 2½ billion per year and not build those homes and find a creative, innovative way to do it, at a time like this, would be absolutely tragic. We seek counsel, and the purpose of these hearings is to put the pressure where the pressure has to be put now, on OMB, on the White House, and on the Congress to enact those programs that will stimulate the economy and lead to confidence in

the business community, restore confidence to the American consumer, and as one President said, "Let us get moving again. This is the time to do it."

Thank you, President Meany, for being with us this morning.

Chairman BENTSEN. Thank you, Senator Percy.

Senator Kennedy.

Senator KENNEDY. President Meany, I just wanted to mention one other point—it is not the subject of this meeting this morning, but I do want to commend you on your statement on the Vietnam refugee issue, welcoming them to this country. I thought that was enormously courageous of you. You deserve a great deal of credit for that leadership. It was a strong statement. As one who has spent much time on the issue of the refugees, I thought you performed an outstanding public service and helped to defuse a rather explosive issue. I just wanted to commend you.

Chairman BENTSEN. I certainly concur in that.

President Meany, please proceed.

STATEMENT OF GEORGE MEANY, PRESIDENT, AFL-CIO

Mr. MEANY. Thank you, Mr. Chairman.

The subject of this hearing is full employment, and I am delighted that this committee is looking for programs to achieve and maintain full employment, not just talk about it. In our opinion, it is high time that the Congress did this, and abandoned the ivory tower approach. For now, we need action, not words.

The issue simply, Mr. Chairman, is jobs. It is the health of the American economy, the strength of American society. The issue is crucial today, and it is crucial for the future of this country.

This economy, this society, is in deep trouble. The Government's recent report of 8.2 million unemployed, 8.9 percent of the labor force, constitutes human tragedy. And that official report is a vast understatement of the reality of unemployment and underemployment in 1975. Over 1.1 million workers, who are willing and able to work, are so discouraged by the employment outlook that they have given up seeking jobs. And, of course, they are not counted as being unemployed.

A more accurate unemployment rate, therefore, would be 10 percent, or 9.3 million jobless. In addition, 3.9 million workers were on part-time schedules because full-time work is not available. This adds up to 13.2 million unemployed and underemployed workers in April of this year.

Such conditions must not be permitted to continue in a free society. That is particularly true of American society, where a job is much more than just the major source of family income. It is also a key measure of a person's place in society, whether he or she is a full-fledged member or on the outside, looking in.

The administration forecasts at least 5 more years of high unemployment, and the budget committees of the Congress are nearly as pessimistic. The administration's budget report of February 3 forecasts an 8.1-percent unemployment rate for 1975, which would move down only slightly to 7.9 percent in 1976. The report also projected unemployment rates of 7.5 percent in 1977 and 6.7 percent in 1978.

That would mean the highest unemployment rates since 1941, when the economy was coming out of the Great Depression.

Unemployment thus far in 1975 has become worse than that early forecast for this year predicted. However, even if we hold to the administration's February 3 projections, they would mean 7.5 million unemployed in 1975 and 1976, declining only to about 7.1 million in 1977 and 6.6 million in 1978.

On the basis of present trends, the administration's insistence on a $60 billion budget deficit in the coming fiscal year will mean an unemployment rate in the neighborhood of 8 percent by the end of 1976—7.9 million jobless. The Senate and House have approved reports of their new budget committees, with ceilings on job-creating measures that are not much different from the administration's. The ceiling voted by the Senate would mean 7.1 million jobless by the end of next year, and the House vote would mean 6.7 million jobless at that time. Four successive years of such levels of unemployment are what the administration has predicted. That is the meaning of the lid it is trying to impose on further measures to create jobs. And both Houses of the Congress have fallen in line by their votes in support of their budget committee recommendations.

This is dangerous, foolish thinking. It is to say there is nothing that can be done. We resent and reject this defeatism. We know America cannot tolerate—and more important, will not tolerate—such high rates of unemployment that would tear at the fabric of this free society. In fact, we are convinced that this country and its free institutions are endangered by this situation, which is pushing millions of people ont of the economy's mainstream.

We need programs to put America back to work, now. We need far more than the tax cut. We need substantial job-creating measures, to quickly turn the economy around from the worst decline since the 1930's.

However, the administration does not seem to understand this. Neither do many Members of both Houses of the Congress. That, to me, is appalling.

Thirty years ago, as World War II was ending, the Congress began hearings on the issue of full employment. A bipartisan majority adopted the Employment Act of 1946, and on February 20, 1946, President Truman signed that statute. It committed the U.S. Government to a continuing policy of creating and maintaining "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking work, and to promote maximum employment, production and purchasing power."

In 1946, those were brave words. Let us look at what has happened since. There was a general consensus that full employment in the American economy was an unemployment rate no higher than 3 percent. During the past 30 years, the goal of full employment has been neglected more often than met; by the Congress, as well as the executive branch. In addition, there has been a slow but rather steady erosion of the goal itself, especially in the past few years. Government officials and their academic supporters have been busy redefining the goal. It went from a 3-percent unemployment rate to 4 percent, then to 4½ percent and now to 5 percent or 5½ percent. It is an old game, if you can get away with it—if you do not make the grade, change the

rules. To me, that is fakery, regardless of whether the trickster is a college professor or a government official.

Unfortunately, Mr. Chairman, we are a long, long way from full employment. We are a long, long way from a goal of 5 percent or 5½ percent. Moreover, even administration spokesmen admit that the 8.9-percent jobless rate of April is not the peak; that they expect it to go over 9 percent. And if they say that out loud, Mr. Chairman, you can bet it is going to be worse.

So, this country is further away from the maximum employment goal of the Employment Act of 1946 than ever. Even worse, both the administration and the majority in the Congress are much further away from the Government's commitment to full employment than ever before.

Unemployment rates represent people. They represent families. At present, every percentage increase in the unemployment rate is more than 920,000 additional jobless workers. Every one-tenth of 1 percent rise is over 92,000 more unemployed. Yet, the administration seems determined to achieve its intolerably high unemployment projections. There is no other way to interpret the administration's all-out campaign to maintain a tight lid on job-creating programs. The administration has clearly opted for high unemployment—in the sacred name of holding down the budget deficit.

Majorities of both Houses of the Congress have also decided on a tight ceiling, not too much different from the administration's, that will curb needed Government measures to create jobs and stimulate economic expansion. If such a ceiling is maintained, the number of unemployed will be between 6.7 and 7.1 million at the end of 1976 and the budget deficit will still remain large. Many Members of the Congress, unfortunately, seem to have become hypnotized or scared by the administration's concentrated drive on the budget issue.

The focus on budget costs omits the benefits—increased jobs and increased earnings, reduced unemployment benefits and welfare costs, increased sales for business, increased savings and investment, increased tax receipts—all the benchmarks of an economy rapidly moving to full employment and prosperity. The basic deficit is not in the Federal Government's budget, but in jobs and earnings. High unemployment in the coming years will mean continuing large budget deficits, continued hardship for workers and their families, continued recession.

The accumulated budget deficit of the past 6 years from fiscal year 1970 through 1975—$101.6 billion, according to the budget report of February 3—is almost twice as great as the accumulated net deficit of the previous 23 years, from 1947 through 1969. The primary reason is the two back-to-back Nixon-Burns recessions of 1969–70 and 1973 to the present. The cost of these recessions has been huge losses of potential Federal revenue and increased unemployment and welfare benefits. The budget deficit for fiscal year 1976 will be due to the worst and most serious economic mess since the Great Depression.

Back on February 3, the budget report candidly admitted:

> Aside from the effects of the proposed tax reduction, the deficits anticipated for 1975 and 1976 are largely the inevitable result of those aspects of the budget and the tax system that respond automatically to changes in the economy, such as budget receipts and unemployment benefit payments * * * if the economy were to be as fully employed in 1976 as it was in 1974, we would have $40 billion

in additional tax receipts, assuming no change in tax rates, and $12.7 billion less in aid to the unemployed. These two factors alone exceed the budget deficit for 1976.

Of course, since then, the economic situation has gotten worse and the need for measures to create jobs and stimulate economic expansion has grown. And the anticipated budget deficit has grown, too, as a result. The way to cut the deficit, quickly and substantially, is to put America back to work. The road the administration and the Congress have taken means continuing deficits, continuing high unemployment, continuing hardship, continuing recession.

The single-minded focus on the deficit spells disaster. We should face up to the fact that this country is big enough to take a $100 billion deficit if necessary. Business goes out and borrows money to expand. Corporations like A.T. & T. borrow $500 million at a crack. They do not sell their assets; they borrow the funds they need. Why should not the U.S. Government do the same? Why not borrow to invest in America? After all, the U.S. Government is a viable entity, even more viable than the great corporations that borrow huge sums.

If the leadership of this country had considered only the budget deficit in the early 1940's, Hitler would have won the war. This country would not have been able to supply the Allies with urgently needed arms, and America could not have rearmed itself. President Roosevelt and the Congress had faith in America. So the United States performed a production miracle, and paid no attention to the huge budget deficit. They viewed it as an investment in freedom.

In fiscal year 1947, after the war was won, the Federal publicly held debt was over $225 billion. That was 103 percent of the gross national product of less than $220 billion. In other words, Mr. Chairman, we owed more money than the sum total of all the goods and services we could produce at that time. Our gross national product was $200 billion, and we owed—the public debt was $225 billion. And that did not ruin America.

In 1960, the gross national product was $495 billion, and Federal debt was $237 billion, or 47 percent. In the fiscal year that ended June 30, 1974, the debt of $346 billion was only 25.7 percent of the gross national product. In other words, our debt now is one-quarter of our gross national product. In 1947, our debt was more than our gross national product, and it did not ruin America. We did not go out of business. We invested, and we were able to pay off. The only way that you pay off is to get people back to work, because you start feeding them, you stop expanding special social services, and you put them back where they started; to paying money into the Federal Treasury through taxes.

The production miracle of World War II did not bankrupt the country. And a massive investment in America today of public funds would not bankrupt this Nation; it would restore it to economic health. This country has vast resources. The idea that the Federal Government should impose a tight budget straitjacket on itself in the face of most serious unemployment is ridiculous.

Those who say otherwise—the President and the majority in the Congress—have no faith and confidence in America. They ignore the basic health and potential vitality of the economy. They run scared at a moment when America needs bold, courageous leadership.

We say: America's economic house is on fire. Let us do what all firefighters do: Put out the flames and then mop up any excess water. Firefighters do not do what the administration preaches: Ration the water, put out only a bit of the fire, because otherwise we might be using too much water.

So, the only sound way to quickly cut the budget deficit is to put America back to work, so that American workers and businesses can increase their earnings and pay their taxes. Let us get the job-creating measures, now, to put America back to work and raise the needed funds.

The present state of affairs of the American economy is one of vast amounts of idle plants, machinery and productive equipment, as well as idle manpower. Never, in the years since the end of World War II, has there been such a huge amount of unemployed and underemployed manpower and unused and underused productive capacity. The homebuilding industry has been in a deep depression for many months. A housing shortage is developing, while much of the manpower, machinery and business firms in this industry are without work. This situation in homebuilding, combined with the sharp drop in consumer buying power and retail sales, have resulted in the steepest recessionary decline of industrial production since the 1930's. And this, in turn, has resulted in a sharp drop in industry's operating rate.

According to the Federal Reserve Board, only 68.3 percent of the productive capacity of manufacturing industries was utilized in the first quarter of 1975, a decline of 18 percent since the recession started. The Federal Reserve Board has also reported a drop of 24 percent in the operating rate of the major materials industries in the same period—from 94.5 percent to 70.7 percent. Because of great amounts of idle plants and machines and high interest rates, business is cutting back investment in new productive capacity, hitting the machinery industries and heavy construction. An 8½ percent drop this year in the real volume of business investment is expected by the Commerce Department, and the actual decline may be much greater.

In the face of such business conditions, talk of a large Federal deficit crowding out business investment, at any time in the near future, is simply scare talk. Business investment is weak, because the economy is weak and there is so much idle productive capacity. Business investment will improve only when sales and production rise enough to cut idle productive capacity. Then and only then will management be convinced that new plants and machines can be operated profitably.

Such rising sales, production, and employment would generate increased savings, as well as increased tax revenue and would reduce the need for unemployment and welfare benefits. So the deficit would be low or nonexistent, and there would be plenty of available funds for increased business investment.

The No. 1 need, therefore, is to get America back to work, now. The key issue is the need for jobs. Depression-level, double digit unemployment continued to hit major groups of workers last month. Unemployment rates were 20 percent among teenagers, 19.3 percent among construction workers, 17.2 percent among the unskilled, 14.9 percent among the semiskilled, 14.6 percent among blacks, 14.6 percent among the 20- to 24-year-olds, and 12.2 percent among factory workers. The unemployment rate among black teenagers was 40.2 percent. When we look at our inner cities, we look at crime, and we look at the problems,

and we look for the cause. That figure represents the cause; 40 percent unemployment among black teenagers.

However, statistical reports on unemployment in a specific month, or the monthly average during a year, do not deal with unemployment in human and social terms. The clearest picture of the human and social aspects of unemployment is indicated by the Bureau of Labor Statistics' report on the annual work experience of the population. The most recent of these reports is for the year 1973. In 1973, when the Labor Department reported an average 4.3 million unemployed in each month of the year, the impact on people was revealed by the following facts about the population's work experience; 14.5 million people were unemployed at some time during the year. Over 8 million workers were jobless for 5 weeks or more during the course of 1973; 4.5 million workers were unemployed for 15 weeks or more during the year.

These figures on the work experience of the population in 1973 present a grim picture of the probable unemployment realities for workers this year. On the basis of present trends, the average number of unemployed in each month of 1975 will be about 8 million or more. In terms of the impact on people, this would mean approximately 25 million or more workers will be unemployed at some time during the course of the year. About 15 million or more workers will be jobless for 5 weeks or more during the year; 8 million or more workers will be jobless for 15 weeks or more in 1975.

So, Mr. Chairman, the problem of unemployment is far greater than the official statistics, grim as they are. Nearly a quarter of the work force is going to be unemployed sometime this year, and many, many more are going to live in fear of losing their jobs. There are very few tragedies in a person's life that surpass the sudden involuntary loss of one's job. "You are laid off" are words that burn themselves not only into a man's pocketbook but also into his very soul.

Several results are obvious to everyone. The first, of course, is the loss of steady income. The fact that unemployment in the 1970's is temporarily alleviated by unemployment compensation, public assistance, and food stamps is no consolation to those who want steady work. The second is the burden of indebtedness. Most workers are in debt for their homes, cars, refrigerators, television sets, and other appliances, and the fear of harassment, guilt of bills unpaid and the shame of possible bankruptcy haunt the unemployed. The third is unwanted idle time—not for creative use, but just to stand in line for food stamps, for job applications, full of worry, bitterness, and frustration.

But prolonged involuntary unemployment causes a number of changes which are not always evident. The first of these is the loss of self-esteem. This is often accompanied by stresses and strains in family relationships. Tensions between husband and wife, caused by unemployment, are often resolved only by divorce courts, and tensions between parents and children often result in alcoholism, drug abuse, and crime. The tragedy of unemployment causes not only personal and family upheavals, but social and community upheavals as well.

America certainly cannot stand a prolonged period of such conditions, breeding troubles that can tear the fabric of this society. The time for job-creating measures to turn the economy around and move rapidly to full employment is now. It is time the Congress and the

administration live up to the Government's commitment under the terms of the Employment Act; to promote maximum employment, productivity, and purchasing power.

Specifically, Mr. Chairman, we recommend: one, accelerated public works, to create jobs by providing $5 billion of Federal grants to local governments for short-term public works construction and repairs that can start within 2 months. Two, an expanded public service employment program, to create jobs for the unemployed in the States and local governments in meeting public needs for improved and expanded services. Three, adoption by the Congress and government implementation of pending programs to lift homebuilding out of its depression. Four, extended unemployment benefits for the long-term unemployed who have exhausted their unemployment benefit periods under existing law. Five, aid to the many cities that are hard pressed by high unemployment. Six, Federal funds for the restoration of railroad track and railbed. Seven, adoption by the Congress of a Federal program to continue health insurance for the unemployed whose coverage by such insurance will otherwise terminate. Eight, congressional enactment of legislation to place a ceiling on interest rates and to require the banks and other financial institutions to allocate available credit for such high-priority purposes as housing. Nine, enactment of legislation to close the major loopholes in the tax structure, to raise as much as $20 billion or more of additional revenue and achieve tax justice. Ten, adoption of effective government measures to stop the export of American jobs and to regulate the export of American technology and capital.

Let me conclude, Mr. Chairman, by expressing our appreciation to this committee for holding these hearings and giving us an opportunity to state our views. But I would be less than frank if I did not add these words: The time for talk is past. The time for action is now. For the Congress to delay, to demonstrate timidity, to sell America short would be sheer tragedy. We urge the Congress to move swiftly, courageously, and with compassion and, above all else, to demonstrate confidence in America and her future. Thank you.

[The following table was attached to Mr. Meany's statement:]

RELATIONSHIP OF FEDERAL DEBT HELD BY THE PUBLIC TO GROSS NATIONAL PRODUCT

[In billions of dollars]

	Gross national product	Debt held by public	Debt held by public, percent of GNP		Gross national product	Debt held by public	Debt held by public, percent of GNP
Fiscal year:				Fiscal year:			
1947	$219.7	$225.6	102.7	1961	506.5	238.6	47.1
1948	243.5	216.6	89.0	1962	542.1	248.4	45.8
1949	260.0	214.5	82.5	1963	573.4	254.5	44.4
1950	263.3	219.6	83.4	1964	612.2	257.6	42.1
1951	310.5	214.3	69.0	1965	654.2	261.6	40.0
1952	337.2	214.9	63.7	1966	721.2	264.7	36.7
1953	358.8	218.5	60.9	1967	769.8	267.5	34.8
1954	362.1	224.5	62.0	1968	826.0	290.6	35.2
1955	378.6	226.6	59.9	1969	898.3	279.5	31.1
1956	409.4	222.2	54.3	1970	954.6	284.9	29.8
1957	431.3	219.4	50.9	1971	1,012.1	304.3	30.1
1958	440.3	226.4	51.4	1972	1,101.6	323.8	29.4
1959	469.1	235.0	50.1	1973	1,224.1	343.0	28.0
1960	495.2	237.2	47.9	1974	1,348.9	346.1	25.7

Sources: U.S. Department of Commerce, Office of Business Economics, U.S. Department of Treasury, Office of Debt Analysis, Office of Management and Budget.

Chairman BENTSEN. Thank you, President Meany, for a very fine statement. I must say I agree with you that the time for action is now. I am going to meet with the executive committee of my transportation subcommittee and recommend reporting out a bill which will give flexibility to the States in the use of their highway construction funds, and which will also provide 100-percent matching funds to the States for a period of a couple years to stimulate those jobs. And every billion dollars of funds I release for that purpose will create another 125,000 jobs.

We are talking about permanent investment in the future of this country. So we are going to get some action in that regard.

President Meany, I would like to say again, the objective of these hearings is to focus on economic policies that are requiring us to accept unemployment of 8 and 9 percent to curb inflation. I cannot accept that.

I have been going around the country to make my point to the public, so they will understand our view. I would be delighted to have you join me at any point. Better yet, I would be delighted to join you in helping spread our message around this country—that we have a strong economy and we can build it.

I appeared before the conference board in New York saying that we must stimulate the economy. This was before some 1,200 or 1,500 businessmen. I told them that with business borrowing down, business was not going to be the one to stimulate this economy. The natural thing for business to do when you have a recession is take their capital spending plans and put them aside, and say, let us wait this one out. When things turn around, then we will make those investments.

That is why we can handle a large Federal deficit now, because business borrowing is substantially down. We had 13 bankers testify that we could finance this deficit at this time. Now is the time to stimulate the economy. Productive capacity is down, consumer confidence is down, private enterprise is not spending money for capital investments.

I would say, President Meany, that with high unemployment among teenagers, we may have a long, hot summer awaiting us. We had better take some action now in reporting out some of the bills and some of the appropriations requests to see that these young people have jobs. When they get out of high school and college, and they are told they are going to have to wait 3 or 4 years for a job, there are long-term serious social consequences and economic consequences that we cannot accept in this economy of ours.

I want to read you a letter I received from a constituent of mine. It says, "Dear Senator Bentsen, I never thought I would see the day that I would have to ask for help in getting a job, but it is here. I have been looking since mid-December with no luck. You would not believe the places that I have been into in this growing city where I am told I am either over- or under-qualified. The truth of the matter is that I am middle aged, and very, very few people have openings for individuals like me. I have one dependent and live in what is called affluent north Dallas. Would you believe it, I now get unemployment compensation which I prefer not to get, but I have no choice. It keeps me, so far, from having to sell my home, which would just kill me. It does not seem right that in this city, where my family was born and raised, and where I have paid taxes for so long, that I cannot get a job. I do not

want to have to sell my home. I do not want charity in any manner, shape, or form. All I want is a job so I can make a living and maintain myself with respect and dignity."

Now, that is from one of my constituents. I do not know of anything that is more disheartening to an individual than to be told that society has no productive role for him or her to fulfill. I do not think that is the way it has to be in this economy of ours. We can turn this economy around. We can take the programs and the stimulative action that will do it, and we can get people back on payrolls, paying taxes and balancing the budget again.

So I certainly think there is a need for stimulus. You made the point about targets. I recently asked Alan Greenspan what the administration's targets for economic policy were, and this is what he replied: "I do not think that we should set a target. I think that you just continue to move, and not decide in advance how far you can get."

Now that is not the kind of leadership we ought to be having in the economy.

Mr. MEANY. If American business were in business that way, we would not have any American business. And what the Congress is doing, to me, is deplorable. They are saying, in effect, we are going to spend x dollars, no more.

When I see the President of the United States put his hand across the chart—no higher will the deficit go. He did not put his hand across the chart and say, no greater suffering are we going to have, no more people out of work are we going to have. Oh, no, he did not say that.

Everything is based on this idea of balancing the budget, this economic philosophy of the people who have been running this country, and running it down. Arthur Burns has been running this country since February of 1969, and look at the track record. Down, down, downhill, all the way, and still he is the oracle now telling us—he is now telling us what the American unemployed need is a dole. And this is an insult to the American worker.

He said, let us put them to work, let us make the Government the employer of last resort, and let us put them to work at the minimum wage so that they will not be encouraged to stay with the Government if they can find a job outside, intimating that they are unemployed because they do not want to look for a job and do not want a job. And this is the man who is running our economy.

The way that you should run your business is: What is the possibility of expansion? What is the possibility of a wider market? What is the possibility of new methods to produce more economically? And then appropriate the money to do those things, not put a ceiling on and sit with folded arms and say, we are going to do nothing until somebody—some outside force—pushes us in a new direction.

Now, this policy of not borrowing enough money to put Americans back to work is absolutely ridiculous. What kind of a society is it? How vital is this thing that we call the United States of America? Do we have any confidence in it? Can we go in debt?

I can go in debt. Every kid who gets out of college and gets married, he can go in debt. Every corporation in America goes in debt. And when you measure the debt, what is the viability of the entity that you are dealing with? We could borrow and owe more than our gross national product in 1947, when the debt was 103 percent of our

gross national product, and in 1948 we were 89 percent, 1949 we were 88 percent, and it did not ruin this country. Today we are told, no, we cannot go over $60 billion with our budget deficit no matter how much misery, no matter how much unemployment it causes, no matter how much degradation accompanies that.

This indicates to me that the President of the United States and our dear friends in the Congress who are following these eggheads over there who have been hypnotized by Burns and Greenspan—it indicates to me that they do not have confidence in the United States of America.

Chairman BENTSEN. Let me say to you, President Meany, I do not believe in continuing deficits. The way you get rid of continuing deficits is to put people back on payrolls and get them off unemployment compensation, and back to paying taxes where they want to be.

I have always believed that business does well when the people do well. Unless they have some disposable income, they are not going to be putting money in savings and loans and in banks, they are not going to buy products and lift corporate profits and help balance the budget. That is why I think you have to take stimulative action to turn the economy around, and you have to accept a larger deficit now to have yourself a balanced budget in the future.

Mr. MEANY. One point in the unemployment rate means $16 billion to $17 billion additional revenue to the United States Government. If we were anywhere near the unemployment rate we had 4 or 5 years ago, we would have a surplus, not a deficit.

Chairman BENTSEN. Senator Kennedy.

Senator KENNEDY. Thank you very much, Mr. Chairman.

It seems to me, President Meany, that we have Secretary Simon speaking for Wall Street, Mr. Greenspan speaking for the business community, and Arthur Burns speaking for the banks.

Who is speaking for the American worker in the development of this economic policy?

Mr. MEANY. I do not know.

I look in vain to the White House. I look with a great deal of discouragement to the Congress. I am saying to myself, where are the friends of the common man in America? Where are the people who are concerned?

Senator KENNEDY. You do not see the voice of the American worker represented in the high councils of government?

Mr. MEANY. Not at all. Not at all.

Senator KENNEDY. I have listened with a great deal of interest to the President's talk about the need to keep our commitments around the world. But when are we going to start keeping our commitment to the American worker? That is a question being asked by hundreds of thousands of workers in my own State, and I am sure it is being asked by millions of people you represent.

When are we going to keep the commitment to the American workers we made in the Employment Act of 1946? Was that commitment an empty one, at least at the present time?

Mr. MEANY. I would say so, yes.

I do not think that there is anyone around the administration that is concerned with that commitment. To me it is a commitment that should be honored.

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Senator KENNEDY. Could you tell about the individuals who are suffering because of this economic policy. I do not see the major oil companies suffering.

I do not see the great military industrial complex suffering a great deal with the problems that we are facing in our economy. It seems to me that the real burden of our economic problems is falling on the working people, on the aged, on the young, and on the poor.

I wonder, in terms of a sense of equity, if that is what this country is all about. Quite clearly you do not believe so. I wonder whether you might be able to elaborate on the sense of inequity that exists about our economy. Are there some groups that suffer a great deal more than other groups?

Mr. MEANY. It applies to all elements of the society. They are all affected. It applies to the young, to the middle aged, to the elderly. I feel very keenly now, the most important factor in the new whole unemployment picture is—you know, they break it down every month, they break it down into categories, all sorts of categories.

A key unemployment figure is what they call the heads of households. In other words, the head of a family. In 1969—if my memory is correct, and it may not be, but it is not too far away—the rate for heads of families was 1.9 percent unemployed. That is a very, very low rate.

Incidentally, a couple of years ago when it got up to 3 percent, the administration's spokesmen were bragging about that fact that this was low compared to the rest—3 percent—even though 3 percent was quite a bit more than the 1.9 percent that happened in 1969. Now the rate is 6 percent—the heads of families rate is 6 percent. It is three times more than it was 3 years ago. This is deplorable.

When you are talking about heads of the families, you are talking about a family—more than one person. You are talking about a couple of kids going to school, maybe sending a kid off to college, trying to pay off a mortgage on a house. And this is a very, very bad figure from the point of view of the overall economy.

From the point of view of equity and human decency, I think the bad figure is the teenage figure, because you take these kids coming into the labor force; they have completed their education, they now want to contribute—maybe to help their families. And right now this is one of the worst figures of all. Summer jobs, this year, are going to be almost nonexistent. And when you think that here is the real tragedy—the older people are right, they have had a life experience, they can take it, and so forth.

You take young kids coming into the labor market, just completing their education, and they are confronted with nothing. And what that is going to do to America—and we have an administration that is sitting back and saying, in effect, this is all right, this is great, we are going to take this 6 and 7 and 7.5 million people unemployed for another 4 or 5 years; if we do that, well, that is going to be all right, everything is going to come out fine at the end of 4 or 5 years.

If that is going to happen, we are going to have a very different picture of America. It is going to be an entirely different America than we see today.

Let me say another thing. You are talking about commitments. I say this Government has a commitment, and it is a commitment to

full employment and a commitment by the Congress, and a commitment that has a bearing on the administration. And we are told now, despite the tragedy in South Vietnam, despite the fact that the discredited domino theory is showing itself in Laos, Cambodia, and these other places, despite this complete loss of confidence, we are told now that America's commitments are going to be honored.

Let me tell you you are going to have a hard time convincing people in the rest of the world. If you have a 7-percent, 8-percent unemployment staring you in the face for the next 4 years, you are going to have a lot of time convincing people in the rest of the world that other commitments are going to be observed when we have an administration that cannot honor its commitments to the American people, where its first duty lies.

Senator KENNEDY. How are we going to get the President's ear on this?

Mr. MEANY. Senator, I had the honor and pleasure of testifying to the President sitting just where Andy is sitting in relation to me. And he listened very, very attentively—he is a very good listener—but nothing has happened since.

I got his ear—I told him just practically what I told this subcommittee this morning.

Senator KENNEDY. What kind of a reaction did you get?

Mr. MEANY. The only reaction I got was he felt—on the accelerated public works bill, which is one of the bills I mentioned, he said that this was bad because local politicians would misuse that money, and so on and so forth. But he made the point that I have heard other people make—I heard Bill Simon make—that if this budget goes too high, that this would dry up private financing.

The funny part of this, the Business Advisory Council does not agree; the First National City Bank does not agree; Morgan Guaranty does not agree. But this is the position of the administration, that this would dry up private credit. Where is the need now for private credit? Is this what is holding up America's economy?

The fact that private business cannot borrow—that is not the reason. Why do they not borrow? They do not borrow because there are no prospects, no reason to borrow. As you said a minute ago, Senator, they sort of pull in their horns, and they say, let us wait this one out. Waiting for what?

The only stimulus must come from the Government, it must come from Congress.

Senator KENNEDY. My time has expired.

Chairman BENTSEN. Thank you, Senator Kennedy.

Senator Percy.

Senator PERCY. Mr. Meany, at the outset, I threw some marshmellows to you because I agree with some of your goals and objectives. But I will now play an advocate role and throw rocks during the 10-minute questioning period, because I think your testimony has enough profound material in it that ought to be questioned.

I have just flipped through the testimony you gave before this committee in April of 1972. I think you will remember, because that is the testimony when Senator Proxmire tried to run the clock on you, and you proved your ability to outfilibuster Senator Allen.

That morning, the testimony dealt almost entirely with inflation. Inflation then was 6.2 percent. Today inflation is 10.2 percent, and yet this morning, you virtually do not comment on inflation. You do say in your testimony, America's economic house is on fire.

Many economists would say, Mr. Meany, you are throwing fuel on the fire this morning. Specifically——

Mr. MEANY. The fire is the loss of jobs. And this is 1975, and we have a different situation.

Senator PERCY. Inflation is even worse.

Mr. MEANY. Where is your WIN button, Senator? I do not see your WIN button. Where is it?

Senator PERCY. I borrowed it when I had it on. It was the only one that they had, and I had to give it back to the President. I think we have to keep up this battle against inflation, and I would like to specifically ask you, on programs one through seven, you recommend very expensive programs with no price tag on them.

How much would those programs cost? Do you have specific recommendations, with dollar figures, as to what you are recommending?

Mr. MEANY. It would mean $100 billion deficit this year. I am proposing that the Congress and the administration have the courage enough to go to $100 billion in debt in order to get America back to work. That is what I am proposing.

Senator PERCY. Let me ask this, then.

Would you, and the Congress, have the courage to say to the American people that there are ways you can pay for this as you go? You do not have to add it all to debt. In fact, I think people are going to be very, very concerned about a $100 billion deficit.

Would it not be well to raise some revenue, increase some taxes, that would not add impact to inflation? Let me give you a couple of specifics.

Gasoline prices, in my judgment, are too low in this country. They do not give us the incentive for mass transit; they subsidize gasoline, so we use more highways and more automobiles. A penny a gallon is $1 billion to the Federal Government.

Would not increasing the gasoline tax—unpopular as it might be—add to revenue and still discourage the use of gasoline, and help make us independent? We have not raised the gasoline tax for 23 years. We have not raised tobacco and alcohol taxes for 25 years. We subsidize tobacco and alcohol with our low taxes at the Federal level.

Why should we not double those right today and bring in $5.8 billion on those two products, the consumption of which, if we reduce it, would probably benefit the country, not hurt it. Why can we not pay in more as we go, and have the guts and courage to do it?

Mr. MEANY. That might be your idea, it might be a good idea. We have our idea. Let Congress decide to spend this money, let the Congress decide to create these jobs. And for every 1 percent you reduce the unemployment rate, you get $16 billion to $17 billion additional revenue into the Federal Government.

Now when it comes to the question of how you pay for this, we have some ideas as to how you pay for it too. There are certain tax loopholes, I think, that you can close, and certain tax breaks that I think business gets that can be cut down a little bit. But I think that this decision has to be made, Senator. Are we going to put these people

back to work, or are we going to sit with folded arms and wait for doomsday? If that is what you want——

Senator PERCY. If we raise the gasoline tax 10 cents and brought in $10 billion, if we doubled alcohol and tobacco taxes—I am just mentioning a few—that is another $6 billion. That is $16 billion. We could create an awful lot of public service jobs or public works. We could have an awful lot of roadbeds laid for the railroads, as we go, and people would feel you have some sense of fiscal responsibility.

This is rather than saying let us borrow, borrow, borrow for the future. I think people worry about it when all we can do is say, borrow and let us see what we can do for you instead of saying, this is your Government and you have to start paying for it.

Mr. MEANY. Well, by the track record, what about the borrowing we have done before? This dynamic economy of ours is operating at 60 percent of capacity. Get it going again and you would not have to worry about your gas tax or anything else.

I say to you, you come with us and give us these jobs and stimulate this economy. We will talk to you about where you get the money. The first place you will get the money is when you put the people back to work.

Do you have any analysis of the difference between now and 1947 when we were just a poor little $200 billion gross national product, and now we are a $1,600 billion gross national product, and we are able to borrow and pay back?

Does that not mean something? Does that not mean something as to the capacity of this society to go in debt at this time in order to put people back to work?

Senator PERCY. Mr. Meany, you serve as a member of the Productivity Commission. You know what happened after the war. We were the most efficient producer in the war. "Made in U.S.A." was a symbol of efficiency, low cost, and high quality. We have gradually dropped down, in the last decade or two, to where we are one of the lowest countries, as far as capital formation and increase in productivity.

I do not see in your testimony any place for reinvestment of capital to make our plants and equipment more efficient, our labor more productive, so we can pay our labor more, and get American products producing in a way that once again they will be the envy of the world.

What can we do? Are not increases in productivity a part of this, improving our efficiency and making American labor better? How can we create that kind of capital so that it will be invested by business? Does the AFL-CIO have any thoughts for us along that line?

Mr. MEANY. On productivity, yes—get people back to work. Productivity goes down with unemployment. Get them back to work and you get your productivity. We feel that business investment is determined by sales and the prospects of sales. You should know that; you have had business experience. Production will raise when you get that—that is the incentive to use this idle plant capacity.

You begin by stimulating and getting people back to work.

Senator PERCY. There is no question that capacity is a tremendous amount of the cause. But I think improving efficiency and increasing productivity is essential. I want to say how pleased I am in this area, with the very constructive attitude of labor in the past year or so,

recognizing that you have to find a way to stay competitive in increasing world markets.

I would like to ask you about tax loopholes. I agree that they have to be closed, but let me mention a few unpopular ones, and possibly you can give us additional ones that should be plugged.

We take a deduction for gasoline tax—State and local taxes on our Federal return. The person who files a standard deduction gets no benefit, but it costs the Federal Government $600 million. With the amount of gasoline tax taken, we know that the guesstimating that is done is generally on the high side. Should we just not eliminate that? Should we not plug up the billion dollar tax loophole where we do not dye our heating fuel when it used in diesel trucks free from the tax the Federal Government imposes on diesel fuel. Canada dyes theirs and stamped out the flagrant abuse we have in this country.

Are those not some of the loopholes we should start plugging up so we pay as we go instead of having such a loose system and continuing to add to our debt?

Mr. MEANY. You have got to a subject now that I think I better get my tax expert in on.

Mr. GOLDFINGER. Senator, an awful lot of low-income and middle-income people will be adversely affected by increased taxes or increased prices, which is the effect of that kind of a sales tax on the price of gasoline. That is the way they get to work, that is the way they travel to their jobs.

This has become a necessity, and it is a necessity for the low-income and middle-income working people.

Senator PERCY. I will not take the time to answer you, Mr. Goldfinger. I have done so extensively on the floor, and will send you those comments.

One last comment. I would like to join Senator Kennedy in saying that I thought your statement, Mr. Meany, on refugees was outstanding. The very high level of attitude taken by organized labor through the years in humanitarian causes is commendable, and I compliment you on it. We are holding hearings on the emergency refugee budget legislation in the Foreign Relations Committee, and I will have to leave. Thank you.

Chairman BENTSEN. Thank you very much, Senator Percy. I would like to join in the point that Senator Percy made: The need for more investment in manufacturing capacity in this country, and the full realization that it takes over $25,000 just to create a new job in manufacturing. But you are not going to get investment in manufacturing capacity until you have demands for the product. Businesses are just not going to put their money into investment in a period of recession.

So one of the best ways to get the investment that we need in technology and manufacturing capacity, so that we can be competitive with the forces around the world, is to get this economy moving again, get people on payrolls so they have disposable income to spend on products manufactured in this country. I want to commend labor on this point, particularly on its stand on the investment tax credit and trying to encourage investment in manufacturing capacity.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman.

President Meany, I would be interested in some of the areas that you mentioned in terms of tax reform. I do not know whether you want to

elaborate on that now, or perhaps make some additional general comments on it.

We are seeing some important progress. On the tax cut legislation, we repealed most of the depletion allowance, which was a major and important step forward. I would be interested in your comments as to the prime areas of tax reform for the future.

Mr. MEANY. We have a long list, and I would be glad to send it to you.

[The following list was subsequently supplied for the record:]

AFL–CIO LIST OF PRIME AREAS OF TAX REFORM

The AFL–CIO has urged enactment of a comprehensive program of tax justice which would raise $20–30 billion in annual federal revenue through closing major loopholes in the tax structure.

The following is a summary of the key provisions of major tax loopholes, on which government action should be taken to raise $20 to $30 billion of additional revenue per year.

1. *Capital gains.* The preferential half-tax which applies to gains on unearned income from stocks or other property sold at a profit and the zero tax that applies to such gains when passed on at death are among the most disruptive elements in the tax structure. Closing these loopholes could raise as much as $10–11 billion in annual revenue.

2. *Tax subsidies for the overseas operations of U.S.-based multinational corporations.* These preferences have eroded the tax structure, destroyed American jobs and helped make America vulnerable to economic and political blackmail. Specifically, the AFL–CIO urges:

(*a*) An end to the *foreign tax credit* provision. The foreign income tax payments by U.S. corporations and the royalty payments of international energy companies should be treated just like taxes and royalties paid on domestic operations—as deductible costs of doing business. The present practice of allowing dollar-for-dollar credits against the company's U.S. income tax liability must be ended.

(*b*) An end to the *deferral privilege* which allows multinational corporations to defer U.S. income tax payments on the earnings of their foreign subsidiaries until such profits are brought home—which may be never.

(*c*) Elimination of the *Domestic International Sales Corporation* (*DISC*) gimmick which permits corporations to spin off into export subsidiaries in order to defer taxes—perhaps indefinitely—on export profits.

Closing these loopholes could raise as much as $6–8 billion in annual revenue.

3. The *depreciation speed-up* enacted in 1971. This loophole currently costs the Treasury and the American taxpayer about $1.5 billion annually. The 7% *investment credit* also enacted in 1971 and increased to 10% for 1975 and 1976 should be eliminated as soon as the present emergency situation is over. The 7% investment credit costs approximately $5 billion per year and at 10% the annual revenue loss is over $8 billion.

4. *Mineral Industry provisions.* The special tax privileges for corporations in the oil, gas and other mineral industries such as the percentage depletion allowance for "independent" oil and gas companies and other mineral industries and the immediate expensing of intangible drilling costs should be ended. Eliminating these special privileges could raise some $2.5 billion in annual revenue.

5. The *corporate surtax* exemption. Under this provision, the first $25,000 of corporate income is taxed at a 22% rate and for 1975, preferentially low rates apply to the first $50,000 of corporate taxable income. The revenue loss from the surtax exemption is approximately $5.5 billion.

6. *Tax exempton for interest income from state and local bonds.* Such income should be taxed in full with the federal government providing an interest-subsidy to assure that fiscal powers of the state and local governments are not hampered.

7. The *maximum-tax provision.* This is an uncalled-for tax bonanza to top corporate executives and others whose income comes from very high fees and salaries. The yearly revenue gain would be over $200 million.

8. *Tax shelters.* The many opportunities for wealthy individuals to shelter and wash-out otherwise taxable income through investments in mineral exploration and oil drilling ventures, real estate, hobby farms and the like should be

ended. Revenue losses from these tax avoidance opportunities total over $1 billion annually.

9. An overhaul of the *federal estate and gift taxes.* Present law provides unnecessary exemptions and a host of opportunities to minimize or postpone tax payments for generations, through devices such as family foundations, and generation-skipping trusts. An effective and equitable estate and gift tax structure could generate about $3 billion in additional annual revenue.

Mr. MEANY. On the question of business, I think that I want to make it clear that we recognize and have always recognized, as far as the American labor movement is concerned, that no matter how big the corporation is, you have to try to keep it healthy. In other words, you cannot get a pay envelope from a corporation that does not have any money to put into the pay envelope.

Seven representatives of organized labor sit on the President's Labor-Management Committee, and we are constantly meeting and constantly exploring ways to help business with its problems. At the present time, we are very, very much concerned with the utility industry, not only because of the fact that the utility industry, by and large, has cut down its expansion program in the last 3 or 4 years, and not only do we need the work, there is no question about it that we need the work, but this country is growing and we do need this additional capacity for the public utilities. We need to try to find a balance between the environmentalists and the need for nuclear power reactors, and we are working very, very closely with the Committee and we hope to be helpful in that field. In other words, we do not look upon this as just labor's problems; we look upon it as everybody's problem. And certainly we need some new directions; we need new directions from the administration. And I think we need some new directions from Congress.

I think that Congress has to trust the American economy a little more.

As far as inflation is concerned, sure we all suffer from inflation. But what is the problem? As you recall, last September, we were told there was no recession. You will remember that summit conference. Labor was the only one who pointed to the recession. No, no: there was no recession. What we needed was a national will to whip inflation. Remember WIN? "Whip Inflation Now." That was the last week in September, and a lot of things have happened since the last week of September.

And the thing that has happened that perhaps is more important than anything else is this unemployment rate has been going up, up, and up. Perhaps it would be great if we could get inflation down to 3 or 4 percent and at the same time put everybody in this country to sleep to make sure that everybody is out of work. That will bring your prices down. Get 10 million people out of work and keep them out of work for a year or two; dissuade any efforts on the part of the eggheads over in the White House that would help bring the prices down. Is that the kind of cost, is that the program that we want?

Another thing that has an impact on inflation is the question of 68 percent capacity operations.

Suppose we were going 90–95 percent; everyone competing. Would that not have an effect in holding down prices? Or perhaps bringing them down?

So if we have got to choose between the immediate evil and the long-range problem of inflation, we have got to put the fire out. And the fire right now is this unemployment rate.

Senator KENNEDY. Let me ask you, if we do not take the steps that you have outlined here, what are the implications in terms of the average American worker?

Mr. MEANY. I hate to think what would be the economic effects. There was a TV program the other night—I do not advocate—everybody knows the American trade union movement. We do not man the barricades, we do not take to the streets. If we do demonstrate to let people know how badly we feel, we do so in a peaceful, legitimate way. We come here for redress of the wrongs; we come here to the Congress. This is what this Congress is all about. If there is an evil condition that they can correct, it is the duty of Congress to correct it.

There was a TV program the other night, and some man was explaining how he was going out hunting and shooting rabbits and pheasant to feed his family. And somebody said, well, a year or two from now, suppose they take your home away. He says, do you see this gun, the gun I use on the rabbits. Well, I will use it on the guy who tries to take my home away.

This, of course, represented one individual; but it gives you an idea of the feelings on the part of the people. People who are willing to work, who want to work, who want to produce, are being told they are going to lose their homes or they are going to accept the dole that Arthur Burns is now proposing—which all adds up to, when you tell a man with a family to feed and trying to pay off a mortgage, you tell him you are going to employ him and pay him a poverty wage or less than a poverty wage, this to me is not the answer. The answer is to invest this money, go into debt; yes, go into debt to get people back to work. And then I am sure we will find a solution for our problems, the only solution.

Senator KENNEDY. Do you find that feeling among American workers, the ones who lose their jobs, the ones who are unemployed, the ones who are in danger? Do you find they are really reaching the boiling point?

Mr. MEANY. As I say, I just told you this one instance. This was David Susskind's TV program the other night. It shows you how one man felt. I can see people who, as I say, are willing to work and have all these responsibilities and just told they cannot earn any more; I can see them becoming desperate.

Senator KENNEDY. One final area. In the area of monetary policy, do you think we ought to legislate specific increases in the money supply, or require the mandatory allocation of credit?

Mr. MEANY. I am not familiar enough to know can you legislate. Or do you have to appeal over Arthur Burns' head? The only appeal you have got over him is to the Almighty. Can the Almighty do something about the money supply? I think if we could ship Arthur Burns over to the Soviet Union and loan him to them for a while—it might help to get him out of here. He is the fellow who has been holding us down.

Keep this in mind, Senator, Arthur Burns announced in February 1969, along with the then President of the United States, that the 4-percent inflation rate was unacceptable and he was going to do some-

thing about it. He was going to do something about it without causing more unemployment. Well, you see what he has done about it. We have 9-percent unemployment and double-digit inflation. To me, if he were working for a private corporation, he would get fired. His record is a record of absolute, complete failure. He is in charge; he was the economic adviser over there. Then the President put him on the Federal Reserve Board where he cannot easily be touched by Congress or anyone else. This is a real tragedy for America; this man is bad news. And increasing the money supply—he restricted the money supply. He restricted credit. The economy was overheated, he said. Well, I tell you, today I wish it was even a little lukewarm, compared to what he called an overheated economy in February 1969. On credit allocation, if we have to allocate credit, I think we should allocate credit. I think we should reach into these corporate banks and corporations and say, you loan money for housing; do not loan it to Caesar's Palace or go into partners with Jimmy Hoffa in Las Vegas in some gambling operation.

The only way it is going to do some good for the people of this country, give them more homes and put people back to work. I think the Congress should try to reach over Arthur Burns' head. I do not know how you do it, but I think you should try.

Senator KENNEDY. In the area of housing and construction, would you be interested in credit allocation?

Mr. MEANY. Very much.

Senator KENNEDY. I want to thank you very much, Mr. Meany.

Chairman BENTSEN. Thank you very much, Mr. Meany.

That was the same Mr. Burns who, in 1972 was expanding the money supply, as I recall, with inflation at that time being around 5 or 6 percent; expanding it before the 1972 elections.

Mr. MEANY. That was just a coincidence.

Chairman BENTSEN. Let me say, President Meany, that I for one do not want long-term continuing deficits. I do not think the economy could stand it. The way you get rid of them, in my opinion, is by putting people back to work and on payrolls, where they pay taxes, where they have money to spend, and the corporations in turn are making profits and paying taxes. I cannot accept the philosophy that we have to have an 8- or 9-percent unemployment rate in this country to curb inflation.

Thank you very much, President Meany.

The subcommittee stands in recess until tomorrow morning at 10 a.m.

[Whereupon, at 11:25 a.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, May 13, 1975.]

LABOR-MARKET POLICIES FOR FULL EMPLOYMENT

TUESDAY, MAY 13, 1975

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol Building, Hon. Lloyd M. Bentsen, Jr. (chairman of the subcommittee), presiding.

Present: Senators Bentsen and Javits.

Also present: Loughlin F. McHugh, Courtenay M. Slater, and Jerry J. Jasinowski, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN BENTSEN

Chairman BENTSEN. The hearing will come to order.

We are delighted you were able to find your way up through this labyrinth, Mr. Secretary.

It is a great pleasure to welcome as our witness this morning Secretary of Labor John Dunlop. The Subcommittee on Economic Growth has asked Secretary Dunlop to help us initiate a thorough investigation of the specific labor market policies needed to bring this country back to full employment with price stability.

Yesterday George Meany, the president of the AFL-CIO testified. He gave us an eloquent plea for bold and immediate action to bring unemployment down from its present disastrous level. He urged us to be concerned first of all with people—people who need jobs and income. If we make people and jobs our first concern, the budget deficit about which everyone is so concerned will take care of itself. The deficit springs from lack of jobs and lack of income. If we were at full employment, we would have the receipts to balance the budget.

In a recent meeting with the press, Secretary Dunlop you, too, expressed your concern about "the real side of recovery," that is, people and jobs. You went on to stress the importance of looking ahead and anticipating the specific labor and capital bottlenecks which may be encountered as recovery gets underway. You told the press that the failure of government and business to anticipate capacity and labor force problems would "make it certain we will have a short-lived boom which will then turn down again."

We cannot afford to have a short-lived boom. We not only need a vigorous recovery, we need a recovery which continues over an extended period. Economists use a rule of thumb that real output has

to grow about 7 percent per year in order to bring the unemployment rate down 1 percentage point per year. Four percent real output growth per year is required just to keep pace with labor force growth and productivity gains and thus keep unemployment from rising. With unemployment at 9 percent, it will take strong economic growth the remainder of this decade to get us back to full employment.

We just cannot afford to see that growth interrupted by inflationary bottlenecks on either the labor or the capital side. Mr. Dunlop, I share your concern that we must look ahead and anticipate these problems while there is still time to head them off. That is precisely why I asked to have this Subcommittee on Economic Growth created.

The Secretary of Labor is really in the center of the action on this issue. It is your responsibility to see that labor bottlenecks do not occur; that necessary job training is available; that job placement services work efficiently; and that women and minority groups do not suffer from job discrimination. That is a big task. I hope that the hearings and investigations which this subcommittee plans to pursue will be of help to you in that effort.

Mr. Dunlop, we have asked that you give us an overview this morning of the specific labor market problems which you foresee over the next few years, and of the actions you plan to take to ameliorate these problems. Would you please proceed with your statement at this time and then we will turn to questions. I have a number of specific issues which I would like to pursue in the question period.

STATEMENT OF HON. JOHN T. DUNLOP, SECRETARY OF LABOR

Secretary DUNLOP. Thank you very kindly, Mr. Chairman.

I would like to make a few introductory remarks and then summarize, if I may, Mr. Chairman, my prepared statement in order to leave more time for discussion and your inquiry as to further courses of action.

Some brief comments I would like to make at the outset that are not in my prepared statement include these points:

First of all, I want to say that I think the topic you have proposed for discussion is indeed a very important one and I commend you and thank the committee for focusing attention on this range of problems. I wish I knew more about them and I would like to say that I intend to continue to work on them, just come to this position, as you know. Perhaps, with your permission, I would like to come back and see you sometime and say what future ideas I have on that topic after I have had a chance to get into it further.

Chairman BENTSEN. We would be very pleased, Mr. Secretary.

Secretary DUNLOP. Now, in addition, I would like to comment that the subject involves both, it seems to me, short-term focus and longer term focus. In a certain sense there is, I think, at times some confusion about a topic such as this one. Sometimes some people are interested in simply the next 6 months or the next 9 months. On the other hand, it seems to me that any concern over labor market policies has got to be considered in a somewhat longer term frame of reference as well, because labor market adjustments do not occur quickly. In terms of fundamental changes, the quality of workers and their skills take a long time to develop.

Now, turning then from those brief comments to the text of what I have to say, the first comment I would like to make to you is that the topic itself causes me some professional difficulties which I would like to explain.

In ordinary discourse, labor market policies are, as a phrase, to be distinguished from general fiscal and monetary policy and refer, as your statement did, to measure designed to enhance training and skills, to reduce frictional unemployment, enhance job search, to combat discrimination and the like. They also oftentimes refer to measures to deal with certain pockets of unemployment or geographical or structural characteristics of unemployment. That is really what we have come to mean by the phrase "labor market policies," Mr. Chairman.

The common phrase in the United States in the 1960's, as you know, came to be called an "active manpower policy," as distinguished from certain long established manpower policies in this country, like apprenticeship and vocational education and the employment service, and other such measures.

And it was really this phrase, "labor market policies," that refers to those sorts of short-term measures of skills, training, development, rather than the more traditional measures.

Now, the second observation I make about the title is that when we speak of labor market policies we are really not talking about measures, therefore, which by themselves are distinctive to create full employment. We are in a sense talking about incremental tools to secure a little higher level of employment, a better match of people in jobs, a little less inflationary expansion and perhaps some higher profit.

Labor market policies alone, I think, are not powerful enough to achieve or to sustain high employment.

Then you will find I have made a brief caveat about the second part of the title which you mentioned at the outset, which I appreciate particularly. Without undue inflation, in other words full employment without unreasonable inflation, I think, is a worthy goal, but we have had ample experience to know how modest one must be in trying to achieve this. I do not mean that we should not try, but I very much am of the view that it is an extraordinarily complex matter in Western society. I do not think myself that there is any simple solution to it.

Now, with all those introductory comments, Mr. Chairman, what I want to say today is divided under three headings. The first is to say something about the changing characteristics of labor markets that are taking place over the longer term. And, second, I want to say something about the most important tool in our possession at present to deal with longer term labor market characteristics and that is CETA. The third area of those remarks have to do with those you emphasized in your opening statement, the internal relations between labor and capital requirements and job creation, and, Mr. Chairman, if I might in a sentence give you the single idea which I think is really new in my own thinking, about this matter it is this:

When you get down to it, our society and our people are not really just interested in job creation. We are not simply interested in some more $2-an-hour job or $2.50 jobs. The society is very interested in good jobs, jobs which pay well, jobs which have stability of employment, with good benefits, with chances for advancement, with good working conditions and safe working conditions, and those kinds of

jobs, it seems to me, are our objective and we ought to think a little more about the requisites that distinguish those kinds of jobs from just another job.

Now, I would be the last to disparage any sort of job, but it does seem to me that there is a growing interest in the quality of jobs and not just some $2-an-hour jobs, if I can speak to that, and the requisite for creating good jobs is somewhat different from creating just one more job.

And that is the third area which I wish to comment on.

Now, turning to the first of these topics, Mr. Chairman, I would like to briefly discuss the changes in labor market characteristics that are taking place.

First of all, we should not, as I remind us, forget that we are seeing a marked change in this period of the age distribution of our population.

If you will turn to table 1 in my prepared statement you will see something of that. The great baby boom of the postworld war has passed. We are seeing in the 1970's a decline in those who are below age 16 and in the school system. That has very substantial impact on lots of other jobs, like teachers and on utilization of school buildings and the like.

We see at the other end of the spectrum, as table 1 shows, a continuation in the number of people entering the adult work force as well as an increase in the percentage who are over 65. But the middle group, the changes in the youth and in the main working years of our population have very important implications, I should say, for employment, for unemployment, and the like.

At the same time we ought to look, Mr. Chairman, at the labor force participation rates, and if you will turn to table 2 in my prepared statement, you will see the tendency for changes in participation rates is well represented. We see continuation of the substantial growth of the participation of women in the labor force. In 1960, you will see that 37.1 percent of the female population was in the labor force. They are estimated in 1990 to have a participation rate of 45.9 percent, thus showing continuous growth in their role in the labor force.

In the same way, we note, Mr. Chairman, the continual decline in participation rates of rates of men, particularly over 60 and 65 years of age. You see in 1960 that the group over 65 years of age had a participation rate of 32.2 percent. It has come down and will continue to decline in 1990 to an estimated 19 percent.

So you have this structural change in the age distribution which influences employment patterns.

In table 3 of my prepared statement, you will see, Mr. Chairman, that there are also significant occupational changes underway.

Chairman BENTSEN. Let me interrupt if I may. You are saying these are the percentages of those age groups, male and female, that participate in the labor force?

Secretary DUNLOP. Yes.

Chairman BENTSEN. Why is there such a drop in the participation rate of those 65 and over, over the years?

Secretary DUNLOP. That is a subject which is in itself an important topic in the general heading you have proposed to focus on in these hearings. I would have thought that the main reason for that was the growth of pension plans and social security, the higher benefits which they now provide. There are those who would say the decline of the

extended family makes people a little more independent and they perhaps become more used to developing travel plans and retirement industries, if you care to put it that way.

By the way, that trend is an important part of those topics which we are generally discussing about changes in the labor market.

We will, just to get over this material, Mr. Chairman, look quickly at table 3 which shows something of the same trends with regard to occupations, and there you will see that, as you might expect, some gradual continued expansion in professional and technical jobs to a point where in 1985 they are estimated to constitute almost 17 percent of the work force. We see a growth also in clerical workers, a small amount, and then as you expect, a decline in the relative position of operatives, semiskilled workers in factories, nonfarm workers, and farm laborers.

In table 4 of my prepared statement, you see the same secular developments with respect to industry classifications and there again you see the continuing growth of the Government as a regular employer. You see the growth of employment in financial and certain services. On the other side you see the rather marked continued decline in the relative role of manufacturing in total employment as the decline of the proportion of workers involved in agriculture, with agriculture dropping from 7.8 percent of employment in 1960, to only 1.8 percent in 1985, a very sharp drop. And similarly the same sort of trend in manufacturing from 25 percent to about 22 percent in 1985.

All I am suggesting in presenting this background is that our labor markets must deal with these changing aspects of our labor force.

Finally, I do not have very much here to say, but I ought to recognize that we are seeing important geographical changes in the distribution of employment and population patterns, the growth of certain regions of the country, suburbs, new areas, and the atrophy of other parts of the country and segments of larger metropolitan areas.

These are all kinds of secular tendencies in the labor force which do effect job creation, job placements and unemployment.

Now, second, Mr. Chairman, in the three sets of points I am making today. I would like to express to you as a second set the view that the Comprehensive Employment and Training Act, which is really very young, established by the Congress a year or two ago, does hold, I think, promise of an important long-term tool for economic policy-making and labor market policy. With appropriate Federal support and guidance it holds the promise of a machinery which is specialized to each of our localities, each of our States, to develop, which we desperately need for the long term, an administrative apparatus in each major local labor market area which would have a staff of people who are technically competent to do planning, a staff that can handle and develop the statistics for those particular regions or indusries, and a staff, which instead of just being Government bureaucrats, in my view, ought to be well interfaced with local labor people, local management leaders, and with the local vocational and other school systems.

The development of that mechanism over time is one of the ideas which the Congress launched in recent years, which I think is an enormously important instrumentality. It is not perfect. It has its present limitations, and yet as a training device, as a manpower

oriented group of people, I think it is enormously promising for the next decade or two in our country. I should like to see it grow and develop in the direction that I have just indicated.

I would like to make one further comment about it, Mr. Chairman, which does concern me a little bit and has come to my attention as I have been wandering around the country visiting our regional offices and talking to labor and management and government people in various areas this week. I have been trying to visit, Mr. Chairman, one office a week. This week I go to Dallas for a day.

Now, what has happened is that before these new institutions could be fully established they have had, and understandably, thrust upon them a new responsibility, the responsibility of the public employment program, and new responsibilities to deal with the present economic crisis to create jobs, to expend the funds for public employment, and as I get around there is a kind of tension going on which concerns me.

I am very much in favor of this shortrun emphasis because we do face a desperate situation. On the other hand, I am concerned that this attention to public employment jobs and other short-term functions might so distort and take the capacity and interest away from the long-term development of training and manpower statistics and planning capacity that the longer run function of the program is aborted and is not allowed to reach its fruition. So, that is a problem in our present circumstances, which I in good conscience must say a word or two about as I have. I think that the mechanism should be at this local level with Federal support and so forth.

The third area, and I will try to keep to my time limit, that I wanted to say something about this morning, Mr. Chairman, relates to the broadest sort of labor market policies for economic growth.

Now, I thought I ought to start this discussion, Mr. Chairman, as I do in my prepared statement, by pointing out our present problems in a little bit of historical perspective. The American economy, we should remind ourselves, has shown great capacity to adjust to a changing labor force and to dynamic social and economic developments. In the 25-year period 1949 to 1974, total civilian employment was increased from 58 million to 86 million average jobs, and increase of 28 million jobs. It is no small number.

In the last decade alone this increase was 16.6 million jobs. Although Government employment in this quarter century increased from 5.9 million to 14.3 million, an increase of 8.4 million—private nonagricultural employment increased from 37.9 million to 64 million jobs, an increase of 26.1 million jobs. In this quarter century the employment of women doubled from 16.7 million to 33.4 million, while the employment of men increased only 28.3 percent from 40.9 to 52.5 million.

During this period, the participation rate of women in the labor force, as was pointed out earlier, rose from 33.2 percent to 45.7 percent. The employment of youth 16 to 19 also doubled from 3.7 million to 7.4 million, but the number of youths, especially those seeking work, grew even faster, as I had discussed earlier.

I want to suggest to you that it is in that dynamic sort of economic setting that we need to face the future and our present troubles.

Now I go back at this point to the theme I was making at the outset; namely, that the economy and people have increasingly come, I think, to be interested not in low end job, low-level jobs, but in good

jobs, and that creates, I think, some new interests. They are defined by what I described earlier as the characteristics of a good job, and if you start asking yourself the question how do you create good jobs in our economy, I think what one must conclude is that it derives from new technology, derives from research, and derives from capital flows within the economy. Even in service industries, in which there are a number of good jobs, you will find that often those jobs are related to various kinds of public capital, as is in the case of the medical profession, the legal professions and the like. Skills, of a highly specialized nature, and education often constitute good jobs.

If you will turn to table 5, in my prepared statement, you will see, I think, the ranking of the amount of capital per employee in these various industries and the average hourly earnings of workers in these industries, which is not an absolute measure but some rough indication of this concept of good jobs to which I referred earlier.

Now, you will see that in the highest wage jobs, some of those jobs are not as safe as they should be, and of course, through OSHA and other Government programs we are trying to improve that aspect of the quality of jobs. I think the table almost speaks for itself and suggests to me, if our interests are not merely the creation of more jobs—and I do not mean to suggest in the slightest, that a job when one does not have it, is not everything—that I think the creation of good jobs requires attention to flows of capital and to research and technology. These tables seem to support that view.

I might, in drawing these remarks to a close, say pursuant to the things you said at the outset, that one of the areas where I have been particularly concerned, Mr. Chairman, in recent days, is the problem in the electric utility area where we, as you know, have had a great slowdown in the construction of those plants, and I am concerned because power will be needed when the economy moves up. But I am equally concerned by the fact that both for the building and operating of those facilities we will need a good deal more skilled labor than we have in some of those occupations, and if we wait until 2 or 3 years down the road when we need these skills they will then be in very short supply and these shortages will tend to be a factor accounting for unnecessarily high inflationary rates in wages and unnecessary increases in prices of materials that are not adequately available. In that sense we need to think ahead in this capital area with respect to specific industries—in sector terms, as I see it.

One of my purposes in this new position of mine will be to work with various industries, with union and management groups, as well as with the numbers, to provide us a little better sense of capital requirements and the requisite manpower planning necessary in these various areas.

I guess, Mr. Chairman, I have taken longer with my statement than I had hoped to, but I am happy to discuss this range of issues and file my statement with you, if I may.

[The prepared statement of Secretary Dunlop follows:]

PREPARED STATEMENT OF HON. JOHN T. DUNLOP

LABOR MARKET POLICIES TO RESTORE FULL EMPLOYMENT

Mr. Chairman and members of the committee, I have some considerable professional difficulties—at the outset—with the title of these hearings on which brief preliminary comments are essential.

In professional discourse "labor market policies" are ordinarily to be distinguished from general fiscal and monetary policies and refer to measures designed to enhance training and skills, to reduce frictional unemployment and enhance job search, and to offset discrimination. They also include measures to deal with structural and area unemployment associated with long-term changes in employment patterns and characteristics of the labor force, indigenous or immigrant. This usage of "labor market policies" is often associated with developments that received greatest attention first in Sweden under the leadership of Gosta Rehn and Rudolf Meidner. In this country the phrase "active" manpower or labor market policies has some times been used to distinguish governmental manpower measures originating on a broad scale in the 1960's from such policies as apprenticeship, vocational education, employment exchanges, and other long established activities which influence the labor market.

To the best of my knowledge no advocate of an active manpower policy has regarded manpower measures as a distinctive or sufficient means to full employment apart from general fiscal and monetary measures. Labor market policies are ordinarily regarded as incremental tools to secure a somewhat higher level of employment, a better match of people and jobs, a less inflationary and more sustained expansion, with perhaps higher productivity and real income and product. Labor market policies alone are not powerful enough to achieve or to sustain high employment.

Then, I have some problems with the phrase "restore full employment." I am not certain when we last had "full employment," if ever, in the sense of providing ". . . useful employment opportunities including self-employment for those able, willing and seeking to work . . ." at prevailing compensation. The level and structure of unemployment historically provide an indication of the extent to which we have fallen short of the objective set forth in the Employment Act of 1946 or have found other needs, obligations or considerations to preclude this objective.

A final comment on a matter generally associated with discussions of "full employment": Full employment without "unreasonable" inflation is a worthy goal, but we have ample experience to know how difficult is this high aspiration. The most essential requisite for making headway is the adoption of longer term public policies, less responsive to immediate considerations, with a lesser imperative to meet the dates of November or July or January on the political calendar.

The objective now should be for a sustainable expansion that leads to stable high employment and not a peak that explodes in more inflation and collapse.

First, I would like to comment briefly on expected characteristics of the labor market over the next decade. Changes in the demographic and skill composition of the labor force have been important factors affecting the rates of unemployment, productivity, and the rate of inflation. In the past, we have failed adequately to anticipate or respond to those trends, perhaps, because we did not have the tools at our disposal to capitalize on those trends that we were able to estimate.

Second, I would like to discuss the programs under CETA and the role of this approach in achieving high levels of employment, higher real incomes and economic growth generally.

Third, I will discuss an area of economic policy that has significant labor market implications—capital formation. This third subject is, in my view, a prerequisite for providing the economic conditions in which specific labor market policy tools can be most effective in helping Americans find good jobs. Capital formation has received much attention lately under the topic of "capital shortage." Secretary Simon testified before the Senate Finance Committee on the subject on May 7. It is my view that economic growth, particularly at this time, depends heavily upon capital formation, but capital formation can be severely hampered without attention to labor markets, and capital severely underutilized if long term labor policy considerations are not included in efforts to achieve sustainable economic growth.

I. LABOR MARKET CHARACTERISTICS

Over the coming decade the economy may be expected to undergo numerous changes in its structure. Many of these cannot be foreseen even approximately,

but some will result from forces currently at work and, accordingly, are identifiable now. Three such forces affect labor market developments: (1) the age distribution of the population, (2) shifts in occupational and industrial distribution of employment, and (3) the geographical distribution of employment and population.

Table 1 shows changes in the age distribution of the labor force since 1950 and projects these changes through 1990. These estimates are based on Census Bureau projections of birth rates, current life expectancies, and the age structure of the population today. The relative increase in the youth population was a factor in such social phenomena as teenage unemployment, increased juvenile deliquency and the burgeoning of college education during the last decade. The growth in the population age 65 and over has led to a migration to warmer parts of the country and to growing interests in improvements in Social Security benefits and in other post-employment benefits. Continued growth in this age group will likely sustain interest in these areas. Also, more attention may be necessary to enable older citizens to make the transition from work to retirement.

The projected decline in the proportion of the population age 16–24 has important implications for education and training needs in the remainder of the 1970's and in the 1980's, just as the relative growth of this group during the 1960's had a major impact. While we found ourselves short of teachers and educational plants in the 1960's, we now find ourselves with a surfeit of teachers and school buildings. This resulted as many of the youth who crowded our schools during the 1960's were trained to teach a population wave that was cresting with their graduation.

TABLE 1.—DISTRIBUTION OF THE POPULATION BY AGE

Age group	1950	1960	1970	Projected 1980	Projected 1990
Percent:					
Below 16	28.3	32.6	31.1	25.4	25.8
16 to 24	13.3	12.1	15.0	16.7	12.8
25 to 44	30.0	26.1	23.6	27.8	31.9
45 to 64	20.3	20.0	20.5	19.4	18.2
65 plus	8.1	9.2	9.8	10.7	11.3
Millions:					
Below 16	43.1	58.8	61.9	56.8	63.6
16 to 24	20.2	21.8	32.5	37.5	31.6
25 to 44	45.7	47.1	48.4	62.3	78.7
45 to 64	30.8	36.2	41.9	43.5	45.0
65 plus	12.4	16.7	20.2	24.1	27.8

Source: "Manpower Report of the President," 1975.

TABLE 2.—PARTICIPATION RATES BY AGE AND SEX

	1960	1970	1980	1990
Male:				
16 years and over	82.4	79.2	78.0	78.4
16 to 19 years	58.6	57.5	56.0	55.4
20 to 24 years	88.9	85.1	83.0	82.1
25 to 34 years	96.4	95.0	94.6	94.4
35 to 44 years	96.4	95.7	95.1	94.7
45 to 54 years	94.3	92.9	91.9	91.5
55 to 64 years	85.2	81.5	79.1	77.5
65 and over	32.2	25.8	21.2	19.3
Female:				
16 years and over	37.1	42.8	45.0	45.9
16 to 19 years	39.1	43.7	45.5	47.0
20 to 24 years	46.1	57.5	63.4	66.2
25 to 34 years	35.8	44.8	50.2	51.5
35 to 44 years	43.1	50.9	53.2	55.2
45 to 54 years	49.3	54.0	56.2	58.0
55 to 64 years	36.7	42.5	44.7	45.8
65 and over	31.0	35.6	37.5	38.8
Both sexes 16 and over	59.2	60.3	60.8	61.5

Source: "Manpower Report of the President," 1975.

With respect to economic growth during the next decade, the most important demographic change will be the relative rise in the group aged 25–44, which is expected to rise from 24 percent of the total in 1970 to 27 percent in 1980. This increase reflects the bulge in the birth rate that occurred after 1945, which caused the growth in youth population that we have just discussed. In the late 1970's and the 1980's the experience, maturity and energy of this group will provide the labor force with the potential to be unusually productive. This contrasts sharply with the late 1960's when this group was at an historical low, proportionately, and jobs requiring their energy, experience and greater skills went begging or were filled with relatively less productive labor.

Beyond these changes due to underlying trends in the relative sizes of the various population groups, additional changes will be caused by variations in labor force participation rates. Predicting these changes is somewhat more difficult than predicting population changes. Two phenomena do, though, seem very likely to occur: (1) Participation rates of women will continue to rise, especially as opportunities for employment of women expand with the easing of sex discrimination, and (2) Participation rates of those age 60 and over will continue to drop. Table 2 provides additional detail on these trends in participation rates.

As in the 1960's and early 1970's, professional and technical employment is expected to increase slightly as a fraction of the total (see Table 3). Reciprocally, during this period, employment of semi-skilled and unskilled workers is expected to fall. This reflects the historical trend toward greater white-collar and skilled employment, which is related to increasingly complex technology, higher educational attainment and diminishing interest in low-level jobs, or those jobs considered menial.

TABLE 3.—EMPLOYMENT BY OCCUPATIONAL GROUP, 1972 AND PROJECTED 1980 AND 1985 REQUIREMENTS

[Numbers in thousands]

Occupation group	Actual 1972		Projected			
			1980		1985	
	Number	Percent distribution	Number	Percent distribution	Number	Percent distribution
Total employment	81,703	100.0	95,800	100.0	101,500	100.0
Professional and technical workers	11,459	14.0	15,000	15.7	17,000	16.8
Managers and administrators, except farm	8,032	9.8	10,100	10.5	10,500	10.3
Sales workers	5,354	6.6	6,300	6.6	6,500	6.4
Clerical workers	14,247	17.4	17,900	18.7	19,700	19.4
Craft and kindred workers	10,810	13.2	12,300	12.8	13,000	12.8
Operatives	13,549	16.6	15,000	15.6	15,300	15.1
Nonfarm laborers	4,217	5.2	4,500	4.7	4,500	4.4
Service workers	10,966	13.4	12,700	13.3	13,400	13.2
Farmers and farm laborers	3,069	3.8	2,000	2.1	1,600	1.6

Source: Manpower Report of the President, 1975.

Substantial changes in the structure of employment by industry are also likely. Employment in the public sector may be expected to continue to expand, though much less rapidly than in the 1960's. Retail trade, finance and services will continue their relative expansion though, here too, the rates of change will not be so great as they were during the 1960's. Employment in the goods-producing sectors—manufacturing, transportation and public utilities, mining and construction—may be expected to continue their relative decline. (See Table 4.)

Education is also an important factor in determining the structure of the labor force. The more highly educated are interested in obtaining jobs with higher status, higher pay and more interesting content. Educational attainment is not expected to be changing as fast as in the last decade, but the average level of attainment and accompanying level of skills and expectations will remain at high levels. This makes the search for policies that will create better jobs an important national priority.

TABLE 4.—TOTAL EMPLOYMENT BY MAJOR INDUSTRY SECTOR, 1960, 1972, AND PROJECTED 1980 AND 1985

[Numbers in thousands]

Industry sector	Actual		Projected		Percent distribution			
	1960	1972	1980	1985	1960	1972	1980	1985
Total	68,869	85,597	101,576	107,609	100.0	100.0	100.0	100.0
Government	8,353	13,290	16,610	18,800	12.1	15.5	16.4	17.5
Total private	60,516	72,307	84,966	88,809	87.9	84.5	83.6	82.5
Agriculture	5,389	3,450	2,300	1,900	7.8	4.0	2.3	1.8
Nonagriculture	55,214	68,857	82,666	86,909	80.0	80.4	81.4	80.8
Mining	748	645	655	632	1.1	.8	.6	.6
Contract construction	3,654	4,352	4,908	5,184	5.3	5.1	4.8	4.8
Manufacturing	17,197	19,281	22,923	23,499	25.0	22.5	22.6	21.8
Durable goods	9,681	11,091	13,629	14,154	14.1	13.0	13.4	13.2
Nondurable goods	7,516	8,190	9,294	9,345	10.9	9.6	9.2	8.7
Transportation and public utilities	4,214	4,726	5,321	5,368	6.1	5.5	5.2	5.0
Transportation	2,743	2,842	3,250	3,266	4.0	3.3	3.2	3.0
Communication	844	1,150	1,300	1,312	1.2	1.3	1.3	1.2
Public utilities	624	734	771	790	.8	.9	.8	.7
Wholesale and retail trade	14,177	18,432	21,695	22,381	20.6	21.5	21.4	20.8
Wholesale	3,295	4,235	4,946	5,123	4.8	4.9	4.9	4.8
Retail	10,882	14,197	16,749	17,258	15.8	16.6	16.5	16.0
Finance, insurance and real estate	2,985	4,303	5,349	5,932	4.3	5.0	5.3	5.5
Other services	12,152	17,118	21,815	23,913	17.6	20.0	21.5	22.2

Source: Manpower Report of the President, 1975.

While changes in geographic dispersion are difficult to predict, we should note the impact on economic growth and investment of recent population shifts such as those to warmer climates in the southwest, west and southeast; to suburbs and beyond and; to new cities and planned communities. No doubt existing population patterns and new migration and settlement trends will have an important effect on the pattern of future economic growth and labor market adjustments.

II. CETA'S ROLE AS A LABOR MARKET POLICY TOOL

With this background on the changing nature of our labor markets, I should like to discuss with you, for a few moments, CETA's important role as a labor market tool. Fifteen months have now elapsed since the passage of the Comprehensive Employment and Training Act (CETA), which represents a desirable initiative toward the type of local cooperation and flexibility necessary for labor market policy. There have been operational problems because of recent economic conditions and, therefore, a diversion away from long term policies toward emergency measures. The establishment of local governments in a lead role appears to be the proper long term approach in making manpower programs responsive to local conditions, and especially to local labor market conditions, and there has been progress towards this during the year.

There are three principles which have guided the Department's implementation of CETA.

1. Training programs should produce participant skill levels which match available and anticipated jobs. This is particularly true for persons who have significant disadvantages in competing in the labor market.

2. Skill training must be more responsive to the longer term needs of the labor market where shifting economic demands require increased or different levels of skill.

3. Better labor market and occupational information is required for local decision makers developing program strategies and curricula.

The key role in this conception is played by local elected officials and manpower directors. The Federal government, therefore, must move more towards assistance to local sponsors to allow them to more effectively plan and manage their programs. Good local and area labor market information is critical to this role, and the Federal government must take the lead in improving our existing information, collection and dissemination systems.

At the national level, much more can be done toward effectively coordinating and rationalizing Federal social and labor-related programs which influence

the labor market, including CETA. Vocational Rehabilitation, Vocational Education and Welfare and Social Services. The Department of Labor and Health, Education and Welfare have taken the initial steps toward coordinated planning, and enhancement of the progress gained over the first year of CETA operations will be a priority in the future. Rural labor market areas require special attention.

One of the most critical elements of an effective labor market policy that can be influenced somewhat at the Federal level is improved interaction of the key participants in a local labor market such as local officials, employers, representatives of organized labor and the client community. Formal and informal relationships between the Federal government and client groups can help form the base for an effective manpower system, but these relations with governments, schools, labor and industry must be nurtured at a local level if the program is to firmly establish itself as a long-term policy instrument.

There are some important issues that can be resolved by this more cooperative local approach and by efficient delivery of data and technical assistance, employment and other services. For one example, as the President pointed out in his speech last summer at Ohio State University, the incidence of youth unemployment can be reduced by local cooperation. Most particularly, the link between the educational establishment, training and work must be strengthened at the local level in order to attack this problem. To digress slightly, the efforts of the military as a link between school and work—especially in more recent recruitment activities—provide an example of the kinds of things that can be done to improve training opportunities for young people.

The efforts of the past year in CETA represent beginning steps in the establishment of a locally oriented manpower program as a component in a comprehensive labor market policy and as a component in a more comprehensive economic policy. As we perfect our tools, we will be better able to adjust to changing conditions without having to react to instant emergencies, whose solutions may only have short term benefits. In part, because of its flexibility and its potential to act in a catalyst role, the CETA program becomes a critical part of long term labor market policy. It can adjust to changing conditions, including shifts in population or technology.

III. LABOR MARKET POLICIES FOR ECONOMIC GROWTH

The American economy, we should remind ourselves, has shown great capacity to adjust to a changing labor force and to dynamic social and economic developments. In the 25 year period 1949–1974 total civilian employment increased from 57.6 to 85.9 million average jobs, an increase of 28.3 million jobs. In the last decade the increase was 16.6 million jobs.

Although government employment in this quarter century increased from 5.9 to 14.3 million—an increase of 8.4 million—private, nonagricultural employment increased from 37.9 to 64.0 million, an increase of 26.1 million jobs. In this quarter century the employment of women doubled from 16.7 to 33.4 million while the employment of men increased 28.3 percent from 40.9 to 52.5 million. During this period, the participation rate of women in the labor force rose from 33.2 percent to 45.7 percent. The employment of youth, 16–19 years, also doubled, from 3.7 to 7.4 million, but the number of youth, especially those seeking work, grew even faster, as we discussed earlier.

This overview of growth in employment should serve to demonstrate the dynamism of the American economy and the context in which we must view future growth. We have made good progress over the last 25 years, though not without problems and mistakes, and it is our task now to try and identify the requisites for our continued growth. It seems to me that this requires us to construe the term "labor market policy" in a rather broad sense. In so doing, one comes to the conclusion that policies to promote stable, long term growth should be the cornerstone of labor market policy as well as economic policy generally.

Provision of "Good" Jobs

More specifically, with respect to future labor market policy, the country has raised its sights and is interested not merely in the total number of jobs, but rather in the quality and character of these jobs. Some people are concerned that we have too many low-level jobs and not enough "good" jobs. The social and economic difficulties involved in the elimination or diminution of low-end jobs, or using them as a step to better jobs, is most complicated.

I should like to briefly outline the characteristics of a "good" job:

—good pay and benefits
—challenging and rewarding job content
—opportunities for advancement
—pleasant working conditions
—safe working conditions

Although good jobs exist to one degree or another in all sectors, there are certain common characteristics of industries with such jobs that are worth noting as we seek policies to expand job opportunity.

Although the data are somewhat ambiguous on such matters I think it is fair to say that capital intensive industries tend to have higher earnings, partly due to their generally higher productivity and partly due to the skill-salary correlations that typically exist.

As an illustration, I have attached, in Table 5, some approximations that tend to demonstrate the relationship between the amount of capital employed and the average hourly earnings per worker in some broad manufacturing categories. You will notice that higher hourly wages tend to correspond to industries in which greater amounts of capital per worker prevail. While there are various ways to measure compensation and capital stock, I think the attached table illustrates an important relationship in our economy.

Furthermore, creation of jobs through investment in capital broadens opportunities, thus allowing more upward mobility in salary and skills as people are promoted and new jobs created.

In industries where new technology and capital exist, working conditions generally tend to be better than average. Even in older technologies, investment in occupational safety can help to improve working conditions.

Even in the service industries, some of the same parallels hold. Highly skilled service jobs that require training—and which use educational capital—also pay well or have other characteristics of good jobs. Oftentimes, these services, such as medicine and law, utilize significant amounts of public capital in the form of schools, hospitals and court systems to perform their tasks. In other, lower paying service occupations we might note that the "white collar" orientation of such jobs often raises their status and that capital, albeit in lower proportions, often plays a role in improving the quality of working conditions, often in the form of buildings or offices.

TABLE 5.—CAPITAL INTENSITY, EARNINGS, EMPLOYMENT, 2-DIGIT SIC MANUFACTURING, 1971

SIC and industry	Capital per employee		Production worker average earnings		Industry employment (thousands)
	Per employee	Rank	Per hour	Rank	
29—Petroleum and coal	$87,190	1	$4.57	1.0	190.6
28—Chemicals	36,450	2	3.94	6.0	1,008.2
33—Primary metals	35,060	3	4.23	3.0	1,227.4
26—Paper	29,440	4	3.67	9.0	683.6
32—Stone, clay, and glass	20,550	5	3.66	10.0	633.7
20—Food	14,160	6	3.38	14.0	1,758.3
30—Rubber/plastics	14,140	7	3.40	13.0	510.9
21—Tobacco	12,690	8	3.15	15.5	76.3
37—Transportation equipment	12,080	9	4.41	2.0	1,723.9
35—Nonelectric machinery	11,640	10	3.99	5.0	1,805.3
34—Fabricated metals	11,540	11	3.74	8.0	1,328.2
22—Textiles	10,840	12	2.57	20.0	957.0
19—Ordnance	10,560	13	3.84	7.0	192.1
24—Lumber	10,270	14	3.15	15.5	580.8
38—Instruments	9,410	15	3.52	11.0	437.0
36—Electrical equipment	8,830	16	3.48	12.0	1,768.5
27—Printing	8,580	17	4.20	4.0	1,071.2
39—Miscellaneous	6,490	18	2.97	17.0	409.6
25—Furniture	5,210	19	2.90	18.0	458.5
31—Leather	2,530	20	2.60	19.0	302.4
23—Apparel	2,110	21	2.49	21.0	1,335.7

While there are a variety of ways to approach the problem of improving job quality, including job enrichment and improvement in mobility and opportunity, the most basic and far reaching objective for national policy in this context should be to encourage development of new technologies and the formation of

new capital. The benefits of such policy extend to the economic life of all Americans in the broadest possible fashion, not the least of which is the direct creation of good jobs. Also, the increase in output and income implied by new capital formation means a higher level of living and income for all Americans, whether or not they are employed by industries involved with new capital formation and productivity gain.

Given the central role of capital formation in economic growth, it is sensible today, then, to draw directly the link between policies that have traditionally been considered peculiar to the labor market and policies that relate to the broader issues of growth and capital formation.

Research, Technology and Productivity

One important component of capital formation is research into and development of new technologies of production. Many studies have shown that research and development expenditures are correlated with growth in capital stock, productivity and profitability.

One of the important relationships defining productivity per worker is the amount of capital employed per worker. Traditionally, the U.S. has had the highest capital-to-labor ratio in the world. However, other nations have narrowed the gap significantly in the past two decades, as the rate of investment per worker added to the labor force has fallen off in the U.S. (See Table 6.)

Table 6—Gross nonresidential fixed investment per person added to civilian labor force

[In 1958 dollars]

Period:	*Amount*
1956–60	$49,500
1961–65	55,300
1966–70	46,400
1971–74	[1] 41,000

[1] Estimate based on incomplete data for 1974.

Source: Statement of Paul W. McCracken before the Committee on Ways and Means, Jan. 29, 1975. Basic data from the Department of Commerce and Labor.

The development of better technology often spurs new investment, and public and private research and development has been lagging of late. Encouragement of research can have important dividends in increasing the opportunities for capital investment and can add to productivity, jobs and real economic growth.

While there is little dispute that research and technological development have a positive impact on productivity and growth, the importance of simultaneous skill identification and training is often overlooked. In this area, cooperative effort between industry, labor and government, especially at the local level, can help to ameliorate potential problems. Without adequate development of skilled manpower to operate infusions of technology, the potential benefits of capital improvement will go unrealized.

The Dangers of a Capital Shortage

Many private economists, government officials, businessmen and others are becoming increasingly concerned over the ability of the domestic economy to provide adequate capital for necessary growth during the next decade. In addition to the direct impact on employment opportunities, job quality and production, there are serious short and long term consequences to a capital-short economy.

The U.S. economic experience of 1973 and 1974, wherein high rates of inflation followed shortages in basic industries, is indicative of the kind of short-term disruptions that a capital shortage can cause. These shortages came as a direct result of inadequate capacity to meet demand in these important areas. Industries such as paper, cement, fertilizer and certain metal products simply could not produce enough to meet demand, given the amount of capacity available to them.

While we should not be guided strictly by the various published measures of capacity that are available—for they often misstate the real utilization rates—it is clear, nevertheless, that relatively little need for capacity addition was perceived in 1970, yet in 1973 and 1974 we found ourselves severely capacity-short and this factor contributed to rapidly rising prices for these materials that were in short supply. There are indications today similar to those of 1970–71 as

measured by ratios of capacity to output and by the prevailing high rate of unemployment along with low levels of industrial activity. We do not need statistics to tell us that the underutilization of the labor force and production base is pronounced at this point in 1975. But, one of my points today is that, because of the complexity and time involved in adding to capacity, it is not too soon to begin looking beyond the valley towards the next peak.

The capacity shortage of 1973 and 1974 also illustrated a number of other important dangers that inadequate capital can produce such as an adverse trade balance. While a number of factors, such as the ongoing worldwide economic boom of 1973–74, were important determinants of our poor trade balance, our less modern capital stock in some industries no doubt continue to play an important role in weakening our competitive position. As domestic industries find themselves at a competitive disadvantage, the prospect of fewer jobs over the longer term is raised.

Domestic shortages in one product can have serious price, production and employment effects on other sectors. Carried through to their logical conclusion, the implications for jobs during capital-short circumstances is that production interruptions may mean employment interruptions. It is important to point out that adequate capacity, even in peripherally related industries has important employment implications for each and every sector.

Areas Warranting Particular Concern

Electric utilities are central to any analysis of capital formation, domestically and throughout the world, and thus are important to long-term labor market conditions. The reason for the importance of utilities comes from the simple fact that power is necessary for running industries. The lack of adequate power means less industrial expansion and fewer jobs in the long run. In the short run, interruption of power generation can result in job loss. We can recall that the 1973–74 energy shortage created anticipations of massive power interruptions and related severe employment effects.

A secondary reason for the importance of utilities to today's topic is that utilities are highly capital intensive. Not only does the placement of utilities create jobs in the industries that provide the machinery, equipment and services for utilities, but new utilities mean both construction jobs and new permanent jobs. Also, new utilities mean higher quality jobs and, in this context, we should note that the utility industry ranks among the top 10 industries in both average hourly earnings and in capital employed per worker.

Basic industries are another area where capital formation is critical to long-term growth in the most fundamental sense: Basic industries provide the building blocks for capital formation of any kind and, in this respect, represent a particularly critical link in the process of forming adequate productive capacity. Machines cannot be built without basic metals, nor can plants be built without cement.

With respect to the number and quality of jobs, we might point out that most basic industries, especially in the metals, are among the top ranking industries both in capital per worker and in average hourly earnings, as Table 5 points out. This is an indication of the impact on employment and job quality that investment in basic industries can have.

Financial Considerations

While the actual construction and operation of new industrial capacity is the immediate link between jobs and the capital formation process, the availability of financial capital is also important. Without adequate financing, the capacity necessary and desirable for economic growth cannot be put in place. Secretary Simon, in his May 7 testimony before the Senate Finance Committee has suggested that substantially larger funds will have to be committed during the next decade, compared to the last, in order to provide adequate financing for expected capital needs.

Inflation and Growth

Because of widespread concern for growth without "unreasonable inflation," as some have put it, I thought I should mention briefly my views on this. As you know, I have testified on numerous occasions before various subcommittees of the House and Senate on the matter, so I shall not burden you with an extensive discourse today. However, in connection with labor markets, the most far reaching policies with respect to dampening inflation are those that augment productivity, improve the collective bargaining structure and dispute set-

tling machinery in each sector, and those that work to prevent product and skill shortages. Hence, policies to encourage capital formation and concomitant labor force development at this time are the most appropriate vehicles both for providing jobs and for promoting price stability.

Thank you for the opportunity to present my views on these important matters. I shall be pleased to answer any questions you may have.

Chairman BENTSEN. Thank you, Mr. Secretary. As you were testifying, I went through your prepared statement looking at some of the points you made.

One of the things we are faced with immediately is the fact that the conferees have cleared a $5.3 billion bill for creating jobs, a part of which is legislation to provide $458 million for summer youth employment, up to 900,000 jobs for the summer.

We heard testimony yesterday from Mr. Meany expressing his concern over the unemployment rate among youths and some minority groups.

We could have some serious problems this summer if a very high percentage of those young people are out of work. I have heard reports that the President might veto this bill.

Would you be recommending his signing it or not, Mr. Secretary?

Secretary DUNLOP. Well, I have not seen the final bill. What I know about it, Mr. Chairman, is this: There are two items in the bill for which the President has expressed, if I am not mistaken, very strong support. One item is the $1,600 million for the so-called public employment jobs, title VI, through fiscal year 1976. That would provide maintenance for some 320,000 public employment jobs through fiscal year 1976. The President is very much in favor of that.

Second, there is in that bill, at least one stage, a sum of $412 million for youth unemployment to which you referred. That figure has been increased in subsequent versions and I am not sure——

Chairman BENTSEN. $458 million?

Secretary DUNLOP. Yes, sir; it may well be the figure. Now, from the President's perspective, as I understand it, he has said he was very much in favor of that $2 billion. I take it the problem is that the $2 billion is now encased in a bill which contains a number of other matters about which the President may well be less enthusiastic if you take the figure of $5.9 billion.

First of all, as to the first billion aspect of it, I know the President is in favor of it, and I have long been in favor of it since I came here. I am not as familiar as I ought to be with what the rest of the items are, and therefore, I cannot speak to them.

Chairman BENTSEN. Mr. Secretary, which of the CETA programs seem to have been most effective for matching workers to jobs, for training workers, for disseminating labor market information? Which are useless, which should we get rid of?

Secretary DUNLOP. You were not referring to particular geographic areas, I take it.

Chairman BENTSEN. No; programs.

Secretary DUNLOP. Types of programs. Well, I am not all that certain that at this stage I would get rid of very many of them. I think our problem is to discover which of them work best in each particular locality, given their labor market areas, and which ones, therefore, we should shift funds into, with congressional approval, and which ones we should phase out.

Now, we are in an area where there is no great kind of absolute wisdom, I think, and that is the reason I face it that way. The manpower training and development, the kind of thing that enhances fundamental skills, the development of a job orientation—the whole original MDTA, if you like—I think, has, on the whole, had a pretty good record. One other comment I am sure you expect me to make is that these programs have to be judged in terms of the client group to which they are directed. A particular program for some group may be very good. Designed for another group, it may be quite bad.

So I would have said that this particular group of training programs generally has had, over a long period of time now, a fairly good record of effectiveness.

With respect to the area of Job Corps and that kind of program—and I have been visiting some of those to see them with my own eyes and ask questions at first hand rather than reading a bunch of numbers on a piece of paper that are submitted to me—I have been impressed with the quality of some of them, but it seems to me that they do constitute a very expensive set of programs per dollar per person, and therefore there ought to be a somewhat more limited development rather than extending them to our full client personnel.

As to the public employment components of this manpower training, title II and title VI, I think the situation is that, in the present economic atmosphere, there is growing recognition that that is really a quite limited labor market tool. When I say limited, I do not mean in any way to cut down on the 330,000 jobs we have been talking about, but as I get around the country and talk with mayors and talk with public employees about it, there are a number of problems that arise. One is the problem of laying off regular employees in the city who are then being picked up under the manpower title VI. That causes a lot of trouble although there is a requirement that 30 days must elapse. There is a good deal of controversy where such practices contravene the congressional intent.

Chairman BENTSEN. How much is used by municipalities just to replace attrition and to pick up people that would have been replaced anyway? Do you see much of that?

Secretary DUNLOP. Well, I think what we are seeing is that it varies with the state of finances, if you want to get down to local circumstances. We do see some of the attrition. We do see some cases, which concern us very much, of actual layoffs and rehires later. Then we face this kind of——

Senator JAVITS. Is it not illegal under the law?

Secretary DUNLOP. Yes. There are on my desk, Senator Javits, a set of regulations which further spell that out, which is called the maintainence-of-effort provision of the statute.

Senator JAVITS. If I may say so, I am going to have to leave, Mr. Chairman. Would you allow me. I think the main problem we have run into in the public service jobs is that the law has not been adequately enforced. I do not blame anybody, it is difficult, it is subtle, it is tough to deal with, but it seems to me, Mr. Secretary, you could render a great service by issuing such regulations to really tighten up, because like the chairman has said, you hear about these things, you find some validity to them, they are all in violation of the law. I am one of the authors of this bill. I cannot put up with that.

Secretary DUNLOP. Well, I agree that there is not as much violation. Of course, it only takes a few illustrations for people to give it a black eye to what is, in my judgment, Senator Javits, a very good program and a mechanism which I am interested in seeing further perfected as I think I have said in my prepared statement.

There is the following kind of problem. You get employees who have passed their civil service exams, potential employees, they have been of the civil service list, they are trying to get jobs, a job in the city or country or something, and they are first on the civil service list. Along comes the CETA program that creates new jobs in the locality, but that job goes to a different person because we now have a different access route. That makes those people a little unhappy, to put it mildly, because they thought the next job belonged to them. And it is this sort of problem which has, I think, created some of the problems, but I do think on the whole it is a good program and we ought to continue it, and I am in favor strongly of our trying to make the best use of those public service jobs for the unemployed. I think we have to face a problem of better targeting those jobs toward people who need them most. There is some tendency for public service jobs to go more to the more highly educated and to the higher income groups, less representative of the unemployed, if I can put it that way, than random distribution of the unemployed, and that is a problem with the program.

So, I would say, if you look at these programs, the basic manpower training programs, I think, you will find them sound and should be continued. I think there is a limit to the public service employment, of precisely the point where it now stands. I do think, on another matter, that we have finally made some headway with the WIN program, Mr. Chairman.

Chairman BENTSEN. What?

Secretary DUNLOP. The "W-I-N." Work incentive. WIN is the acronym. Work incentive program. It is a program designed to provide jobs for those who are employable and on welfare, and that program—I have spent a weekend reading a detailed report about it—on the whole seems to me to have come along much better than many of us thought it might. The basic programs, however, should be in the area of manpower training, as far as I can see.

Now, there are a number of improvements, that can be made Mr. Chairman. Finally, in the unemployment insurance system, I think, and in the employment exchange and employment service, we need to work more on their long-term development.

Senator JAVITS. I like your one point—it occurs really in a collateral reference by Senator Bentsen, that the requirement for surmounting even 1 percent of unemployment is a 7-percent improvement in output. It is so impressive that I hope that we can really alarm the country over the likelihood of a short-lived end of the recession. We may have 2, 3, 4 years, at the most, in which we will have a chance to deal with industrial deficiencies, then a real bust like we have not seen for a very long time. I cannot say that often enough, and I am glad you are, and I hope that we will open our ears and listen.

Secretary DUNLOP. Yes, sir, we will, I am glad to have that kind of help, Senator.

Chairman BENTSEN. I would add to what Senator Javits has said, and eloquently stated, that the most important issue before this country is how we achieve fuller employment without inflation. Talking about the amount of money that has to be spent to create jobs turns us even more to the problem of matching jobs to talents and training people with skills to fill the voids.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. And along those lines, let's look at the situation you were talking about concerning the change in the age composition of our population.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. And resulting surplus of teachers.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. What was done in the way of counseling students to try to head off that kind of thing? If it was not done sufficiently, then what are we doing now? What future job surpluses and shortages are we looking toward in counseling?

Secretary DUNLOP. Well, Mr. Chairman, I think that is an enormously important area and, as it also happens, one which I have just a little association with, if I can say, at even more academic level. You take when we, you and I were talking about teachers, I assume we were talking largely with high school teachers or primary school teachers. If I should talk to you about the Ph. D. market and graduate school, what you have just said would be true even more. Now, you see the fact of life is that it takes a number of years to train people. Take a physicist which just exaggerates the problem. It takes a number of years to train a physicist.

Chairman BENTSEN. Take an easier problem. Talk about high school teachers.

Secretary DUNLOP. Take high school teachers. It takes, about 4 or 5 years, you see. And not 8 or 9 as in the physicist's other case. Some people tend to choose their careers based on what looks—at the present moment—to be a good market and then they get out there and go looking for a job. Everything was up during the 1960's, as you will recall, in this market, as the age distribution was very favorable and one had to get all kinds of new teachers in order to take care of that great youth movement that was going through the schools. The trouble was the youth movement went completely through and now the number of teachers is greater than necessary. The teachers were geared up not merely to teach a constant number of students, but they were geared up to teach increasingly larger numbers of students. When that turned around and started down the number of teachers required was very sharply reduced and that is what we have run into.

Chairman BENTSEN. Well, Mr. Secretary, I looked at your projection out to 1985.

Secretary DUNLOP. Right.

Chairman BENTSEN. On employment in industry and agriculture, and I see things as dramatic as the projected decline in employment in agriculture, for example, going down from 4 percent of the labor force in 1972 to 1.8 percent in just 13 years.

Secretary DUNLOP. Yes.

Chairman BENTSEN. It is a very dramatic decrease. I would not be encouraging someone to go into that line of work.

Secretary DUNLOP. Well, it depends, the choices. There let us use the absolute numbers, Mr. Chairman. In 1960 there were 5,389,000 people and the projection for 1985 is 1,900,000. So you are certainly correct in noting what a substantial drop that is. That is correct. But on the other hand if you get schools of agriculture established, and you get people interested in it, some additional people can be working in it. But, no doubt we do need a very greatly enhanced kind of sense of counseling. We need, I think, one other thing out of this, we need a school and work situation which provides feedback so that once people start down a particular road it is not as if it were a lifetime commitment because such lifetime commitment can not be delivered upon in many cases in the kind of dynamic world in which we live.

Chairman BENTSEN. Let me ask you this. You are talking about a reduction in manufacturing.

Secretary DUNLOP. Yes.

Chairman BENTSEN. And the percentage of people employed in it?

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. And you are talking about a reduction in farming, and the percentage of people employed in it.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. And a gain in the service industries? We know that productivity increases are much easier to bring about in manufacturing and farming than in service industries. It is going to be more difficult to make gains there. We also know we have a problem with our balance of trade.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. Does this mean that we are going to depend more on foreign manufacturing? Should it be an objective of our country to try to stop this kind of trend or not? You said we want good jobs, and yet traditionally the good jobs have not really been in the service industries, they have been in manufacturing.

Secretary DUNLOP. Well, I thought I was careful to indicate that there were indeed a number of good jobs there. First of all, for the United States, Mr. Chairman, my view about this is that there are two areas where the United States has a substantial advantage in trade which we ought to push. One, of course, is in the agriculture area, as you know perhaps even better than I do, and our balance of payments can be enhanced by that, and the second is in what I like to call high technology industries. And one of the things that concerns me about the future state of our country is that we really get to work in the pushing of technology and science because that is at the frontier. Although lots of countries are able to catch up with us, we have a great relative advantage in areas where jobs have been created in recent years and that are related to technology—for example, the worldwide computer industry. Similarly, you can take airplane manufacturing, and things of that sort, which are high technology industries. If you take industries like nuclear-power development and so forth, these are good high technology jobs. And it seems to me that it is in those sorts of activities which we have a chance of pushing to our advantage.

I would want to be clear that my testimony does not mean to imply only that employment in every sector is declining. The service sectors are increasing considerably as I pointed out. The Government

sector is clearly increasing as I pointed out. Finance, insurance, and real estate is also a sector that is increasing in employment.

Chairman BENTSEN. Do you try to counsel young people that are starting out? Do you have some input at that level?

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. Have you been working with the school system and trying to counsel them as to where jobs are going to be increasing and where jobs will be decreasing?

Secretary DUNLOP. Yes. I do happen to think, Mr. Chairman, that one of the things, one of the problems and one of the institutional arrangements a committee like this might help do something about, and one of the problems I now wish to take just a couple of moments to raise with you, is the topic which might be labeled the interaction or interface between work and education. That is really what you are talking about.

I do think we need some new arrangements in our local communities to deal better with this problem. This is not a new idea, it is an idea that has been growing around the country, Mr. Chairman, in the last 5 or 7 years. I happen to have been interested in it for a long time trying to work with a group of businesspeople and educators on just the kind of thought you are talking about. But what I would envision is a world in which not only would we have a society that dealt with the kind of manpower planning and projections of jobs in each locality—we now have 400 sponsors in 400 or 500 different localities in the country—but that a group of people would interact with the school systems. I would envision that you would have a board of counselors, people who had worked in business or labor unions, who were a little older and who could sit down with a class and counsel the students as individuals, drawing on what they had learned about this sort of career business. These people would sit down and discuss what might amount to 50 or 100 different kind of career patterns. Some people know when they are young where they want to go—say a mathematician and a musican and sometimes a physicist. A lot of the rest of us wander around, try this for a while and try that for a while, and I think the students in schools at these critical ages need to have what is essentially a feedback process, where once they go out they can come back. Our junior colleges in many communities are doing a very good job on this but they need to be more directly oriented toward work. This requires more participation on the part of businesspeople and union people and those who have access to the work environment and the work community. There are a whole host of things to be done there, Mr. Chairman.

The President, I think, opened up some of this with his speech last summer at Ohio State University, as you may recall, and in this position I, for one, now wish to follow up on that and push it very hard.

Chairman BENTSEN. What kind of target does the administration have for unemployment for, say, the end of 1976 and 1977. Do you have a target, an objective that you are striving for?

Secretary DUNLOP. Well, let me say two things about that. First of all, if I am not mistaken, under the status of the budget arrangments, the administration is required to send up on the first of June an update of its January budget projections, and if I am not mis-

informed, discussions about those numbers for that June 1st date are now under discussion in the appropriate groups including the Economic Policy Board.

So I cannot answer precisely at this time because the issue is under discussion but the resolution to that issue should be forthcoming.

There is one other point. I think your use of the word target is very important. One must raise some questions about it. If you say what is a professional economist's projection, that is one thing: Given budgets, given dispositions of households, given business plans for investment, what is your best projection of GNP, and then what is your projection of unemployment and so forth. That is one thing. That, I think, is not a target in the sense of an objective which one seeks to attain. That is a projection. That is a kind of technical building from economic data.

I am not aware that the administration has stated any particular target.

Chairman BENTSEN. I am not aware of one either, and that is what concerns me. It seems there ought to be an objective we are striving for, and we ought to be planning such programs as we think would accomplish that objective.

Let me ask you another question.

Secretary DUNLOP. I do not disagree with that.

Chairman BENTSEN. In the CETA program we provided for data banks and computerized job banks for the matching up of jobs and talents.

Secretary DUNLOP. Yes, sir.

Chairman BENTSEN. How effective has the nationwide computerized job bank been? How many job matchings were brought about in 1974 and what do you expect in 1975? What has been done to implement that provision of the act?

Secretary DUNLOP. Well, I will have to furnish for the record the answer to your question with a national set of numbers.[1] I can tell you, though, Mr. Chairman, that there are technically two kinds of operations in this procedure. The first is where a person looking for a job in an employment office, sits down in front of a scanner where a number of jobs are coded by industry and the person presses the button for that group of jobs and then operates the scanner to see the jobs that are available, the wages that they pay, the location, and so forth.

Chairman BENTSEN. That is actually in operation?

Secretary DUNLOP. That is now in operation. I, with my own eyes, saw it in operation in Kansas a couple of weeks ago and I saw it in New York City in operation last Friday.

Chairman BENTSEN. People look and say, I would like to try for this job.

Secretary DUNLOP. People in the employment office seeking work and seeking it from that kind of bank.

Now, there is a second and more sophisticated technique which I saw in New York which operates at least for a range of white collar jobs. I can testify to this because I was visiting with the people not only working in the employment office but talking to the people who were in the office looking for work, Mr. Chairman. This system allowed the characteristics of the person looking for work to be fed

[1] The information was not available at the time of printing the hearings.

into the computer essentially saying I want a job at this salary, want a job at this location in New York City, the East Side and so forth. They can specify the type of shift such as from 9 to 5 or some other hours.

Chairman BENTSEN. The machine does that matching.

Secretary DUNLOP. The machine then came up with five different jobs which that person might be considered for and the next step in that process was that——

Chairman BENTSEN. Sounds like a dating program. [Laughter.]

Secretary DUNLOP. I do not know about that.

Chairman BENTSEN. I do not know about that either.

Secretary DUNLOP. I do not know, it is a mechanical marriage, it is not the way I did it. [Laughter.]

Now, but what then happens, just to complete the narrative briefly, is that the individual worker in the employment service then calls up to see if the job has been taken in the intervening time. This could occur since there are 20 such machines at various points in New York City. Nevertheless, there are still three jobs which that person may then be referred to and go out and look at. So these techniques are being effected. I myself was rather impressed with the scanning device alone. One of the byproducts of it that appealed to me is that the person gets a much better idea than they would otherwise have about the nature of work that is available.

Chairman BENTSEN. Sure.

Secretary DUNLOP. Here you have some wage data, you have some locational information, you have some occupational data, all describing what is available and that is an important way of communicating with people that might not, by looking through want ads, get the same idea of what the labor market is all about.

Chairman BENTSEN. The final payoff is how many people actually get placed?

Secretary DUNLOP. I agree. And I will try to get you that data since I have not seen the aggregate data. I am simply saying that with my own eyes I saw it at work in those two cities.

Chairman BENTSEN. Mr. Secretary, I think this has been very helpful to us, and I appreciate very much the time you have given us this morning. I know you have other commitments.

Secretary DUNLOP. Thank you.

Chairman BENTSEN. I know how busy you are.

Secretary DUNLOP. I would, with your permission, like perhaps to come back and talk with you or other members of the subcommittee about these same ideas when my views and the information I now have being prepared and analyzed have been more fully developed.

Chairman BENTSEN. Well, Mr. Secretary, let us do this, let me submit some additional questions, since you are still firming up some of your thoughts. Let me submit some questions, and I would appreciate your giving us the answers to them for the record.

Thank you very much.

Secretary DUNLOP. Thank you.

59-082—75——4

[The following written questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. JOHN DUNLOP TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN BENTSEN

Question 1. Mr. Secretary, this is the first time you have appeared before the Joint Economic Committee as Secretary of Labor, but you appeared many times as Director of the Cost of Living Council. You endeavored, unsuccessfully, to have the life of that Council extended. I believe you felt very strongly that its continuation was necessary.

What kind of price-wage policy do we need over the next few years? Does the present Council on Wage and Price Stability have adequate staff, adequate powers, and sufficient permanance to develop and enforce a price-wage policy?

What is your prediction for 1975 and 1976 wage settlements under contracts coming up for negotiation these two years? Can we expect "wage-push" to become a serious source of inflation? If so, what are we doing, and what should we be doing, to anticipate this problem and defuse it?

Answer. In response to your first question, as I stated in my testimony, the most effective anti-inflationary policies would be those that augment productivity and that work to prevent product and skill shortages.

Second, business, government and labor should be brought together, on national, local and industry levels in an effort to seek accommodation on mutual problems that contribute to inflation. This can be done outside a regulatory framework as well as within a statutory program. For example, the structure and results of collective bargaining in many industries can be improved in this fashion in an effort to reduce the incidence and level of inflationary wage settlements.

Third, the Federal Government's own activities need to be examined for their inflationary tendencies. The President's interest in "Inflation Impact Statements" by Federal agencies is a major step towards improving the government's own part in controlling the inflationary process. Activities in this area on the part of the Council on Wage and Price Stability are also to be encouraged.

Fourth, collection of additional and improved data to be monitored and analyzed would provide a method for early warnings on inflationary sectors and provide the opportunity for remedial actions to be taken by affected and interested parties. The Council on Wage and Price Stability would have a direct interest in any such data and its evaluation.

Finally, direct wage and price controls should be considered only in rare, specific instances. General wage and price controls are inappropriate to an economy with specialized sectoral problems and with different price and wage determination processes applying to different sectors. Our experience has shown that, unless a broad national consensus is developed, such controls are prohibitively expensive to enforce. Furthermore, general controls can cause distortions in industries whose production, and price and wage determination processes do not parallel the processes assumed in the general regulations.

I do not want to venture a specific prediction on wage settlements over the next 18 months, as those settlements may well depend on factors we cannot yet foresee. However, we may be sure that some of our 1973–74 inflationary experience will be reflected in wage demands. On the other hand, I would expect the more recent down-turn in inflation to serve as a moderating influence on the size of wage demands during the next several years. Also, to the extent that there is slack in particular labor markets owing to recent increases in unemployment, wage demands will also be moderated. With respect to the pass-through of these costs, increasing rates of productivity gain that typically accompany a recovery will soften the impact on prices of any increase in wage costs. The Council on Wage and Price Stability will no doubt be watching these developments carefully and other efforts will be made to foster a healthy collective bargaining climate that will promote responsible and equitable wage settlements.

Question 2. Mr. Secretary, a study several years ago by George Perry of the Brookings Institute argued that the shift in the age structure of the labor force toward a higher proportion of teenagers increased the difficulty of achieving any given unemployment target without inflationary consequences. This idea has become widely accepted, especially in Administration circles.

Your first table shows that from now on the age structure of the labor force will be shifting back the other way. A rising proportion of all workers will be

in the age 25–44 group. To the extent that Dr. Perry's thesis is valid, won't that mean less inflationary pressure at any given level of unemployment?

Answer. The relationship between the rate of unemployment and the rate of inflation are determined by a number of factors, an important set of such factors being the age and skill composition of the labor force. Dr. Perry's thesis implies that these factors will not contribute to inflation and unemployment as strongly as they did in the late 1960's and early 1970's, as the increment of new entrants to the labor force recedes and relatively greater numbers of workers are more highly skilled and experienced. However, other factors contributing to inflation and unemployment, such as energy shortages, agricultural shortfalls, rapid increases in foreign demand or foreign prices, capacity shortages, etc. may or may not change in a favorable direction. So, to the extent that Dr. Perry's thesis is valid, we can expect relatively less inflation to arise at a given level of unemployment as a result of the factors that he examined. However, to the extent that other and often less predictable factors affect unemployment and inflation, it is difficult to predict the amount or direction of inflation or unemployment.

Question 3. Mr. Secretary, in a May 13 Washington Post article, "What Kind of Economic Recovery", Joseph Kraft argues that a strong and sustained recovery will require, along with the right kind of monetary and fiscal policy, a number of innovative manpower policies to improve the structure of the labor market. He says a lot of little things are needed: "Money, materials, and labor can be pushed into the potential bottleneck areas—notably construction of electric power plants. . . Improvements can be made in labor mobility, and in the present modes whereby the transit from school to job is made."

"Unfortunately," Kraft continues, "these things are not going to happen by themselves. They require a stimulus. The only official in the Administration keenly interested in such little steps now is Secretary of Labor John Dunlop. The President's other economic advisers are too caught up in ideological battles to take new initiatives."

Does the Administration have a comprehensive, forward-looking, manpower policy? If so, who participates in its formation and what process is used? Have any formal arrangements been made for cooperation between the Labor Department and other agencies affecting manpower policy?

As we recover from the recession, in which occupations and industries can we expect manpower shortages and surpluses? What actions has the Labor Department and other agencies taken to reduce or eliminate anticipated shortages and surpluses? What further authority from Congress do you need?

Answer. With respect to your third question, on manpower policy and doing "little things" to stimulate improvement in labor markets, a number of activities are now underway to reinforce manpower policy as an important labor market instrument. I discussed a number of these areas in my testimony. First I would reiterate my point that a strong economy is the first prerequisite of an active manpower policy. Certainly, the Administration is making progress towards that goal. On May 13, I made the further point that capital formation was a critical link in creating good, permanent jobs and building a healthy economic base. The capital needs of the nation are of concern to us and are being explored by a number of people both inside and outside of government.

In addition, I pointed out in my testimony that the concept of the CETA program, represented a valuable manpower policy tool focusing on labor markets as they actually exist, especially when placed in the context of an economy that is growing and creating good job opportunities. The Labor Department continues to assess the performance and prospects of the CETA program as the results of its first year of operation become available for examination. We intend to make adjustments to the program where appropriate and continue the progress of the program towards improving employment opportunities and in making the labor force more productive. I hope to have the opportunity to review some of these matters before interested and appropriate committees of the Congress in the near future.

Additionally, the Department of Labor is working with the Department of Health, Education and Welfare on a number of issues that properly concern the respective Departments, as, for example, with the WIN (Work Incentive) Program and other matters of mutual concern.

With respect to the recovery that is now beginning to get underway, there would appear to be sufficient labor resources available in most sectors to handle the economy's short term needs, although, to be sure, some shortages are likely

to occur that cannot be foreseen. The type of skill shortages that I referred to in my testimony are of a longer term nature and relate to the need to develop labor resources in conjunction with development of capital resources and other job determining factors such as population and geographic location. As I noted in my statement, there is need for cooperation, particularly local, between schools, employers and unions to help young people plan their education and careers and to allow older people to have adequate opportunities for retraining. I believe that the basic tools to accomplish this exist in the framework of the CETA program. I am looking into the question somewhat further at this time, and would appreciate the opportunity to discuss my thoughts as they become more fully developed.

Question 4. Mr. Secretary, in your prepared statement you said: "the most essential requisite for making headway toward full employment without unreasonable inflation is the adoption of longer term public policies, less responsive to immediate political considerations, with a lesser imperative to meet the dates of November or July or January on the political calendar. The objective now should be for a sustainable expansion that leads to stable high employment and not a peak that explodes in more inflation and collapse."

What is your preferred time table for getting back to full employment? What would you consider a reasonable unemployment target for the end of 1975? For the end of 1976 and 1977? Will current monetary and fiscal policy attain those targets? If not, what changes would you suggest?

Answer. As I pointed out in the introduction of my prepared testimony, I find the use of the term "full employment" to be somewhat ambiguous, especially in view of the various definitions offered and our experience with meeting the goals so often set forth. It is clear that current levels of unemployment are unacceptable and I would hope that we could see significant moderation in unemployment before the end of the year, continuing to even lower levels in the future. I believe that the appropriate short term steps have been taken in the form of tax legislation, emergency employment and the like to achieve a reduction in unemployment. Despite these measures, we should expect to experience a period of rather higher unemployment than we would like. In this regard I should like to restate my view that the key to a sustainable long term expansion in production and employment lies in considering longer term measures, including capital formation and labor-market based manpower policies.

Question 5. According to Treasury Department figures published March 21, United States labor productivity (measured by real domestic output per employed worker) grew an average of 2.1 percent yearly between 1960 and 1973, compared with an average of 5.2 percent yearly for the countries in the Organization for Economic Cooperation and Development (OECD) and an average of 9.2 percent yearly for Japan. Our real level of investment during those years was also very low—an average of 13.2 percent of our real national output yearly, compared with 19.4 percent for the OECD countries and 29.0 percent for Japan.

Answer. In response to your concern about U.S. productivity relative to the OCED countries and Japan, it is well known that productivity in most other industrialized nations has been increasing much more rapidly than in the U.S. in recent years. Part of the explanation lies in the fact that their industrial plant is relatively newer than ours, since those nations have devoted a relatively greater share of their national income to investment than has the U.S. in recent years. While other factors, both social and economic may be cited, it seems to me that measures designed to advance and apply new production technologies and to enhance capital formation are the most appropriate means by which to improve the productivity of the U.S. economy.

Question 6. Why has our labor productivity and investment record been so dismal in comparison with that of the other industrialized countries?

What changes in our economic policies are needed to bring the productivity growth of American workers up to the standards set by European and Japanese workers? What ongoing programs does the Labor Department have for increasing the productivity of American workers, and what new programs are being contemplated?

I fully share your belief that stepped-up capital investment is necessary for a sustained economic recovery. It sems to me that two of the most useful things we can do to encourage increased capital investment are:

1. Establish a timetable for returning to full employment, thereby giving businessmen the assurance that by the time their investment is completed, the market will be there; and

2. Conduct monetary policy so as to make adequate funds available at reasonable interest rates.

Do you agree that these are fundamental? What else would you do to promote investment?

Answer. With respect to labor productivity, the various training programs in the Department of Labor, especially within CETA are designed to reduce unemployment by providing skill training and skill matching services. As I also mentioned in my testimony, a stronger link needs to be forged between the educational establishment, unions, and employers, especially at the local level.

By aiding workers in acquiring the skills to match jobs in both old and new technologies, the productivity of the American worker can be improved, but clearly the development and placement of productive equipment is a prerequisite of marked improvements in labor productivity.

In response to your final point, I agree that it is important to have a healthy economic climate including an appropriate monetary policy in order to stimulate business investment, but our experience with the establishment of targets and timetables suggests that this is not necessarily the most effective way to create such a climate. Nevertheless, as I suggested during my appearance before your subcommittee, I believe that the process of setting goals can be helpful in establishing priorities and designing policies.

Concerning the encouragement of capital formation, I am currently looking into this question. As you were kind enough to recall my interest in testifying before your subcommittee at a later time, I would appreciate the opportunity to more fully address specific steps to encourage capital formation after I have reviewed the issue in more detail.

In response to your question about the number of placements by computerized job banks, I would like to provide you with the following information:

Because of the method of reporting, it is not possible to accurately determine how many Employment Service placements are made through the job banks system. These reports were not designed to indicate the number of placements made through job banks alone, but rather through all placement efforts. However, it is probably safe to say that the vast majority of placements are made via job banks since job-bank areas cover over 80 percent of the population. Job banks are operational in 49 States and in 43 of these States, the job banks are statewide. Further, all major Standard Metropolitan Statistical Areas (SMSA's), with the exception of San Francisco, have operational job bank systems. At least 110 SMSA's have job bank systems installed.

Remembering, roughly, that 80 percent of placements are made through job banks, total placement data for all of FY 1974 and for FY 1975 through February (latest available data) are listed in the following table:

Fiscal year	Individuals placed [1]	Total placement transactions [1]
1974	3,334,000	6,671,000
1975 through February [2]	2,174,000	4,030,000

[1] When an individual is counted once in a given cell for a given fiscal year he is not counted again if he is given the same service later in the year. The transaction count on the other hand records each time an individual is given the same service.
[2] February, fiscal year 1975 data are estimates based on reports from 42 States.

Chairman BENTSEN. The subcommittee stands adjourned.

[Whereupon, at 11:05 a.m., the subcommittee adjourned, subject to call by the Chair.]

LABOR-MARKET POLICIES FOR FULL EMPLOYMENT

TUESDAY, JUNE 3, 1975

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room S-407, the Capitol Building, Hon. Lloyd M. Bentsen, Jr. (chairman of the subcommittee), presiding.

Present: Senators Bentsen and Javits.

Also present: Loughlin F. McHugh, Courtenay M. Slater, William R. Buechner, and Jerry J. Jasinowski, professional staff members; Michael J. Runde, administrative assistant: George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN BENTSEN

Chairman BENTSEN. Gentlemen, if you will be seated, the subcommittee will come to order.

Last Thursday, President Ford showed, I thought, a disregard for the tragic plight of 8.2 million Americans who are jobless by vetoing the Emergency Employment Appropriation Act of 1975. That act would have appropriated $5.3 billion for job-creating programs. It would have put to work about 1 million Americans who are currently on unemployment or welfare and create about 840,000 summer jobs for young people. My concern is that these young people coming out of high school and coming out of colleges are not finding gainful employment, not finding a productive role to fulfill in society. We may well have a long, hot summer facing us.

Among job programs vetoed by the President were $458 million for summer youth employment, $30 million for community service employment for older Americans, and $1.625 million for an additional 180,000 public service jobs above the existing 310,000.

Once again, I think the President showed a disregard for people and jobs, and has let the budget deficit dictate whether or not we are going to get out of this recession and put Americans back to work. It seems to me that one of the ways to get rid of that budget deficit is not to veto a bill that will spur recovery. You know I have a great sympathy for the Vietnamese refugees that are here, and I agree that we ought to appropriate funds to try to help them fit into our society and help them be gainfully employed. It is a little difficult for me to understand the President's then turning around when he supports that and vetoing money to put American citizens back to work. The way to take care of this deficit is by having people back on payrolls where they are paying

taxes and not drawing unemployment compensation and being on welfare rolls.

It has often been cited that for every 1 percentage point reduction in unemployment, we can reduce the budget deficit by about $16 billion. So the President is headed in the wrong direction.

I am deeply concerned by this administration's willingness, it seems, to accept high unemployment as normal for a period of 3 or 4 years at least. This policy just condemns millions of Americans to the tragedy of semipermanent joblessness. It tells hundreds of thousands of American teenagers, the future of our country, that we have no desire to provide summer jobs for them, that they have no productive role to fill this summer. I do not believe this country can afford an economic policy that keeps 8 million Americans out of work.

Gentlemen, it is a pleasure to welcome you as witnesses to this subcommittee, where we are trying to determine what can be done to develop a new labor market policy and what is needed to restore our economy to full employment without inflation and to keep it there. That is not an easy task. And that is why we tried to choose people of your expertise to help us along the way. There is no better time than right now to begin this task.

We are currently in the midst of our worst recession since the end of the Great Depression of the 1930's. In April, there were 8.2 million Americans jobless, almost 9 percent of the labor force. Moreover, the official unemployment figures for a single month do not tell all of that story. The fact is that almost 25 million Americans will be out of work at some time during this year, almost a third of all workers, and altogether some 75 million American workers and their families will have had their lives tragically disrupted this year because of unemployment. This is a national tragedy, and we ought to try to avoid it.

Our opening witness at these hearings on labor-market policies to restore full employment was AFL–CIO President George Meany. President Meany made an eloquent plea to Congress for job-creating measures to bolster the economy and get us quickly back to full employment. Unemployment not only hurts the jobless worker, it hurts the Nation as well, causing lower growth, lost output, broken homes, more alcoholism, more drug abuse, more crime. As President Meany said, America certainly cannot stand a prolonged period of such conditions creating troubles that can tear the fabric of this society. The time for job creating measures to turn the economy around and move rapidly to full employment is now.

Our second witness was Labor Secretary John Dunlop. In his statement Secretary Dunlop warned that recent changes in the age, skill, and sex composition of the American labor force have had a major effect on our ability to achieve full employment without inflation. So, too, have changes in the occupational distribution of job opportunities. For some industries and occupations there could be labor shortages, while large numbers of workers go unemployed because job skills and job needs do not seem to match up. We must begin to develop policies to prevent these labor market changes from stalling a return to full employment. We must enhance training and skills. We must reduce frictional unemployment and the burden of searching for a job. We must end discrimination against blacks and women and youths and others.

Congress has called for more than $7 billion in fiscal 1976 for a wide range of manpower programs already in the works—for public service employment to train the unskilled or to provide temporary jobs for the unemployed, for the Job Corps, for the work incentive program to put welfare recipients on payrolls, for on-the-job training programs, for programs to help older workers, youths, Indians, migrant workers, non-English-speaking persons.

Are the programs working? Are they providing the skills for the unemployed? Are they improving the ability of our economy to match up workers and jobs? Are minorities, women, youths, older workers getting the programs they need for the specific problems? What new initiatives in manpower policy should we begin to work on right now? Or do we need new initiatives, or is it just getting what we have now to work properly? Above all, how can we put together the central elements of a total program to deal with the massive unemployment which appears to confront us for the remainder of this decade?

We are pleased to have this morning Mr. Ginzberg, Chairman of the National Commission on Manpower Policy, which was established by Congress in the Comprehensive Employment and Training Act of 1973; Mr. Levitan, professor of economics and director of the Center for Manpower Policy Studies, George Washington University; Mr. Holt, director of inflation and unemployment research at the Urban Institute; and Mr. Ralph Smith, senior research associate at the Urban Institute.

I hope you gentlemen can answer some of those questions.

Mr. Ginzberg, if you would proceed first.

STATEMENT OF HON. ELI GINZBERG, CHAIRMAN, NATIONAL COMMISSION FOR MANPOWER POLICY

Mr. GINZBERG. Senator Bentsen, I want to first say that I welcome the opportunity to come before you and to share with you how far the National Commission has come. It really became operative only this year because we were not appointed until the last day in September and had our first meeting in November. So I will plan to bring you up-to-date as to how we are approaching some of these questions in which you have expressed particular interest and then I will put on my other hat as a professor and share with you some opinions that I have to which I will not commit the Commission because we have not had a discussion on all of these issues as yet.

I want to state that I think it is very fortunate that the Joint Economic Committee has, I would say, if you permit me, belatedly come to pay more attention to the interfacing between economic and manpower policy. We have had legislation on the books since 1946, and I would say that while I have not read all of the semiannual presentations before this committee, the committee in general was preoccupied with questions of expenditure programs and budgetary balances and only very recently has become interested, I think, in what was the major objective of the act, which was to ask what the Federal Government could do to assure a high level of employment.

I read both Mr. Meany's and Secretary Dunlop's testimony, so I have those inputs by way of background.

Let me begin by saying that we are just now preparing for Congress, it is in the press, a second interim report of the Commission based on its May meeting which will deal specifically with our recommendations as to the place of public service employment in the larger picture of the manpower policies of the United States. And there is also in the press the proceedings of a conference that the Commission held in order to prepare itself for making recommendations in this area. I am pleased to say that Mr. Levitan, on my left, was one of the contributors to this symposium and a colleague, Mr. Alan Fechter, of Mr. Holt and Mr. Smith was another contributor. We asked four experts to prepare special papers which together with the conference discussion will be published. I understand that we will have the proceedings available in about 3 weeks.

The Commission has been very concerned with what is known as section 503 of its charge from the Congress, which is to identify the manpower goals and needs of the Nation, so we have been very sensitive to the importance of trying to see how the structures and mechanisms which we now have could be improved so that the Nation can come closer to fulfilling its manpower goals.

Now some of the other things that we have done: We have just sent a senior retired official of the U.S. Department of Labor as our consultant to visit a group of OECD countries with a large questionnaire to consult with government, the trade unions, and other economic competent people there to flush out and bring back to us some of the important newer efforts that the European countries are making to establish and maintain a high level of employment. We do not want to rediscover the wheel, and we think that they may have some experience that would be useful.

Second, we are just in the process of commissioning a group of papers by leading American economists focused on the issue of what can be done to improve the articulation between economic and manpower policies so that we do not have the kinds of serious shortfalls represented by 9 percent unemployment.

In addition, the Commission is looking at particular dimensions of the problem, such as you mentioned, the youth problem, and when we met with the President in January, this was a matter of very high concern to him in his charge to the Commission. We are making some plans in depth about how to tackle the question of from school-to-work, the whole transitional problem.

We are also concerned with the question that we really have three programs, Senator, as we see it, all responsive to some degree to the needs of the unemployed and they are very badly articulated. The one is the basic UI system. The second is public service employment. And the third is the welfare system. And as far as we see, one of the serious challenges that both the administration and the Congress face is that the operation of these three systems runs along separate tracks. Let me illustrate.

The average payment under UI—now I feel stronger; I see the Senator from New York has arrived.

Chairman BENTSEN. You do have a very distinguished Senator who just arrived. We are glad to have him.

Mr. GINZBERG. I was going to point out that under the UI, the average benefits these days are about $3,500. The average benefits under

public service employment about $8,000, and the welfare benefits, you know, fluctuate all over the lot, but they are, at least in some States, considerably above the UI benefits.

I would like to begin by pointing out that I had a warmup for this meeting by being at Senator Culver's and Senator Javits' day-long conference last week relating to putting in place an economic planning mechanism for the United States. And a good part of that discussion really dealt implicitly, if not explicitly, with the shortfall of the economy on the job front.

Let me very quickly tell you now what the emerging positions of the Commission are. I think I can reflect correctly the Commission's views that have been developed. First, the Commission firmly believes that the country—and that means both the administration and the Congress over many years—has not been adequately responsive to establishing the kinds of programs and improving the kinds of mechanisms needed to keep employment at an appropriate level. That is, although we passed the Employment Act in 1946, we have simply not paid enough attention to its implicit and explicit goals. Therefore, the Commission is planning as part of its continuing work to come forward with a series of recommendations to the Congress as to how such mechanisms and what kinds of additional policies and programs are needed to enable the United States to come much closer to a realistic full employment policy.

Second, the Commission is not willing to accept at all that this country has to live with a 7-, 8-, 9-percent unemployment rate for a period of years. That is intolerable to a Commission that has the charge of figuring out how the goals, the manpower goals of the country, ought to meet the needs of the population and it cannot live with such figures.

Third, and this is important, I think, the Commission does believe that the major challenge to maintaining a high level employment economy rests with macroeconomic policies. That is, it rests with tax, budgetary, expenditure, and related matters. That is, what you can do with manpower policies is to fill in crevices to make special programs available to improve the training and capabilities of people on the periphery of the labor market, but the Commission surely does not believe that it is the manpower policies themselves that can overcome such serious shortfalls as we now have.

With respect to public service employment, we really see that as an instrument which has multiple potential possibilities—and there are four that I would like to mention. I think the discussion about public service employment often gets confused because these different goals are not clearly differentiated. The original CETA had title II, and that aimed to use public service employment as transitional opportunities for people in the labor market, or who had not yet been in, to get special training and work experience transitional to getting regular jobs either in the public or private sector.

I testified last week before Senator Nelson's subcommittee. Senator Nelson and Senator Beall were both very strong in their statements about their concern that this title II objective of facilitating the employment of the hard-to-employ to make them eventually ready to take civil service jobs was being lost in the shuffle, and they thought that since State and local employment represents the biggest industry in

the country, it was most unfortunate if minority groups and hard-to-employ persons would not have that opportunity of getting jobs in this sector. Hence, they stressed title II.

Second, title VI is a kind of countercyclical device, and frankly, being drafted in haste it has some weaknesses. I testified before Conressman Daniels in October and pointed out that PSE put alongside of the UI and the welfare system should have a real limitation based on family earnings, otherwise some people could get a public service job where their family situation in terms of total income was reasonably good, while long-term workers on UI could get ony half as much, or less.

Moreover, at an average cost of $8,000 a job, I do not think that with over 8 million unemployed people that one can look to public service employment no matter how far it went as the principle. The Joint Budgetary Committee of the House and the Senate, it is my understanding, recommended 400,000 PSE slots. That is as far as they wanted to go.

Our Commission at the moment is not really enthusiastic about going any further. I cannot tell what figure they will come up with because the draft report is out, but it is unlikely to recommend a large expansion of public service employment. It does not see it as a very effective instrument for coping with the recession. The mayors and the Governors are having great trouble of hiring new people while they are letting go their regular employees. And I would say there is some sympathy among the Commissioners, I do not know exactly how much, to look to emergency revenue sharing as a better device than public service employment to maintain adequate State and local payrolls, if that is a key objective.

The third point relates to the fact that we really do think public service employment has real potential to cut certain problems. We are very worried about unemployment, not only 1975 but what is likely to happen as the economy slowly improves. We see the likelihood of serious structural unemployment pockets, especially in the Midwest, connected with the slow recovery of automobiles. We can see entire communities that have their economic base eroded. We think that public service employment alone will not provide the full answer, but together with some kind of financial help from the Federal Government and other supportive measures the economic base in these communities may be turned around so that we do not go through what New England went through after World War I; that is, a textile industry that just slowly died on the vine and left a whole area for 20 years in bad shape.

The reason we do not feel comfortable about public service employment as in your anticyclical device—you come from Texas—is that the Austin rates of unemployment these days are in the neighborhood of under 2 percent and Detroit is in the 17-percent range. So we do not think PSE is the easiest instrument as presently designed to be responsive to that kind of variability, although we do believe that it has the potentiality of being used differently in response to higher and lower rates of unemployment.

Lastly, I think there is a real place for public service employment within a full employment concept with the Government being the employer of last resort.

As the Commission has begun to think about employment goals for

the country, it sees a place for public service employment in that relationship.

One other point. We are very nervous about the rate of the recovery because we see a large housing inventory overhanging the market. And we do not see automobiles coming back quite that fast. And we ask the question where is the stimulus coming from in the face of a fairly slow recovery from housing and automobiles? That is about as far as the Commission, as a commission, has discussed these issues to date. We will have our second interim report in your hands very quickly, probably by the end of the month.

A very few other comments now with my professional hat on. The United States does not yet appreciate fully its human beings, the competence of its people represent its major resource and should constitute its major goals. People are the major input into the economy and this ought to be the major goal of the economy; that is, the output should be to make their life better. I do not know what else the economy should strive to accomplish.

On the other hand, I would like to persuade this committee and any other committee I can talk to that the improvement, the long-run improvement of the employment performance of this economy is not subject to simple gadgeteering. I am going to testify on Thursday morning before Mr. Daniels' committee. They are coming in with some new proposals on public service employment. As I do not think that the issue is simply changing the appropriations level or introducing some additional amendments, we have some very serious, long-range institutional changes that we need if this economy is to perform better.

Although I thought Mr. Meany's testimony was eloquent and much of what he said I am in full agreement with, but I do not believe that it is just a question of jobs and income. I submit it has to be a question of productive jobs and continuing income. There is no big trick to put more and more people on public service employment. If that is the only thing that one is interested in, obviously, the Federal Government can create the money by fiat and put more people on public service employment. The question is what are the short- and long-run implications of doing that in terms of keeping our economy productive, competitive, and innovative.

So I would say to Mr. Meany that while he is right to be very concerned about the steps that have to be taken to expand jobs, I am sure he means productive jobs. And I would submit that the British have a pretty good record of approximating full employment, but their economy is very weak as they are in dire straits. At present, they are running between 25 and 30 percent inflation and the pound is sinking.

So I do not think it is just jobs; it is productive jobs and that is another way of saying that the Federal Government can go only part of the way in terms of assuring that we have a productive economy. If the management of the auto companies is as inefficient, in my opinion, as it has been, as evidenced by the fact that they ignored the handwriting on the wall about small cars for the last 5 years, then I think that the price we pay for a quasi-free international economy are the large number of unemployed people in Detroit. There is little, I think, that the Government can do except give some support to

those unemployed people, given the earlier mismanagement of the automotive industry.

Likewise, in the serious matter that you referred to, Senator Bentsen, about young people, I would say that that question of the transition from school to work, also involve very much more than the Federal Government. We have had neighborhood youth corps, job corps, summer programs, but the critical issues involve more than the Federal Government, and more than local government; they involve the schools, business and the trade unions.

My view is that American industry has been allergic to hiring young people and as long as it will not make room for a large number of young people under the age of 21, then we are in a bad way. Moreover, if young people come through a school system at $1,000 per year of social investment and do not possess any competences in which an employer is interested, that means that a big part of what we are trying to do in this country needs to be improved.

I would say that the Congress ought to try to put together a picture in its own mind of how the public service employment, manpower training, job creation, and UI reform fit together because I do not think you can just handle one of these without reference to the others. Let me just point out one thing. In our Commission report that is coming to the Congress we are in favor of the emergency extension to 65 weeks for UI, but that is not a sensible long-range policy. If somebody is going to be unemployed for 65 weeks, the odds are overwhelming that he is not going to get his old job back. So long before 65 weeks is up he needs special supports, maybe mobility allowances, special training or something else, but he should not be encouraged to stay on unemployment insurance for 65 weeks.

I will conclude, therefore, by saying that the Commission cannot and will not accept 7 percent, 8 percent, or 9 percent unemployment as even an interim goal if an interim goal means 3 to 4 years.

Second, and here I do not pretend to be an expert on the bill that the President just vetoed but I must say that I would like to point out, Senator Bentsen, that in most public works programs the lag between appropriating the moneys and getting people into active employment can frequently be 18 months to 2 years, a critical factor in judging the program.

The basic position of the Commission is that the economic and manpower policies of the country must be more carefully coordinated so that we can better use the basic macropolicies to try to establish and maintain a high level of employment, and rely on manpower policies to add strength to these broad efforts.

Chairman BENTSEN. Thank you very much, Mr. Ginzberg. I know that both Senator Javits and I have a number of questions we would like to ask.

I want to get all four of you gentlemen to testify before 12 noon, and I would like to ask Mr. Levitan to proceed.

STATEMENT OF SAR A. LEVITAN, PROFESSOR, CENTER FOR MANPOWER POLICY STUDIES, GEORGE WASHINGTON UNIVERSITY

Mr. LEVITAN. Thank you, Mr. Chairman.

If you would permit me, I would like to submit a short prepared statement that I have prepared, together with a policy statement of

the National Manpower Policy Task Force, for the record, and I would rather comment on the thoughtful remarks that you made.

Chairman BENTSEN. All right; we will place them in the record at the end of your oral statement.

Mr. LEVITAN. I say amen to the comments that you made about the Presidential veto of the emergency employment bill. I also agree with you that George Meany, with all due respect to the others, is the best economist so far to appear before this subcommittee and that basically the advice that he gave to Congress was sound.

I am a little less happy with Secretary of Labor Dunlop's testimony, particularly with the point that you made a few moments ago. Although he is one of our best labor economists, Secretary Dunlop's suggestion that we have no choice but to live at a higher level of unemployment because of the demographic changes in the labor force is a partial analysis. If the Secretary of Labor thinks that the composition of the work force forbids achieving tight labor markets, then I think he also should consider the rising educational level. During the same period that larger numbers of women entered the labor force, and presumably contributed to the higher level of unemployment, the educational level of the work force rose considerably. And since higher eduaction is closely correlated with lower unemployment, it should have been a countervailing force. Moreover, the relevance of the demographic change to the current high level of unemployment is limited. At most, the demographic changes add only a fraction of a percentage point to unemployment.

In the late 1960's, we did approach full employment, with practically the same demographic composition of the labor force as we have today and with what would look to us right now like very little inflation.

Now, turning to the points I made in my prepared statement, as usual Mr. Ginzberg is correct when he says that if we continue with present policies, we are going to have to tolerate high unemployment for a very long period, possibly for the rest of the decade. But that would be inexcusable since we can prevent it.

I would agree again with Mr. Ginzberg that manpower policies will not give us all of the answers. He said manpower policies can fill crevices if I may paraphrase him. I would say, however, that manpower policies can fill many large holes, not just crevices, and those are gaping holes. I believe that under current conditions manpower policies can do a great deal.

To respond to your question, Senator, about what new initiatives we need, I do not know that this would be particularly original, but the title of the task force policy statement that I asked you to include in the record is, "The Best Way to Reduce Unemployment Is To Create Jobs." I submit that this would be a very good starting point and that this would make a very good slogan for the Joint Economic Committee.

What other initiatives would I suggest? I agree with Mr. Ginzberg that the number of public employment jobs that can be beneficially created right now are limited. Without going into detail, I would suggest, however, that we can at least double the present level of support by the Federal Government. That would raise the total to 600,000 jobs.

Can public employment work? The answer to that question is, in a word, yes. There are qualifications, but the fact is the Emergency

Employment Act that Congress passed 4 years ago worked well. Six months after the legislation was enacted it had put to work close to the maximum number of participants allowed.

Obviously, conditions are not the same now as they were in 1971. In 1971, the economy was in an upswing; by 1972, the economy was recovering very rapidly. At the present, we are getting all sorts of promises of recovery, but that is all. Until there is some hard evidence that recovery is well underway, we should have a much larger public employment program. As I said before, about 600,000 is a reasonable limit because the capacity of State and local governments to rapidly absorb additional employment is limited. Moreover, I would not want to saddle State and local governments with swollen payrolls in the future.

However, the creation of an additional 300,000 jobs is entirely too small a program to fill present needs. There are 8.2 million unemployed, more than a million discouraged workers who are not counted as unemployed—but who are even a greater problem because they have given up any hope of getting jobs and therefore are not looking—and 4 million people who are now working part time for economic reasons. Before any new hiring will occur, the chances are that these part-time workers will have to be absorbed first. I'm not talking about the 12 million to 14 million who work part time for voluntary reasons, but the 4 million who are working part time because their employers cannot give them full-time jobs.

Since private sector expansion is still far off, we should not be satisfied with public employment jobs alone, but should also undertake employment and public works projects. I know that sounds like WPA, but I don't see that there was anything wrong with WPA.

The image of the WPA has been long maligned. I think that WPA workers did very useful work. In my prepared statement, I mentioned a few of the things that they did—the roads and sewers they built, for example, that were used to great advantage later on. Such projects have great potential and could be a silver lining to the present recession. For instance, the bill that the Senate passed providing for improved railroad bedding would fit in very well with national energy policy and would definitely be a very useful project.

Another possibility is for Congress to provide the necessary stimuli for the construction of 300,000 or 400,000 low- and middle-income housing units.

The crucial question, of course, is whether these projects would add so much to the budget deficit to hamper expansion in the private sector. Based on previous testimony before other subcommittees of this committee, there appears to be very little evidence that private expansion would be deterred; we could increase expenditures and antirecession programs, carrying an $80 billion deficit and still have sufficient credit for private expansion. And it is not at all clear that increases in public expenditures mean dollar for dollar increases in the deficit. The creation of new jobs will also raise Government revenues and decrease the deficit.

One of the criticisms of the $5 billion public works bill that is now pending before the Senate is that there will be a long lag before any jobs are created. But that is an oversimplification, if not a misrepresentation. As soon as funds were distributed to Governors, to mayors,

and to county supervisors, they would order, from the private sector, a great many bricks and mortar for the projects that they are going to build. Those expenditures could stimulate the economy very rapidly.

Therefore I think that we can, in addition to the expansion of public employment, also extend to $5 to $10 billion various forms of public works that would create jobs very rapidly.

Looking at the alternatives to expanded job creation programs, I would agree with Mr. Ginzberg's point about unemployment insurance. We are relying too heavily now on unemployment insurance. Obviously if it were the only possibility for jobless persons to get any income, I would be all in favor of it. But I think that we ought to be more concerned about extending unemployment insurance for 65 weeks without doing anything for the people who are unemployed for a long time.

You also asked in your letter that I comment on the Comprehensive Employment and Training Act. The Comprehensive Employment and Training Act could do a great deal more for the unemployed than it does now. Long-term unemployed should be induced and encouraged to undertake training on a voluntary basis. Most of them will not regain their old job. But the Office of Management and Budget has weakened the Comprehensive Employment and Training Act and has emasculated the Manpower Administration and decreased its capability to administer the law. If we're going to offer training and relocation assistance to the longer term unemployed, it will be necessary to have a much stronger Manpower Administration.

Unfortunately, during the period that the Comprehensive Employment and Training Act has been in existence, the Office of Management and Budget has been insisting on continually cutting the Manpower Administration. I think that is a grave mistake, particularly since Congress very clearly insisted in passing the Comprehensive Employment and Training Act that it would be a real partnership between Federal, State, and local governments.

One illustration is the cutting of the Manpower Administration research budget by 30 percent in a period when we need to find out what the impact of long-term unemployment is. We are talking about spending just a few millions for research to study, among other things, the impact of this $20 billion that we are now spending to support people who are forced into idleness.

Finally, to turn to the future, while Congress has taken leadership in attempting to reduce the current high unemployment, it cannot outlaw the business cycle. One lesson that we can learn from this very unfortunate and deep recession is that during the next downturn Congress should provide for a trigger mechanism so that when unemployment rises above a certain level, there are programs that begin to operate automatically. Such a provision is now applicable in unemployment insurance, and it should be expanded for job creation efforts.

Senator Javits has just cosponsored a bill about which I am going to testify tomorrow, S. 1695, and there are other bills that would adopt that kind of a trigger mechanism. The Joint Economic Committee which is concerned with overall economic policy might profitably explore the elements and the desirability of trigger mechanisms that would coordinate unemployment insurance, public works, and public service employment. If we had such trigger mechanisms in operation a

59-082—75——5

year ago, I think we could have avoided a great deal of the unemployment that we have now. I hope that Congress would consider these measures before the next recession and not wait 18 months after the recession starts, as we are doing right now.

Thank you, Mr. Chairman.

Chairman BENTSEN. Thank you very much, Mr. Levitan.

[The prepared statement of Mr. Levitan, together with a policy statement of the National Manpower Policy Task Force follow:]

PREPARED STATEMENT OF SAR A. LEVITAN

The following remarks were prepared in response to Senator Lloyd Bentsen's invitation to comment on "manpower policies needed to restore our economy to non-inflationary full employment."

A. UNEMPLOYMENT LAGS IN RECOVERY

(1) Assuming the most optimistic economic outlook under current policies, which promises recovery to begin before the summer doldrums are over, relief for those forced into idieness is still far away. Many unemployed will have to depend upon unemployment benefits averaging $65 per week. For most, this will have to make do as they will get jobs after a short spell of unemployment. But not all will be that lucky. It is, therefore, crucial to consider not just the number of jobless but the duration of their unemployment as the recession continues. During the past four months as the economic slump deepened, the average duration of unemployment rose by three weeks, and despite the extension of unemployment benefits, exhaustions of unemployment insurance have been on the rise exceeding 35,000 per week. The number of long-term unemployed (15 weeks and over) has nearly tripled during the past year and reached 1.5 million in April 1975.

(2) Without putting too much store in econometric projections, it is a well-documented fact that the decline in unemployment lags most other economic indicators during a recovery. Intolerably high unemployment can be expected to persist for several years. It would take, according to one presumably authoritative rule of thumb, a 7 percent annual real growth in GNP over three years to reduce unemployment to 5 percent. However, we have not achieved this level of sustained growth since the Korean war.

(3) It is disturbing that some eighteen months after the recession started Congress is still debating the means of reducing the highest unemployment to befall this nation in 34 years. The administration and Congress are still preoccupied with the impact of job creation on inflation, although the causes for the recent rise in prices were not to be found in the labor market. The belated tax cut and easing of monetary policy will be slow in bringing relief to the unemployed and in preventing the continued loss in GNP.

B. TRAINING

I have been asked to comment upon the progress made under the Comprehensive Employment and Training Act.

(1) Regrettably, hard data are as scarce as hen's teeth, and little is known about the progress made. In part, the problem lies with administration officials who have confused federal oversight responsibilities with minimizing the federal contributions to the administration of the Comprehensive Employment and Traning Act, which Congress clearly intended to be a partnership of federal, state and local governments.

The Office of Management and Budget (OMB) conducted a sustained campaign emasculating the Manpower Administration during the year after Congress passed CETA. That year OMB forced a 16 percent cut in the national office strength. Another instance of weakening the federal manpower capability is the 30 percent cut in research funds during the first year of CEETA when Congress imposed new research responsibilities upon the Secretary of Labor.

(2) Adjusted for inflation, overall funds appropriated for skill training under CETA are significantly lower than they were before the current recession started. Training efforts consequently are bound to suffer. For example, funds for the much-maligned Job Corps that offers training to the disadvantaged youth have been cut during recent years despite inflation. However, the reces-

sion may be the most propicious time to upgrade the skills of those who are idle today to better enable them to take advantage of the eventual recovery. Former Secretary of Labor George P. Shultz took that position during the 1970 recession. Additional funding of CETA would not only improve training but also bolster total demand.

C. PUBLIC SERVICE EMPLOYMENT

But training will create few jobs during the recession, and clearly more should be done for the unemployed than income support of $65 per week. There is no need to settle for mass unemployment for the rest of this decade. In the spirit of the Employment Act which established this committee, I would recommend the Joint Economic Committee adopt the slogan, "The best way to reduce unemployment is to create jobs."

(1) The first step in a job creation program should be an expansion of public employment. Based on the experience with federally-funded public service employment, there is ample evidence to justify the expansion of such a program. The program helped the unemployed not only to find jobs but also improved their opportunities to get better jobs after they left federally-subsidized public employment. Other evidence indicates that a lot of useful work was done.

(2) Granted that a society's work is never done, there still remains to be determined the limits of a public service employment program aside from costs constraints:

(*a*) The fact that a small program under the Emergency Employment Act which peaked with 160,000 jobs was successful does not necessarily guarantee that a much larger program would have similar results.

(*b*) Fortunately the Labor Department's Manpower Administration experimented with larger programs in 12 communities located in 5 states. These demonstration projects suggested that the absorptive employment capacity of state and local governments may be double or even triple the 160,000 peak reached by the public service unemployment program initiated in 1971.

(*c*) State and local government employment has expanded rapidly in recent years. In the past seven years alone, state and local government employment rose by 112 percent, more than half as much as the increase in gross national product. Therefore, it can be assumed that most high priority jobs have been filled.

(*d*) Another constraint on public service employment is that state and local governments should not be saddled with swollen payrolls when federal countercyclical funds are withdrawn.

(3) Nobody knows what are the limits of public service employment, but recent experience may serve as a guideline. Since 1967 the net annual increase in such employment was about 400,000. It would not take too much imagination to fund useful work for another 50 percent above recent expansion; that would put the limit at 600,000. Assuming that the fiscal binds of state and local government would arrest most growth during the recession, this would require doubling the current level of federal funding of state and local jobs.

D. PUBLIC WORKS

(1) But with 8.2 million unemployed, more than a million who have given up on the search for work because jobs are not available for them and nearly 4 million working part time, the funding of an additional 300,000 jobs is clearly not enough.

(2) Congress has already reached this conclusion but has been slow to act. What is needed is a flexible public works program ranging from labor-intensive employment projects to capital-intensive construction projects. The cost-effectiveness of these projects in terms of job creation can be expected to vary widely. Simple employment projects, along the lines of Operation Mainstream, could require as little as $5,000 a year to create a job paying the bare minimum wage with little overhead. The direct annual cost per job in contract construction might range from $30,000 for a dredging project to $43,000 in private home building. The high costs of the latter projects are somewhat exaggerated, however, since the direct costs count only on-site jobs and ignore the secondary impact of increased demand for construction supplies.

(3) The lag in implementing public works is a problem to be reckoned with if public works is to serve as a countercyclical tool. This may have been a real

drawback in earlier post-war recessions when the rapid turnaround in the business cycle reduced the need for job creation. Regrettably, we are too far down the road for such speedy recovery. If Congress is ready to act without additional delay, the time lag problem should not stand in the way of public works as a counter-cyclical tool in the current recession.

(4) Public works has the advantage of providing a silver lining to the present economic ills. Worthy projects of lasting value that would not have been undertaken if idle resources were not available could be selected. For example, the funding of railroad bedding passed by the Senate last month may be desirable as part of a national transportation system and as a means to save fuels, even if we were not in the midst of an economic clump. Moreover industries and areas hardest hit by the recession could be targetted for help.

E. COSTS

A job creation program that will help significantly to reduce unemployment before, say, the 200th anniversary of the nation will be a costly undertaking. A 600,000 job public employment program would cost $5.8 billion, and a needy equal amount for public works is currently being considered and should be enacted without further delay. The massive outlays are not a sufficiently persuasive argument against undertaking these efforts. While the deficit we are facing is staggering, the preponderance of opinion suggests that the money market will be able to absorb a much larger deficit than the administration is willing to risk. According to the First National City Bank of New York a 1976 deficit of $80 billion "could be financed without crowding out private borrowers."

While the prospective deficit is unprecedented in peace time, so are the costs we are already paying for high unemployment. Certainly the $20 billion the nation is payng for unemployment benefits during this year is more inflationary than a public works program, and these and other transfer payments are apparently going to continue as long as unemployment remains high.

Congress has not outlawed the business cycle, and the opportunity to benefit from our experience with costly delays during the current slump should not be lost. Congress, therefore, may want to consider additional trigger mechanisms along the lines now applicable to extended unemployment benefits, for job creation programs. What goes up should also go down, and to prevent perpetuation of these programs atfer recovery, provision should be made for phasing out job creation programs when unemployment drops.

F. COORDINATED PROGRAM NEEDED

(1) Grave as the present unemployment situation is, the danger of uncoordinated and fragmented efforts cannot be ignored.

(2) No mechanism exists now to exercise coordination. The Office of Management and Budget contribution has been nil, if not negative, because it has invariably opted for excessive caution. Fortunately Congress has ignored the advice of OMB but at the cost of considerable delay. The recently established established congressional budget committee also have leaned on the side of caution.

(3) The challenge is for Congress to come up with a program that would minimize deprivation and reduce current levels of unemployment by more than half without drying up credit for private job creation and eventually overheating the economy.

(4) Fiscal and monetary policies alone are not likely to achieve the goal speedily without sewing the seeds of another inflationary spiral and accompanying high unemployment.

(5) Public service employment and public works are long overdue as integral partners of a concerted policy to combat the recession.

The Best Way To Reduce Unemployment Is To Create More Jobs

(A policy statement by the National Manpower Policy Task Force, 1819 H St. NW., Suite 660, Washington, D.C., June 1975)

THE NEED FOR ACTION

Eight million Americans have been forced into idleness and more than another million have given up on the search for work because no jobs are available for

them. Nearly four million more are working part-time, although they would like to have full-time jobs. This idleness, deprivation and lost income are the direct consequences of public policies. Having contributed to the recession, the federal government has a special responsibility to ameliorate its consequences.

The primary response to the current slump has been the application of macroeconomic measures. The tax cut for individuals and businesses was aimed at stimulating consumer spending and private investment. Increased governmental outlays resulted as needs-based programs expanded automatically in the recession and as Congress opened its purse strings in the belief that increased public spending would be stimulative. The growth of the money supply also has been accelerated to lower interest rates and to stimulate investment. Although Congress extended liberally the duration of unemployment benefits and has expanded its coverage, direct job creation for the unemployment has received less emphasis.

The goal has been to engineer a gradual recovery after wringing out inflationary pressures. Since unemployment tends to linger long after economic recovery sets in, existing restraints ensure the continuance of intolerable joblessness for several years to come. The major constraint to direct job creation has been the fear of pushing the economy into a new inflationary spiral.

THE UNUSED AND NECESSARY OPTIONS

We believe that current policies do not exhaust the practical and necessary options available to the administration and Congress. Compared to the $22.8 billion tax cut and the $20 billion being spent this year on unemployment benefits, job creation strategies have been implemented sparingly despite the gravity of current unemployment conditions and the gloomy longer-term prospects. As an alternative to accepting high unemployment over the long run, the federal government should adopt, in addition to the monetary and fiscal approaches, direct job creation through funding public service employment, employment projects and public works. The public sector can usefully employ idle workers to provide more goods and services when the private sector is in decline. Employment projects (also called works projects or work experience programs) are another option, putting the unemployed to work performing the most labor-intensive public works, but keeping them off regular public payrolls. A third option, public works, involves more capital intensive projects carried out mostly by private contractors.

Public service employment was begun on a modest scale by the Emergency Employment Act of 1971, which provided $2.5 billion to state and local governments over three years to create useful jobs for the unemployed. Congress continued this approach in the Comprehensive Employment and Training Act of 1973, and added emergency provisions one year later when the recession deepened. These provided for about 325,000 public service jobs on an annual basis, absorbing less than 5 percent of the unemployed. The level of employment or work experience projects has remained virtually unchanged over the past five years and the administration recommended only minor changes for fiscal 1976. On the public works front, court action was required to force the release of $2 billion appropriated for highway construction and $4 billion for construction of municipal waste treatment facilities. Only $125 million of an authorized $500 million emergency public works program was appropriated, and Congress had to fight a Presidential request to rescind even that amount.

Total expenditure for public service employment, work experience and special public works represented only one percent of the federal budget in fiscal 1975, and much of that outlay was not countercyclical in intent since it only continued the modest efforts of the past decade. The meager scale of such endeavors is highlighted by comparison with the emergency job creation efforts during the Great Depression. Wages paid by the federal job creation agencies accounted, during the New Deal years, for nearly three-tenths of all federal expenditures. The proportion of total employment provided by these programs at their peak would equal 5.8 million jobs in today's labor market, and the 2.8 percent of GNP spent would require an annual outlay of $40 billion. This is not to suggest that today's conditions qualify as a depression or that similarly massive job creation efforts are required, but it does indicate the timidity of our response to the deepest economic slump in three decades. On the other hand, the $4 billion we spend annually on direct job creation is only one-tenth of the funds expended for income support of the unemployed and for tax reduction.

Why has direct job creation been deemphasized? The image of idle leaf-rakers and shovel-leaners has lingered since the New Deal. A wide-spread belief persists that publicly created jobs are necessarily unproductive "make-work" compared

with "real" jobs in the private sector. Some who grant that useful work could be done, doubt the ability of government to respond in a timely and efficient manner. Others fear that expansion of the public sector is a one-way street in the wrong direction. An overwhelming concern is cost; employment of large numbers at adequate wages is an expensive proposition. But so is the real decline of $75 billion in 1974 GNP, not to mention the potential loss that could have been avoided if the law of the land were carried out placing upon the federal government the responsibility to assure an economic climate conducive to maximum production, employment and purchasing power. It will take more than three years of economic growth at a rate of 7 percent per year to reduce unemployment to 5 percent. But this level of sustained growth was last achieved during the Korean War.

DIRECT AND INDIRECT JOB CREATION—A MEANINGFUL DICHOTOMY?

The rules of economic life have not changed. Jobs are still created only by the spending of money for the purchase of goods and services, and the process can be accelerated only in certain ways. All of them involve additions to total expenditures and to total employment, and all have multiplier effects as receivers of the added income spent for other goods and services.

Tax cuts have differential job creation impacts depending on whose taxes are cut and how recipients choose to spend their added disposable incomes. Lowered interest rates will have a major initial impact on capital goods and construction industries. Public works have an initial impact in the markets for construction equipment, supplies and services. Public service employment has its initial impact on public payrolls. Beyond these immediate impacts, the job creation incidence of any of these forms of added spending differs little. Choice among them, therefore, ought to be made upon three bases:

1. Where and for whom are jobs initially needed?
2. What timing pattern of job creation is preferred?
3. Which goods and services does society prefer?

As a consequence of the much delayed tax cut, consumers are accelerating job creation by spending money which would otherwise have entered public coffers. Also belatedly, the Federal Reserve Board has increased the money supply, hoping to ease interest rates and to encourage spending in investment and housing. The impact of this manipulation will depend upon public confidence and incentives to borrow and invest. In any case, job creation responses are likely to be slow but persistent. Public works jobs of relatively short duration become available as soon as contracts are let, but engineering, architectural and contracting processes may delay spending. Public service employment programs can result in almost immediate jobs and can be shut off as labor markets tighten and alternative jobs become available.

Differences between costs per job and the social contribution of the jobs are not as great as conventional wisdom would have it. To say that the annual direct cost per public works job is $40,000 ignores the jobs created by the latter in manufacturing and other industries. At the same time, to insist that a job created by a tax cut has more inherent worth because it produces goods or services preferred by consumers, ignores the clamor for added public services and facilities. The differences are less than is frequently asserted and a balanced employment policy should include them all.

PUBLIC SERVICE EMPLOYMENT

Public service employment is a relatively new approach, and its lessons are fresh. The 1971 Emergency Employment Act provided 160,000 non-summer jobs at its peak. Federal grants went directly to state and local governments who determined the services they considered most vital and hired workers to provide them. Positions were similar to those already payrolled—teachers, social workers, policemen, maintenance men, road crews, secretaries, and a variety of aides. The federal government offered little interference in the day-to-day administration of the program, except to enforce some general guidelines. The rules of the game required that only unemployed or underemployed workers would be hired, that the state and local governments were not to substitute federal dollars for their own expenditures, and that 90 percent of the total funds would be used for the wages and salaries and not for overhead or "frills."

The experience under the Emergency Employment Act offers persuasive evidence that public employment can be a useful antirecessionary tool.

First, despite fears about the creeping pace of bureaucracy (and every level of federal, state and local bureaucracy was involved), about 150,000 jobs were created within six months after funds were appropriated. As it turned out, more than 95 percent of funds went for wages and salaries, carrying an average annual cost of $7,500. This maximized the immediate employment impact. Simulations by the Federal Reserve Board in 1972 suggested that the public service employment approach had a more immediate and larger impact on employment than equal federal spending on other programs or equivalent tax cuts.

Second, the make-work image of public job creation notwithstanding, a number of evaluations concluded that most workers performed necessary public services, and that the productivity of the newly hired workers was up to par.

Third, public service employment benefited participants in the long as well as short run. Most of the hired employees were lifted from the ranks of the unemployed. The public employment program not only gave them work, but their employment and earnings after leaving the program also improved.

Fourth, the costs of the program were offset by reductions in income support payments and by the taxes paid by the hired workers. For participants receiving some assistance prior to being hired, the level of aid fell nearly 50 percent. Overall, it is estimated that the value of income support savings and increased taxes paid equalled between one-fifth and one-third of all program costs.

Fifth, experiments with more intensive funding in some areas indicated the potential for significantly expanding on the scale of the program. In 12 areas, extra funds were provided to absorb between 5 and 28 percent of the unemployed compared with the 3 percent potentially absorbed by the program nationwide. Yet the demonstration programs were put into operation with only a few delays. The jobs created paralleled those established under regular funding, and a majority of both administrators and participants in the demonstration areas felt that the jobs contributed useful services. Despite as much as eight percent net additions to the public payrolls, it appeared that the potential limits for expanding public employment were not reached.

There was some evidence that efforts of this scale could noticeably reduce area unemployment rates. Using statewide unemployment changes as "controls," 10 of the 12 sites did better than expected. On the average, each public employment slot was accompanied by a decline in unemployment of 1.6 persons in demonstration areas. If this average were to be realized nationwide, the National Planning Association researchers estimated that a $4.2 billion public employment program could have reduced national unemployment levels by one percentage point.

No single approach can offer a panacea. There is always a likelihood that state and local governments will use federal funds to offset some of their own personnel costs, but only guesstimates are available about the magnitude of the "displacement." To the extent that budget substitution occurs, neither net new public employment nor net additional public expenditures result. Any production from otherwise idle people is a net gain, but recipients of public service funds may not make the best use of the "free" labor paid with federal government funds. Some have also criticized public service employment because not enough disadvantaged were hired by state and local governments. These are arguments for tighter guidelines to secure a balanced job creation policy.

EMPLOYMENT PROJECTS

Employment projects specifically created to absorb large numbers of the unemployed have been suspect since the days of the New Deal, more because they conflict with the ideology of the free market than because they are proven failures. The Work Projects Administration has been treated harshly by history. Yet WPA and related agency workers, when not leaning on shovels and rakes, sewed 380 million garments for distribution to the needy, served 1.2 billion hot lunches to school children, and produced 108,000 paintings. They built or improved 651,000 miles of highways, roads, and streets, 78,000 bridges and viaducts, 6,000 new schools, 150 libraries, 3,200 stadiums, 8,200 parks, 16,000 miles of new waterways, 1,500 sewage treatment plants and 900 airports, not to mention 5 million outdoor privies that undoubtedly improved the quality of life for their users. These outputs were essentially net gains to the nation, utilizing otherwise idle human and physical resources.

Operation Mainstream, initiated under the antipoverty legislation a decade ago, was very similar to the WPA, though much smaller in scale. Its aim was to provide work support for a clientele stranded in areas with surplus labor.

Despite limited long-term benefits, Operation Mainstream has been popular. The clients, consisting mostly of middle age and older workers, were considered a "deserving" group. Assessing the program on the basis of income—albeit meager—"psychic" gains provided to participants, the useful work done, and any savings in public assistance, there was a consensus that the benefits far outweighed the costs.

Several employment programs were also initiated for welfare recipients in the 1960s, but these proved much less popular both because of their more complex mission and the stricter standards by which they were judged. The largest direct job creation program of the 1960s was the Neighborhood Youth Corps, combining in-school, out-of-school and summer job opportunities for teenagers from poor families. There is no sound proof that any of these efforts had a long-run impact on participants, encouraging school completion or improving subsequent work experience. But they clearly did provide income, an "aging vat" and constructive activity at a very low cost.

Work experience programs for youth and the elderly are now being funded under the Comprehensive Empolyment and Training Act. Program levels are estimated to have levelled off because of budget stringencies, and many cities are facing the summer of 1975 without the resources for an adequate summer youth program. There is no doubt that a vastly increased number of jobs for youths and the elderly could find takers in the recession.

Different types of employment projects rae appropriate for different groups, ranging from the part-time, low-level activity needed by youth to keep them in schoool, to more substantial employment for the disadvantaged who find no job opportunities in a slack labor market. There is no reason to believe that these unutilized resources could not be put to constructive work, and there is every reason to believe that if they were, the benefits to the individuals and society would be positive.

PUBLIC WORKS

Public works—the construction of schools, highways, hospitals, low-income housing, industrial parks, subways, sewers, parks and navigable waterways—are a longstanding and essential part of government activity. The question is whether a separate "emergency" public works program can undertake expeditiously projects which would otherwise not have been carried out anyway in order to help combat unemployment.

A central issue in funding countercyclical public works is the timing of implementation. There are lags between congressional action and project approval, and between approval and the start of construction and hiring. The $133 million Public Works Impact Program was signed into law in August 1971, and the first projects were not approved until late in the year. Employment resulting from fiscal 1972 funds peaked in August 1972 and nine-tenths of the direct employment generated by then was completed before August 1973. By that time it would appear that the turnaround in the economic conditions reduced the need for additional job creation. Yet the seriousness of the one-year lag between authorization and on-site employment peak and the two-year lapse before substantial completion was not as great as some have claimed. In fact, the flow of expenditures, once started, coincided remarkably well with the pattern of recovery from the 1971 recession. Even in that brief recession, the recovery failed to outpace the outlays for public works. The time lag from legislation to job creation may be even longer for fiscal or monetary stimulus to private investment than for public works.

THE CASE FOR DIRECT JOB CREATION

The case for direct job creation is not limited to its employment impacts alone. It should be supported on other counts, also.

First, public works have added benefits when cost-effectiveness is considered, because the projects constructed increase the wealth of the nation and leave lasting impacts. We are still using the parks, roads and post offices built with PWA and other agency funds. Moreover, tangible results also tend to gain widespread support; public works jobs are generally accepted as "real." The list of proposals is almost endless, and when the chaff is separated from the wheat, there remain thousands of potentially useful projects which could employ large numbers of idle workers. Public works projects tend to have a relatively high

skill mix and are tailor-made for construction workers, who despite their skills, are subject to high unemployment during recessions. However, by sacrificing some productivity and efficiency, useful tasks can be performed by large numbers of the unskilled, which is rewarded in reducing income maintenance costs, alleviating unemployment and mitigating social ills such as crime and dependency.

Second, the government can move efficiently and effectively. The rapid implementation of the Emergency Employment Act suggested that public service employment can be expanded rapidly. Public works take some time to arrange, but the delays, once funds are available, have frequently been exaggerated and are not an impediment where conditions are so severe that adequate recovery is not imminent. Practically every community has at hand some public facility projects already planned but delayed for lack of available funds. These can be instituted very rapidly if a quick start is made a prerequisite for the receipt of funds. Employment projects can be, and usually are, geared up quickly, and in fact, a more considered pace of implementation might be useful in some cases. There should, therefore, be little doubt about the capacity of federal, state and local government to create and rapidly fill hundreds of thousands of useful and productive jobs.

The timeliness of job creation must be considered alongside other strategies. Increased public spending across-the-board is slow in its impact, and tax cuts for business and individuals have long lags before they affect employment. Direct job creation on a large scale is feasible, and in terms of timeliness, may well complement other strategies. Public service employment and employment projects are likely to have the most immediate impacts. While the implementation of public works may take a little longer, fiscal and monetary policies may require even a longer lag before they stimulate added employment. Such a sequence may well fit a balanced strategy to reverse economic slumps. The need, in cases of economic downturn, is to act quickly and vigorously on all appropriate fronts, adopting each strategy as conditions require.

We stress this point because this is not the last recession we will ever experience. The business cycle has not been outlawed. To still be debating nearly a year and a half into a recession what should be done about alleviating the deprivation of millions forced into idleness is discouraging and suggests to some the bankruptcy of responsible public policy. Direct job creation lends itself well to a triggering approach which can quickly create jobs in either a localized or a national recession.

Third, the cost of direct job creation is not as great as it seems. Multibillion dollar pricetags are disturbing, and it is more palatable to hide stimulative measures in popular tax cuts or to spread them over a number of "urgent" expenditures. However, if properly designed and implemented, job creation can give more "bang for the buck," can be more effectively targeted in reducing unemployment, and can provide valuable goods and services. The output of created jobs is frequently ignored and the outlay per direct slot is assumed to be the cost. Yet the value of useful work performed by otherwise idle resources must be considered. Under the Emergency Employment Act, for example, participants performed the same tasks as other employees and the costs of the program, therefore, produced equal benefit in terms of goods and services. The reduction in income maintenance costs that resulted was a benefit bonus. Under public works, the primary output is the completed facility, and, if cost-effective projects are undertaken, the job creation effects tend to be a bonus. The justification for employment projects is that participants have few alternative employment opportunities, the jobs contribute substantially to their well-being, and income maintenance costs are reduced, even if productivity may be limited.

THE CHOICE OF STRATEGIES

Public service employment, employment projects, public works, tax cuts and monetary policies, while part of a continuum of job creation strategies, nevertheless have important distinctions which must be considered in setting priorities.

Public service employment serves as a shot-in-the-arm approach to counter a short-term recession, and to create jobs for the unskilled and deficiently educated in prosperous times. Of the alternative measures, public service employment has the most rapid and direct job creation impact. It is easier to launch effectively and efficiently than employment projects, and it creates more direct jobs per

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dollar of expenditure than public works. Public service employment is appropriate for the complete range of unemployed and can put them to work with minimum delay.

On the other hand, public service employment may have a limited role in countering a long-term recession. Its impacts are reduced over time as states and localities substitute federally-funded slots for jobs that would have been funded with state and local budgets. In contrast, the clientele of employment projects are not easily replaced by regular public employees, while public works can be selected which are net additions. To the extent that the public sector can be induced to do more of the same over the long run, there is an unanswerable question whether this results in diminishing returns, and "bloats" the public sector permanently. It may be harder to cut back on public service employment than on work projects which have high turnover and public works which are normally performed under contract with private enterprises.

Employment projects are an essential part of a comprehensive job creation effort because they can utilize the unskilled and the poor. Paying lower wages, more persons can be hired and fewer of these would have gotten jobs on their own. Moreover, part of the cost is offset because persons hired may be otherwise dependent on welfare or social insurance. Output is the major issue with employment projects. It is generally believed, though impossible to prove, that the useful goods and services provided per dollar of expenditure are less than under the public service employment and public works approaches. Since the goods and services provided by the alternative direct job creation strategies vary widely, comparisons of their relative outputs are not useful. But the presumed lower productivity of employment projects may be offset by their greater welfare and employment impacts.

Public works yield a lasting product with an immediate impact on the private sector, without expanding the public sector. Although the direct job creation per dollar of outlay may not be as great as in the other strategies, the multiplier impact of public works may be greater than that of other job creation measures. Timing is also an issue, but with proper congressional and executive action, start-up time can be kept within the time limits required for economic stimulation. The direct labor requirements tend toward highly skilled workers, but these normally experience high unemployment rates in a recession and early recovery. Project selection is the key, and this must be done with great care.

CREATING MORE JOBS

The nation is engulfed by grave economic difficulties. Even rapid recovery may leave a high rate of joblessness for several years, and a timid application of macroeconomic tools due to fear of future inflation will insure this eventuality. Policymakers seem hypnotized with fear less we be overtaken by an inflationary resurgence, ignoring the fact that the parentage of the recession is not to be found in the labor market. Its cure should, therefore, not be sought in labor market restraints.

Direct job creation is one tool which can and should be used to a greater extent than in the past. Analysis of recent experience suggests that public service employment, employment projects, and public works can provide vitally needed goods and service. They can be implemented rapidly and effectively. They can be cut back, if appropriate, when conditions improve. They provide useful output and sustain and develop skills. And they are a less costly way to fight unemployment than many other approaches.

The scale of job creation and the mix of strategies depends on economic developments in the future. The most likely scenario, in the absence of appropriate policies, is a very slowly declining unemployment rate, stagnating at a level of 6 percent or higher for the remainder of the 1970s. However, further deterioration or a more rapid than expected turnaround are also possibilities that shou'd not be ignored. Based on the assumption of stagnation, but recognizing the need for flexibility in the case of a quick rebound or a reversal, the National Manpower Policy Task Force makes the following recommendations:

(1) Public service employment should be expanded. The Task Force suggested in December 1972 a triggering formula which would have provided funds to hire one-fourth of the unemployed above a high unemployment level. Assuming a tolerable level of 4.5 percent unemployment, the present 8.9 percent rate means 3.6 million excess" unemployed and calls for 900,000 public service jobs.

Since some 300,000 public service jobs are currently available, an expansion of 600,000 jobs is needed, carrying a pricetag of about $5 billion. Such an expansion would have been feasible if the recommended trigger mechanism had already been in place. Having lost time, it may be difficult to achieve this goal all at once. Nevertheless, a doubling of present efforts should be feasible.

(2) If public service employment is expanded rapidly, states and localities will need more resources for supplies and equipment. Some are already claiming difficulties in putting all their public employment funds to good use because needed materials and equipment were not available. The limitation on on-wage expenses should be liberalized, yet some strict precautions should be taken to assure that money is not siphoned off for other purposes. Public service employment should shift in the direction of employment projects as its scale is increased.

(3) It is regrettable that the training provisions of the Comprehensive Employment and Training Act are being deemphasized. A recession may be the most propitious time to upgrade the skills of many to better enable them to take advantage of the eventual recovery. Additional funding for CETA would add to total demand while enabling state and local elected officials and manpower planners to take approaches which meet the specific needs of their communities.

(4) The pending emergency public works legislation should be strengthened. Greater specificity of project selection criteria, including public service needs, local unemployment rates, and occupational skills required by the proposed projects, are essential, and preference in allocation of funds should be given to early applicants promising speedy completion. Mechanisms should also be established for linking job creation projects with the CETA system, so that the created jobs are an outlet for its clients.

(5) The longer-run implications must also be considered. A trigger formula under both public service employment and public works would reduce as well as expand funds automatically. These trigger mechanisms should be coordinated with similar provisions made under the unemployment compensation system. Countercyclical public works and employment projects should be short-term in nature, so that they can be cut off upon completion if this is desired. On the other hand, to provide options in the case of further economic deterioration, it might be useful to develop not only "shelves of public works," but also plans for employment projects and public service needs, keeping a running inventory of detailed job creation options.

These recommendations carry a multibillion dollar pricetag. Yet, so does a tax cut, expansion of unemployment compensation, and other "emergency" measures which have been taken with no more guarantee of their potential impact. Despite a fair degree of experience to date with direct job creation which suggests that it can usefully undertaken in the present conditions, a bias persists against an active employment policy. Shedding the misconceptions on which this bias is founded is long overdue. Properly designed and triggered job creation programs can play an important role in augmenting macroeconomic measures and preventing repetition of the current deep recession.

Condoning mass unemployment is no way to begin the third century of our nation's history. An economic slump, essentially created by policymakers in their anxieties about inflation, can be alleviated by them if they can redress their priorities.

The National Manpower Policy Task Force is a private nonprofit organization of academic manpower experts. It is devoted to the promotion of research in manpwer policy. This statement represents the combined judgment of the Task Force members. Despite divergence of opinion on details, the members agreed to a unanimous statement without indicating individual exceptions.

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Robert Taggart, Executive Director.

Chairman BENTSEN. Mr. Holt, please proceed.

Mr. HOLT. Ralph Smith and I are pleased to be here. We are testifying as individuals and not on behalf of the Urban Institute or its sponsors—Ralph will talk about the near-term economic prospects, and I will consider the needs for a structural change and manpower policy. I prefer that Ralph precede me.

Chairman BENTSEN. OK. Mr. Smith, please proceed.

STATEMENT OF RALPH E. SMITH, SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE

Mr. SMITH. The latest unemployment figures show that in April, 8.9 percent of the Nation's labor force—over 8 million people—were unemployed. As Senator Bentsen noted, 25 million are likely to experience some unemployment this year.

For many population groups, conditions in the job market are even worse than implied by these overall statistics. Blacks had over a 14-percent unemployment rate; teenagers, over a 20-percent rate; black teenagers, over 40 percent.

In addition, the unemployment statistics do not fully reflect the gap between the number of people working and the number of people who would be available for work under better job market conditions. A person without a job will only be counted as unemployed if he actively sought work during the past month.

In a recession, the labor force shrinks as many people without jobs—particularly among minorities, women, and youth—withdraw from or delay entry into the labor market because of the lack of adequate job opportunities.

In our analysis at the Urban Institute, we have defined potential labor force as the number of people who would be working or looking for work if the Nation's economy were operating at full employment. We are using a 4-percent unemployment rate definition of full employment, which is the one used by the Council of Economic Advisers in determining potential GNP, an analogous concept.

We define and measure our "jobless rate" as the proportion of the potential labor force that is not working. It differs from the unemployment rate by focusing on potential rather than actual labor force participation. In this way, it picks up both unemployment and labor force shrinkage.

In April, over 92 million people were in the civilian labor force. From our modeling of the labor market, we estimate that if the economy had been operating at full steam, the labor force in April would have been 1.5 million people larger. By adding these people to

the unemployment figure, we estimate that about 9.5 million potential workers were jobless, resulting in a jobless rate of 10.3 percent, compared to the April unemployment rate of 8.9.

This subcommittee's hearings are focusing on policies to restore full employment. To achieve this ambitious goal will require the expansion of job opportunities sufficient to provide employment to both the unemployed and those who will be attracted back into the labor force by the improved economic conditions.

The unemployment rates of several major demographic groups reported by BLS and the jobless rates that we have estimated for April are shown in table 1 of a handout that we prepared.

[Table 1 follows:]

TABLE 1.—MAJOR UNEMPLOYMENT AND JOBLESS INDICATORS, APRIL 1975

[In percent]

Group	Unemployment rate	Estimated jobless rate [1]
Total, 16 years and over	8.9	10.3
Males, 20 years and over	7.0	7.3
Females, 20 years and over	8.6	10.5
Both sexes, 16 to 19 years	20.4	25.9
White, total	8.1	9.3
Males, 20 years and over	6.4	6.3
Females, 20 years and over	8.2	9.8
Both sexes, 16 to 19 years	17.8	23.8
Negro and other races, total	14.6	17.8
Males, 20 years and over	12.6	15.4
Females, 20 years and over	11.2	15.2
Both sexes, 16 to 19 years	40.2	42.7

[1] Estimated jobless rate equals unemployment plus labor force gap over potential labor force, where potential labor force is the number of people who would be working or looking for work if the national unemployment rate were 4.0 percent.

Mr. SMITH. Notice that the unemployment rate not only understates the degree of slack in the labor market—8.9 percent versus a 10.3-percent jobless rate—but it also distorts its demographic incidence. The general pattern that we get for April was typical of what we have been observing in recent months. White male adults have the lowest unemployment rates of any large demographic group. In addition, their labor force is least susceptible to cyclical variation; hence, their jobless rate—6.3 percent—is quite similar to their unemployment rate.

Youth, women, and blacks, on the other hand, are subject to both high unemployment and a greater tendency to adjust their labor force behavior to the state of the job market. In the current recession, their labor force has generally been far below its potential size, resulting in higher jobless rates.

The fiscal 1976 budget submitted by OMB in February assumed that the unemployment rate next year would average 7.9 percent—a reduction of 1 point below where it is today. The budget review released late last week maintains this assumption. Our group has used it as the basis for forecasting the job outlook for 16 demographic groups. These estimates have been reported in a short article entitled "Unemployment and Job Discouragement," which I would like to submit for the record of these hearings.

Chairman BENTSEN. Without objection, it will be included.

[The article referred to follows:]

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Recession's impact on the labor market

UNEMPLOYMENT AND JOB DISCOURAGEMENT

The costs and implications of continued high unemployment may be far more serious than they are frequently pictured.

- By failing to maintain full employment, America suffers a substantial loss of income. Unemployment translates into a drop in GNP (gross national product) of billions of dollars a year. The extent of this loss and the severity of its impact on certain groups is not widely understood.
- The job gains achieved by blacks and women over recent decades are in danger of being reversed. The most obvious, but not the only, trigger of setbacks is the "last-hired, first-fired" policy adhered to during layoffs.
- The discouraged worker effect leads to official unemployment rates that understate the size of the out-of-work segment of the population. When persistent efforts to find work fail, many people drop out of the "labor force" so they are not counted among the "unemployed." Later, during recovery, a return of these "dropouts" to the labor force will add to the unemployment rate and impede its reduction.
- Just as some industries and geographic areas of the nation suffer disproportionately from a depressed economy, so do certain demographic sectors of the population bear extremely high burdens. To the extent that public policies are aimed at the average conditions, many of the most desperately needy will be poorly served.

Effects measured according to government's own 1976 forecasts

These consequences of past efforts to slow inflation unfortunately are larger than had been anticipated, and will last longer than expected. Ralph E. Smith, Jean E. Vanski, and Charles C. Holt of the Institute began examining in late 1974 the employment outlook in 1975 for various demographic groups, assuming a national unemployment rate averaging 7.1 percent of the labor force ("Recession and the Employment of Demographic Groups," *Brookings Papers on Economic Activity*, 3:1974). In view of the deepening recession and the general expectation that high unemployment will continue for several years, the Institute economists recently made new estimates for these demographic groups for both 1975 and 1976. This research was supported by the Manpower Administration of the Department of Labor, the National Science Foundation, and the Ford Foundation.

The researchers are using as a basis for their new estimates the Administration's economic assumptions provided in the fiscal 1976 budget as submitted by the Office of Management and Budget in February. The assumption was made then that the national unemployment rate would average 8.1 percent in 1975 and 7.9 percent in 1976. Because of the sharp rise in unemployment in January, reported after the budget had been prepared, Smith, Vanski, and Holt based their estimates on an 8.4 percent average this year, but maintained the 7.9 percent assumption for next. Their emphasis in the numbers reported below is on the implications of the high unemployment predicted for next year. If, in fact, the Administration's assumption proves too optimistic, then the outlook for each demographic group would be still worse.

Modeling the Labor Market

The forecasts of each demographic group's activities are made from a detailed model of the national labor market which depicts on a monthly basis the large movements of people into and out of jobs and unemployment. The model is being developed primarily as a tool to assess the impacts of governmental programs and policies that influence these movements, such as job training, public employment, unemployment insurance, and anti-bias measures.

Without dealing with the technicalities of how this model is constructed or operated, it is instructive to observe some of its basic elements. The numbers of people employed and unemployed at any given time—and frozen into a certain statistic—do not reflect the essentially fluid nature of the market. People are constantly leaving jobs because they desire to find other work, because they are fired, or because they wish to quit work altogether. Other people are entering the work force. The numbers of people in various categories depend to a great ex-

tent on the time required to match job desires with job vacancies.

The annual average unemployment rate depends not only on the number of people who pass through the status of unemployment but also on the duration of their jobless periods. For example, if 3 million people become unemployed each month and remain unemployed for about 2.5 months, then the level of unemployment at one point in time would be about 7.5 million people. If people found jobs faster and, say, cut the average duration of unemployment in half, then the unemployment level would be reduced proportionately; a similar result would come from reducing the flow of people into unemployment without altering the average duration of those who are unemployed.

Economic downturn hits hardest those who are already worst off

Moreover, the various probabilities—of entering and leaving the job market, of finding work, of remaining employed, and of becoming unemployed—have been found from extensive research to differ according to one's age, sex, and racial group. These probabilities and the way they depend on business conditions are built into the Institute's labor market model.

The simulation of the model works on a monthly basis. The conditions at the end of one month determine some of the impacts of the next month's operation. The outcome, for each age-sex-race category, is the number in the labor force, the number of those who are employed and unemployed, and the number changing their labor force status. These data in turn may be used to express, in percentages, the rate of unemployment and the rate of participation in the labor force.

Forecasts for Demographic Groups

To measure the impact of an average 7.9 percent unemployment rate in 1976 requires some basis for comparison; an unemployment rate of 4.9 percent has been chosen. While this is obviously far higher than the ideal "full employment," long declared to be one of the nation's goals, it is within the unemployment range that economists have been forced to accept as the best that can be attained without either improving the structure of the labor market or generating a high inflation rate. For perspective on this base level, 4.9 percent was the average unemployment rate in 1970 and in 1973. From 1966 through 1969, the rate was between 3.5 and 3.8 percent, but during that period our present acute inflation started.

Table 1 shows the gap between the full employment base and what is being forecast for 1976 for major labor market indicators. Total employment is down by 4.3 million. The labor force is constricted, indicating that about 1.5 million fewer people find it worthwhile to be in the labor market. The ranks of the unemployed increase to almost 7.5 million, 2.8 million more people than would have been unemployed if the economy operated at full employment.

It is important to note that the total loss in employment resulting from a recession of this magnitude next year is one and a half times the loss that is indicated by the increase in measured unemployment. Out of every three people who will be made jobless by the recession, one is expected to be discouraged from actively seeking work; therefore, that person will not show up in the official unemployment statistics. This discouragement phenomenon has already, in fact, begun; in February, the labor force shrank by 500,000 people.

The researchers expect virtually every major demographic group to suffer job losses, with the groups already worst off in the labor market being hit hardest. Table 2 spells out their predictions for each of 16 demographic groups. The first column provides the labor force, employment, and unemployment levels expected in 1976 if the economy were operating at near full employment (a national unemployment rate of 4.9 percent). Also shown are the corresponding predictions of their unemployment rates and labor force participation rates. The second column reports the researchers' predictions for these groups if the economy follows the path assumed by the Administration, with an average unemployment rate of 7.9 percent. The third column provides the impact of the reces-

Table 1. Aggregate Impact of Employment Outlook Assumed by Administration, 1976

(annual averages in thousands, except for percentages)

Labor Market Indicator	At "Full Employment" or "Normal" Unemployment Rate	At Recession Rate	Aggregate Impact
Labor Force	95,586	94,050	−1,536
Employment	90,899	86,594	−4,305
Unemployment	4,687	7,462	2,769
Unemployment Rate	4.9%	7.9%	3.0%

Table 2. **Impact on Labor Force Status of a Recession in 1976, by Demographic Group**[a]

	"Full Employment"	Recession	Impact		"Full Employment"	Recession	Impact
White Males				**White Females**			
			AGES 16-19				
Labor Force	4,705	4,638	−66	Labor Force	3,929	3,788	−141
Employment	4,126	3,840	−286	Employment	3,454	3,172	−282
Unemployment	578	798	220	Unemployment	475	617	142
Unemployment Rate	12.3%	17.2%	4.9%	Unemployment Rate	12.1%	16.3%	4.2%
Participation Rate	67.9%	66.9%	−1.0%	Participation Rate	56.0%	54.0%	−2.0%
			AGES 20-24				
Labor Force	6,755	6,621	−135	Labor Force	5,524	5,403	−122
Employment	6,302	5,764	−538	Employment	5,124	4,823	−300
Unemployment	454	857	403	Unemployment	401	579	179
Unemployment Rate	6.7%	12.9%	6.2%	Unemployment Rate	7.3%	10.7%	3.5%
Participation Rate	87.4%	85.6%	−1.7%	Participation Rate	66.8%	65.4%	−1.5%
			AGES 25-59				
Labor Force	34,958	34,903	−55	Labor Force	21,821	20,597	−1,224
Employment	34,215	33,282	−933	Employment	20,981	19,516	−1,465
Unemployment	743	1,621	878	Unemployment	840	1,081	241
Unemployment Rate	2.1%	4.6%	2.5%	Unemployment Rate	3.8%	5.2%	1.4%
Participation Rate	93.0%	92.9%	−.1%	Participation Rate	54.9%	51.8%	−3.1%
			AGES 60 and over				
Labor Force	4,305	4,468	162	Labor Force	2,528	2,912	384
Employment	4,145	4,149	5	Employment	2,482	2,679	193
Unemployment	161	319	158	Unemployment	46	238	192
Unemployment Rate	3.7%	7.1%	3.4%	Unemployment Rate	1.8%	8.2%	6.3%
Participation Rate	36.1%	37.5%	1.4%	Participation Rate	15.8%	18.2%	2.4%
Nonwhite Males[b]				**Nonwhite Females**[b]			
			AGES 16-19				
Labor Force	528	473	−54	Labor Force	470	400	−70
Employment	405	304	−101	Employment	336	253	−83
Unemployment	123	169	47	Unemployment	135	147	13
Unemployment Rate	23.2%	35.7%	12.5%	Unemployment Rate	28.9%	36.8%	8.2%
Participation Rate	44.8%	40.2%	−4.6%	Participation Rate	37.2%	31.6%	−5.6%
			AGES 20-24				
Labor Force	914	894	−20	Labor Force	883	819	−64
Employment	771	670	−101	Employment	714	655	−59
Unemployment	143	224	81	Unemployment	168	163	−5
Unemployment Rate	15.7%	25.0%	9.3%	Unemployment Rate	19.1%	20.0%	0.9%
Participation Rate	79.6%	77.9%	−1.7%	Participation Rate	62.2%	57.7%	−4.5%
			AGES 25-59				
Labor Force	4,087	3,990	−97	Labor Force	3,420	3,359	−61
Employment	3,890	3,683	−206	Employment	3,219	3,081	−138
Unemployment	197	307	110	Unemployment	201	284	83
Unemployment Rate	4.8%	7.7%	2.9%	Unemployment Rate	5.9%	8.4%	2.6%
Participation Rate	88.7%	86.6%	−2.1%	Participation Rate	60.0%	59.0%	−1.0%
			AGES 60 and over				
Labor Force	423	426	2	Labor Force	335	353	18
Employment	408	385	−23	Employment	327	341	14
Unemployment	15	40	25	Unemployment	8	13	4
Unemployment Rate	3.6%	9.5%	5.9%	Unemployment Rate	2.4%	3.6%	1.1%
Participation Rate	33.8%	33.9%	.2%	Participation Rate	20.7%	21.8%	1.1%

a. Annual averages are in thousands, except percentages; data may not add precisely due to rounding. b. "Nonwhites" include blacks and other minorities.

Unemployment count may omit many recession victims

sion, as measured by the difference between the first two columns. The researchers emphasize that these are subject to error and that the errors are likely to be relatively larger for the smallest groups in the labor force, such as blacks and people in the oldest age category.

The expected distribution of job losses and consequent increases in unemployment and labor force discouragement is similar to the estimates made last year by Smith, Vanski, and Holt for 1975, when the recession was not expected to be as deep. The most important difference between their current and previous estimates (aside from the total magnitude of the employment losses) is that, in the prolonged recession now expected, a larger portion of the employment impact will be reflected in labor force discouragement rather than unemployment. This occurs because many people will begin by looking for work but then give up and withdraw from the labor market.

The unemployment rates of young people, particularly black teenagers, are expected to be quite sensitive to the general state of the economy. Teenage black males, for example, would have an unemployment rate of about 23 percent if 1976 were a full employment year, but actually their jobless rate will be almost 36 percent if the aggregate unemployment rate hovers around 8 percent. Prime-age white males (ages 25-59), the largest and most favored demographic group, would have an unemployment rate of only about 2 percent if the economy were operating at full employment, but they can expect a rate 2.5 percentage points higher as a result of the recession.

Notice that the *unemployment* rate of the second largest group, prime-age white women, is not much affected by the general state of the economy; the recession raises their unemployment rate by only 1.4 percentage points. This, however, is quite misleading. In fact, the employment of women, including this age sector, is badly hurt by a recession. The major part of their employment loss is reflected in reduced labor force participation. Many fewer women are expected to participate in the labor market as a result of the recession; this keeps their official unemployment rate down, but does not make their job situation any better.

Figure 1 provides a clearer picture of what the combined effects of unemployment and labor force discouragement mean for various groups. The circle at the left shows the race and sex distribution of the 2.8 million additional unemployed resulting from the recession. White males are expected to account for the largest part of the unemployment increment, almost 60 percent, while white females would incur 27 percent of the additional unemployment, and blacks (and other minorities), 13 percent.

The circle at the right, however, demonstrates how inadequately unemployment statistics describe what is happening to the labor market. When the unemployed and the people discouraged from participating in the labor force are combined, the persons who may properly be counted as victims of the recession rise from 2.8 million to 4.3 million, and the demographic distribution of the recession's labor market impact shifts toward women and blacks. (This does not take account of other effects of a recession on workers, such as their wages, opportunities for overtime and advancement, or involuntary assignment to partime work.)

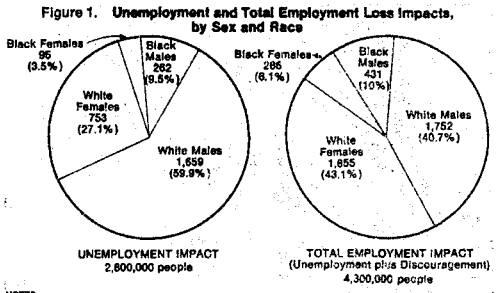
If white men suffered employment losses in proportion to their share of full employment, they would incur over half of the employment impact; instead they suffer only about 40 percent of the losses; white women hold about 35 percent of all jobs, but would receive 43 percent of the employment loss; and blacks, who hold about 11 percent of the full employment jobs, would incur 16 percent of the losses.

Young people will suffer high unemployment *and* labor force discouragement relative to other groups. The researchers estimate that people under age 25 will incur about 40 percent of the aggregate employment losses, even though they account for only about 23 percent of aggregate employment. While the recession would reduce aggregate employment in 1976 by about 4.7 percent below its full employment level, employment of white teenagers would be reduced by 7.5 percent and employment of black teenagers by almost 25 percent. Therefore, in terms of the severity of recession impact, youth are the hardest hit of all.

Smith, Vanski, and Holt's model provides some of the implications of the high aggregate unemployment rate expected by the Administration next year. They point out that while their comparison with an economy operating at below 5 percent unemployment is useful for examining the losses resulting from the recession, it is *not* an indication of the cost of the

Administration's plan compared with any other plan. They know of no set of proposals for stimulating the economy that would bring unemployment down sharply by next year. It is likely that considerable joblessness will continue throughout 1976, although at a reduced level. Regardless of the precise size of the recession, it is likely that blacks, women, and youth will continue to suffer disproportionately from reduced opportunities for work and that the lost employment will be greater than will appear in the unemployment statistics. Because of the discouragement effect, unemployment rates will understate the severity of the joblessness and distort its demographic incidence. A measure of joblessness reflecting *both* unemployment and reduced participation is currently being devised by the Institute staff.

Figure 1. Unemployment and Total Employment Loss Impacts, by Sex and Race



NOTES
a. Estimates are based on a comparison between 1976 average levels corresponding to a 7.9% national unemployment rate vs. a 4.9% unemployment rate. Numbers are in thousands
b. "Blacks" includes all nonwhites, of which about 90 percent are blacks.

Policy Implications

Why is it important to identify the kinds of people who will be made jobless by the recession? Even though the hardships that will be suffered are difficult to assess—they will depend, in part, on each individual's needs and the availability of other public and private sources of support—it is clear that the formulation of policies and programs to deal with these hardships must consider the special problems each group will face. Programs to ameliorate or offset the impacts of a recession are often targeted on particular groups in the labor market. For example, extending unemployment compensation for those whose payments are exhausted does little for the unemployed under age 25 since a small proportion of them have the necessary work history to meet the eligibility requirements. Jobless women and blacks are likely to have similar problems.

The individuals who will suffer the greatest loss of employment are those who bear *all* the handicaps that are reflected in being young, black, and female. The demographic handicaps may, the researchers recognize, translate into such nondemographic matters as discrimination and inferior education, labor market knowledge, job skills, and seniority.

The high levels of unemployment and work discouragement affecting these groups must be counted not only in terms of current income losses, but also in terms of their losing out on job skills and on seniority relative to other employees. Women and blacks have made important gains in the job market in recent years. A long and deep recession can wipe out their hard-fought-for improvements, because they are still relatively disadvantaged. With jobs scarce, these groups will tend to be left out.

The same point applies even more forcefully to the under-25 workers. If they do not develop their full potential—including skills, knowledge, and attitudes conducive to successful career development—at this stage, their loss to themselves, their families, and to the nation is disturbing to contemplate. The correlation between unemployment and crime, suicides, imprisonment, and so forth further suggests what recession will mean in the lives of many.

Prolonged denial of jobs may impose lifelong handicaps on young

The traditional way of fighting inflation by slackening demand has particularly disastrous impacts on the most disadvantaged workers. To the extent that the researchers' model accurately reflects the structure of the American labor market, it reveals serious structural problems and inequities that even under "normal" conditions account for exclusively high rates of unemployment and discouragement from participation. But these unsolved and largely untreated structural problems are seriously aggravated by the intentional creation of slack capacity to fight inflation. Structural changes in the product and labor markets that would facilitate expansion without inflation and that would improve the relative position of the competitively disadvantaged are urgently needed. □

Mr. SMITH. Our major findings are shown in table 2 of the same handout, entitled "Major Unemployment and Jobless Indicators: 1976 Averages, With a 7.9-Percent National Unemployment Rate."

[Table 2 follows:]

TABLE 2.—MAJOR UNEMPLOYMENT AND JOBLESS INDICATORS: 1976 AVERAGES, WITH A 7.9 PERCENT NATIONAL UNEMPLOYMENT RATE [1]

Group	Estimated Unemployment rate	Estimated jobless rate
Total, 16 years and over	7.9	10.0
Males, 20 years and over	6.5	7.0
Females, 20 years and over	7.0	11.0
Both sexes, 16–19 years	18.6	22.3
White, total	7.3	9.2
Males, 20 years and over	6.1	6.2
Females, 20 years and over	6.6	10.7
Both sexes, 16–19 years	16.8	19.6
Negro and other races, total	12.6	16.2
Males, 20 years and over	10.8	13.4
Females, 20 years and over	10.1	13.0
Both sexes, 16–19 years	36.2	45.7

[1] The fiscal 1976 "Budget" submitted by the Office of Management and Budget in February assumed a 7.9-percent unemployment rate in calendar 1976.

Mr. SMITH. Even if unemployment is brought down to 7.9 percent, the unemployment rate for blacks would still be over 12 percent. Over 18 percent of the teenage labor force would be unemployed. The unemployment rate among black teenagers would be over 36 percent. Their jobless rates would be considerably higher.

We understand that other economists testifying before this subcommittee have presented unemployment forecasts for next year that are even higher than that projected by OMB. To provide you with an indication of some of the job market implications of these high unemployment estimates, we have estimated the impact of a 1-point higher unemployment rate on the unemployment and jobless rates of various population groups. These are shown in table 3 of my handout.

[Table 3 follows:]

TABLE 3.—MAJOR UNEMPLOYMENT AND JOBLESS INDICATORS: 1976 AVERAGE, WITH AN 8.9 PERCENT NATIONAL UNEMPLOYMENT RATE [1]

Group	Estimated unemployment rate	Estimated jobless rate
Total, 16 years and over	8.9	11.2
Males, 20 years and over	7.7	8.1
Females, 20 years and over	7.7	12.0
Both sexes, 16–19 years	20.1	24.5
White, total	8.3	10.3
Males, 20 years and over	7.2	7.3
Females, 20 years and over	7.2	11.8
Both sexes, 16–19 years	18.1	21.4
Negro and other races, total	13.6	17.8
Males, 20 years and over	14.2	15.2
Females, 20 years and over	10.6	13.7
Both sexes, 16–19 years	39.4	50.9

[1] This is one percentage point higher than the OMB assumption.

Mr. SMITH. We find that no major group would escape the consequences of a more severe recession. An 8.9-percent unemployment rate next year would indicate an even worse job market than the same rate indicated last month. This would be due to the increased discouragement from looking for work that such a prolonged recession would generate.

The current job market is quite weak. The outlook for next year is not promising. The recession is having a devastating effect on the job market, only partially reflected in the unemployment statistics. Youth, women, and minorities are particularly vulnerable to both unemployment and labor force discouragement. Their problems reflect in part chronic structural deficiencies in the labor market. Even in periods of low aggregate unemployment, members of these groups have excessively high rates of unemployment and joblessness. Their problems are seriously aggravated by the current recession.

In the remainder of our testimony, we will focus on policies that would improve the structure of the labor market and thereby facilitate the achievement of full employment without inflation and improve the relative position of the groups with the highest jobless rates.

Thank you, Mr. Chairman.

Chairman BENTSEN. Thank you, Mr. Smith.

Please proceed, Mr. Holt.

STATEMENT OF CHARLES C. HOLT, DIRECTOR, INFLATION AND UNEMPLOYMENT RESEARCH, THE URBAN INSTITUTE

Mr. HOLT. I certainly agree with Professor Ginzberg, in welcoming the attention this committee is giving to joining macroeconomic issues with manpower issues. I think this is long overdue and would like to focus on what is involved in bringing these two areas together and indicate what we do not know about doing it.

In order to do this, I would like to talk first about the role and limitations of macropolicy.

Ralph Smith's presentation, based on our econometric study of the labor market, shows vividly both the severity of current and prospective unemployment and the unevenness of its impacts. It also suggests the existence of severe structural problems in the labor market. I will return to those issues.

However, doing something about unemployment requires the recognition of its intimate connection with inflation. The Phillips diagram in figure 1 [1]—there are plenty of copies of this figure around, and there should be copies of the prepared statement as well—shows the recent history of unemployment and inflation in the United States and a long-run Phillips curve fitted to data from 1954 to 1969. The data from recent years, of course, reflects extraordinary international impacts from wheat, oil, and so forth, but even before that, the increasingly adverse unemployment-inflation tradeoff is evident. We have also plotted the administration's extrapolations to 1980. One might question whether their unemployment and inflation figures are mutually

[1] See fig. 1, p. 87.

consistent much less optimal, but they do need to be taken seriously as the best indication of the President's intentions.

If you look at this figure and concentrate on the period from 1954 through 1969, you will see that any time we were left of this line, inflation tended to rise; and when we were to the right of this line, inflation tended to decline. I am afraid I have to disagree with Professor Levitan's pointing out the happy days of the late 1960's.

You will see, if you trace the years, starting in 1954 there is a dynamic loop shown in this diagram. When we first lower unemployment we are not troubled with inflation; but if we keep unemployment low, inflation gradually builds up and then we have to run unemployment up again, and the inflation gradually wanes.

The period from 1966 to 1969 is one of virtually constant unemployment and increasing inflation.

Chairman BENTSEN. Mr. Holt, I am having trouble following that chart.

Mr. HOLT. I am not surprised. There is the history of the U.S. economic policy from 1954 to date an extended to 1980—all crowded into one figure. I will be glad to go into it as deeply as you would like.

If you start in 1954, which is the beginning point on this figure, you see next in 1955 that there is a marked drop in unemployment and very little inflation response. By the second year, 1956——

Chairman BENTSEN. Well, now, where do I correlate the inflation response?

Mr. HOLT. Inflation is shown on the left axis; the vertical axis is the inflation rate.

Chairman BENTSEN. All right, I am with you now.

Mr. HOLT. Inflation is vertical, and unemployment is horizontal.

Chairman BENTSEN. I see.

Mr. HOLT. So, when we lower unemployment, after a period we gradually get inflation. And we see, going up to 1956, we got an inflationary response; 1957 was just about on that long-term response line. The next year, we had an inventory cycle, in 1958, with a run up of unemployment and a decrease in inflation. More recently, since 1969, for the first time we were so concerned about inflation that in 1971 we intentionally induced a recession, and we brought inflation down very markedly in 1972. Partly for political reasons, there was a concern with the high level of unemployment. We stimulated the economy again and lowered unemployment with the result that inflation accelerated again.

We are familiar with the period from 1973 through 1974. All sorts of international developments accounted for a very marked stimulation of the inflation problem. Again in 1975, a recession was intentionally induced in order to deal with the inflation problem.

The reason for discussing macroeconomic issues and the aggregate demand questions in the context of manpower problems—particularly when public service employment gets lumped in with manpower programs—is that we do not have enough jobs because we intentionally took actions through monetary and fiscal policy that decreased the number of jobs. We did that because of inflation. The basic problem is not one of creating jobs. There is a question, if you want jobs, of whether they should be PSE or WPA jobs or alternatively whether we

should cut taxes and increase private consumption expenditures. These are issues of how we want to spend our resources. But the key question that limits the amount of employment we can have is our concern—not only economists, but the concern that is expressed by the American public—with the inflation problem. Therefore, there is an intimate connection here between the amount of employment we can have and the inflation response.

We can return to discuss the interaction between macroeconomic demand and inflation problem, if you like.

Monetary, fiscal, and international exchange policies can certainly reduce the unemployment level, but the governing constraint is the dynamic link to inflation and the choice of the least painful mix of unemployment-inflation outcomes, both currently and in the future. In my view, greater demand stimulus, if promptly applied, would lower unemployment without excess risk of inflation. Such actions are urgently needed.

I would like to ally myself with what Professors Ginzberg, Levitan, and Mr. Meany and others have said about the need for stimulating aggregate demand at the present time.

Unfortunately, such macro demand policies can only deal with less than half of today's unemployment problem. Macropolicies are limited, because using them to attain and hold unemployment at much less than 5 percent is likely to produce inflation that would be unacceptable to the American people.

If you look at this long-term Phillips curve and compare it with that of other countries, you find that it is much more adverse than most other countries suffer.

Lower levels of unemployment have been attained temporarily without undue inflation, especially when the reduction has been made very slowly. However, our recent experience of high rates of inflation has undoubtedly made our economy more vulnerable to inflation because of the increased responsiveness of inflationary expectations. Hence, we must seek other policies to complement macro stabilization policies.

THE NEED FOR STRUCTURAL REFORM

If we are to obtain a better Phillips tradeoff between unemployment and inflation, we must take actions that impinge on the processes that determine prices, the processes that determine wages, and the processes that determine unemployment. Two out of these three areas are in the labor market.

These are not simple supply and demand relations, but are processes that intimately involve the institutions of industry, trade, finance, unions, and government and the economic, social, psychological, and political behavior of people and organizations.

Earlier, John Dunlop, as Director of the Cost of Living Council, has made a number of eloquent speeches calling attention to the need for structural change. In his testimony before you recently, he did not stress that as much. Also, Prof. Hendrik Houthakker, formerly on the Council of Economic Advisers, and many other economists have urged structural reform.

Reducing the structural contributions to inflation and unemployment is a systems problem whose solution will require changes in public

and private policies on many parallel fronts. No easy, simple, quick solutions exist. An active process of change is needed that will take years. In the face of the severe challenge which this problem poses to national leadership, it is encouraging to meet with a congressional committee that is willing to consider a horizon that extends beyond the next election.

In the short run, little can be done about structural inflation and structural unemployment. Yet there is a critical interaction with macropolicies because structural reform is very difficult, if not impossible, under high levels of cyclical unemployment. But on the other hand, short-term economic stimulus, taken alone, will be inadequate to attain full employment—over half of current unemployment is structured and frictional in nature.

Do we know which structural changes to make and how to make them? The short answer is no, and we are not likely to unless the Federal Government addresses itself to the structural issues. Some reasons for the knowledge and program gap can be suggested. There are very few microeconomists who relate their research to macroproblems—and, I might add, very few manpower specialists that relate their concerns to macroproblems. Getting the integration of these two areas is not in good shape, in terms of the attention that it has received. Few social psychologists connect work satisfaction with the problem of unemployment. The Departments of Labor, and Health, Education, and Welfare have not related their programs to the Council of Economic Advisers' national income and inflation problem—if they would be willing to claim it as their problem. The Federal Government is fragmented by agency function; universities are fragmented by discipline. Such specialization is helpful, but vital interactions between national inflation and unemployment, and the structure of industries and the labor market, have been largely ignored.

This is partially due to the serious difficulties that are involved in researching complex socioeconomic systems, but it also results from the inept use of research by Government in solving practical problems.

In my prepared statement, which has been submitted for the record, I try to spotlight some of the weaknesses in obtaining and applying knowledge about structural issues. I will skip a little here.

An index of the inadequacy of the Government's research effort on inflation and unemployment is the fact that it has had no coordinated research program directed at finding structural solutions. Aside from the knowledge issue, the needed structural changes will be politically and administratively difficult.

The above overview is not intended to discourage the subcommittee from the structural approach to inflation and unemployment, but rather to supply a realistic assessment of the point of departure and the magnitude of the efforts that will be required. Legislation which is currently being proposed by some members of this committee should give serious attention to filling our knowledge gap.

Now, turning to labor market programs and policies for full employment, I would like to examine briefly the present status of manpower programs and then consider directions for development.

The bulk of manpower programs have been transferred from the Federal level to the State and local levels through the CETA legisla-

tion. Although this decentralization was not adequately tested for workability in advance of its implementation, it probably was a sound move to build more manpower capability at the State and local levels. However, it has left the Federal Government with few programs for organizing a national manpower effort in response to national economic conditions. Because of the inclusion of public service employment in CETA and the transfer of funds between its titles, it would be possible through local decisions to have very small support of manpower programs and instead have a revenue sharing type program which resulted primarily in State and local tax savings.

I am drawing a distinction here between manpower programs and public service employment, which I really consider as primarily an aggregate demand measure, although there can be an interaction between these two areas, obviously.

The employment service, which is a more integrated Federal-State activity, is under increasing pressure and its very role is being challenged. Indeed, it may not be inaccurate to characterize the Federal manpower thrust as being almost defeatist with respect to the difficult problems of improving our economic structure.

To be sure, actions by the executive branch and the Congress have restricted manpower funds relative to that available in other countries, but much more could have been done to improve program impacts. The points discussed above about research and its utilization are relevant here. I give in my prepared statement a few examples of areas where the research necessary to make programs really effective simply has not been done.

While we need better knowledge, we cannot simply wait for the research to be completed. Manpower results achieved in Sweden, Japan, and West Germany suggest what can be done and lend encouragement, but they do not offer solid transferable knowledge to our society. Against this background, what manpower policy should we pursue to help achieve full employment? Many people should contribute to the answer.

I propose the following recommendations for consideration.

First, clear policy targets should be established through legislation directing that manpower programs be developed which would contribute both to lowering unemployment and reducing inflation. There is a tendency for people who are oriented to the manpower area to say that unemployment is a problem for aggregate demand. What I am saying, in distinction to that, is that unemployment is a problem for aggregate demand and manpower programs. We have not achieved the contribution that is possible in the manpower program area. I am not thinking about public service employment and WPA kinds of activities, which are essentially aggregate demand measures.

Attacking the two targets of unemployment and inflation would require concentrating attention on the one-third of the labor force that have the greatest employment problems—the disadvantaged and the groups that Ralph Smith was talking about who are going to suffer most from the current recession, and concentrating attention on the one-third of the jobs that, at the particular time, are most difficult to fill and are contributing to inflationary pressures. In other words, I propose two clear objectives for manpower programs.

Second, plan and fund a process of gradually developing, testing, and implementing programs and policies that would be effective in attaining the above objectives. The reason I am proposing a process, rather than simply outlining now what needs to be done, is that we know enough about the labor market processes to know how very subtle they are. Whereas we know the general outlines of the kinds of manpower policies which we need, the detailed knowledge for designing efficient operating programs has simply not been adequately developed.

Third, build up the imaginative, experimentally oriented, administrative leadership necessary to get this job done on Federal, State, and local levels.

Fourth, support the administrators with research staffs and a program of basic, applied, and experimental research designed to achieve the necessary knowledge.

Fifth, gradually reorganize existing CETA, Department of Labor, and HEW manpower programs and add new ones as needed in order to balance the contributions at the Federal, State, and local levels, each agency being funded and empowered to make its best contribution. The system should be designed for both coordination and competition, including the participation of community and commercial organizations. Resources should reward the most effective agencies.

Sixth, discriminatory barriers in labor market should be attacked more forcefully, both through enforcement actions and supportive programs, which would absorb some of the costs of change.

In order to be successful, this program would need to be supported with as high a level of aggregate demand including public service employment as is possible, consistent with reasonable restraint on inflation. Parallel structural reforms would need to be made in other areas including those designed to reduce disruptions resulting from inflation. Since sound programs and policies will more than pay for themselves in increased output and reduced inflation, they should be implemented and funded as quickly as their effectiveness is reasonably demonstrated. This puts a lot of stress, as both of the previous speakers have noted, on getting away from unemployment compensation and trying to get people into productive jobs.

However, unreasonably high program standards should not be set in view of the fact that structural problems and the recession which we induced to fight inflation, currently is wasting productive resources at the rate of over $100 billion annually, not to mention the inequity in the distribution of unemployment. Also, weight needs to be given to the improvement of the distribution of income, as well as of increased economic efficiency.

The strategy of structural reform will take years to implement, and improvements will come in undramatic increments, but there is probably no other way to achieve sound and continuing full employment without inflation. The structural problems will be there until we face up to them. Should we not accept the challenge now?

Leadership is needed to sharpen the awareness of the structural problems and to begin a systematic attack. Thank you.

59-082—75——7

[The prepared statement of Mr. Holt follows:]

PREPARED STATEMENT OF CHARLES C. HOLT

Senator Bentsen and members of the JEC Subcommittee on Economic Growth, I want to express my pleasure at being asked to testify before you on manpower policies to restore full employment.

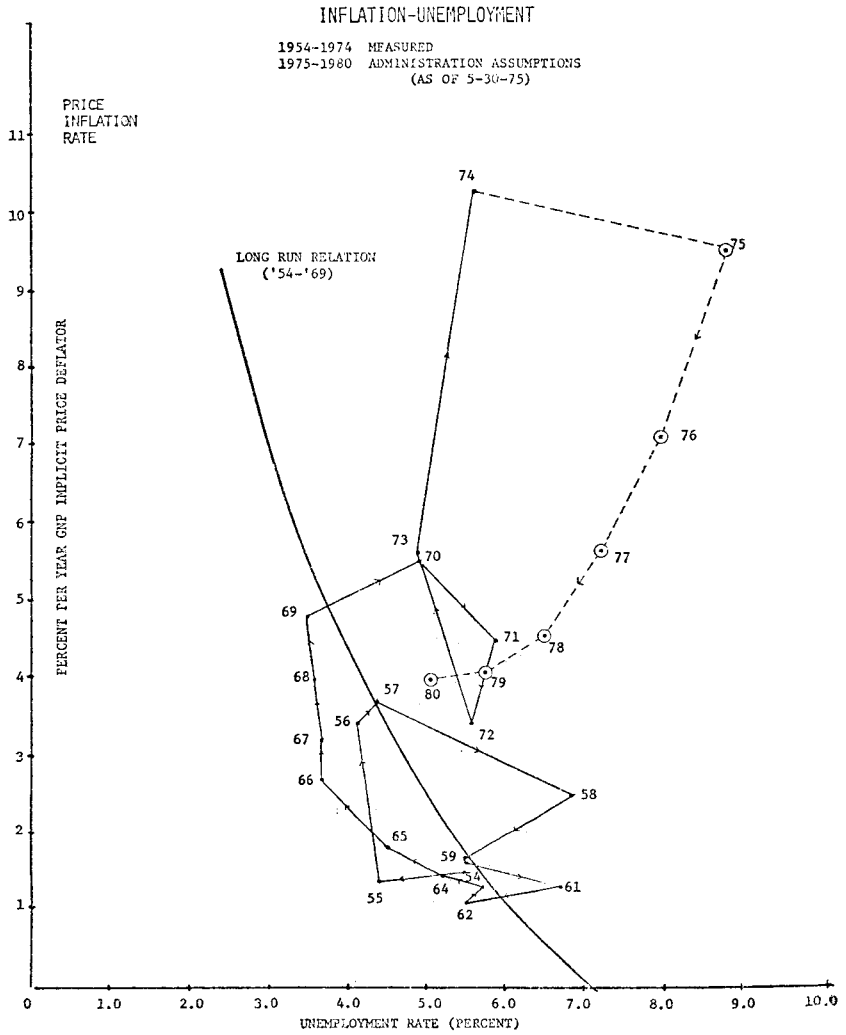
Ralph Smith and I are testifying as individuals and not as spokesmen for the Urban Institute or its sponsors. However, we will be drawing freely on the research of our colleagues Richard Toikka, William Scanlon, and Jean Vanski. Our research has been supported by the Department of Labor, the National Science Foundation, and the Ford Foundation. Ralph Smith will talk about near-term unemployment prospects, and I will consider the need for structural change and manpower policy.

I. THE ROLE AND LIMITATIONS OF MACROPOLICY

Ralph Smith's presentation, based on our econometric study of the labor market, shows vividly both the severity of current and prospective unemployment and the uneveness of its impacts. It also suggests the existence of severe structural problems in the labor market. I will return to those issues later.

However, doing something about unemployment requires the recognition of its intimate connection with inflation. The Phillips diagram in Figure 1 shows the recent history of unemployment and inflation in this country and a long-run Phillips curve fitted to data from 1954 to 1969. The data from recent years, of course, reflects extraordinary international impacts from wheat, oil, etc., but even before that the increasingly adverse unemployment-inflation tradeoff is evident. We have also plotted the Administration's "extrapolations" to 1980. One might question whether their unemployment and inflation figures are mutually consistent, much less optimal, but they do need to be taken seriously as the best indication of the President's intentions.

FIGURE 1



Monetary, fiscal, and international exchange policies can certainly reduce the unemployment level, but the governing constraint is the dynamic link to inflation and the choice of the least painful mix of unemployment-inflation outcomes, both currently and in the future. In my view, greater demand stimulus, *if promptly applied*, would lower unemployment without excess risk of inflation. Aggregate demand stimulus including public service employment is urgently needed and further action should be taken now.

Unfortunately, macro demand policies can only deal with less than half of today's unemployment. Macro policies are limited because using them to attain and *hold* unemployment at much less than five percent is likely to produce inflation that would be unacceptable to the American people. Lower levels of unemployment have been attained *temporarily* without undue inflation, especially when the reduction has been made very slowly. However, our recent experience of high rates of inflation has undoubtedly made our economy more vulnerable to inflation because of the increased responsiveness of inflationary expectations.

Hence, we must seek other policies to complement macro stabilization policies.

II. THE NEED FOR STRUCTURAL REFORM

If we are to obtain a better Phillips tradeoff between unemployment and inflation, we must take actions that impinge on:

(1) the processes that determine prices,
(2) the processes that determine wages,
(3) the processes that determine unemployment.

These are not simple supply and demand relations, but are processes that intimately involve the institutions of industry, trade, finance, unions, and government and the economic, social, psychological, and political behavior of people and organizations.

John T. Dunlop, Secretary of Labor, and Professor Hendrik S. Houthakker, formerly on the Council of Economic Advisers, have attempted to spell out specific structural changes that governmental policies should pursue. Many other economists as well have urged structural reforms.

Reducing the structural contributions to inflation and unemployment is a systems problem whose solution will require changes in public and private policies on many parallel fronts. No easy, simple, quick solutions exist. An active process of change is needed that will take many years. In the face of the severe challenge to national leadership, which this problem poses, it is encouraging to meet with a Congressional Committee that is willing to consider a horizon that extends beyond the next election.

In the short run, little can be done about *structural* inflation and *structural* unemployment. Yet there is a critical interaction with macro policies, because structural reform is very difficult, if not impossible, under high levels of cyclical unemployment. But, on the other hand, short-term economic stimulus, taken alone, will be inadequate—over half of the current unemployment is structural and frictional in nature.

III. DO WE KNOW WHICH STRUCTURAL CHANGES TO MAKE AND HOW TO MAKE THEM?

The short answer is *no*, and we're not likely to, unless changes are made. Some reasons can be suggested. There are very few micro economists who relate their research to macro problems. Few social psychologists connect work satisfaction with the problem of unemployment. The Departments of Labor and Health, Education and Welfare haven't related their programs to the Council of Economic Advisers' national inflation-unemployment problem. The federal government is fragmented by agency functions and universities are fragmented by discipline. Such specialization is helpful, but vital interactions between national inflation and unemployment, and the structure of industries and the labor market have been largely ignored.

This is partially due to the serious difficulties that are involved in researching complex socioeconomic systems, but it also results from the inept use of research by government in solving practical problems.

Although there are a few notable exceptions, the federal government's socioeconomic research relating to structural issues can be roughly characterized as follows:

(1) A coordinated research strategy is missing for producing the essential basic knowledge and applying it to solve the government's policy, program, and operating problems;

(2) Governmental staff often haven't done research themselves, and, as a result, don't administer outside research well;

(3) Governmental data collection is fragmented, slow, and inadequately tied to research needs;

(4) Much research doesn't get used because administrators are not analytically oriented;

(5) Resources have been inadequate for research support.

(6) Universities and research institutes have not adequately overcome fragmentation among disciplines.

Consequently, the research often is low in quality, fragmented and little used. The resulting deficiencies in our knowledge base affect all the areas requiring structural reform; manpower, antitrust, regulation, etc.

An index of the inadequacy of the government's research effort on inflation and unemployment is the fact that it has had *no* coordinated research program directed at finding structural solutions. Aside from the knowledge issue, the needed structural changes will be politically and administratively difficult.

The above overview is not intended to discourage the Subcommittee from the structural approach to inflation and unemployment, but rather to supply a realistic assessment of the point of departure and the magnitude of the efforts that will be required. Legislation which is currently being proposed by some members of the Committee should give serious attention to filling our knowledge gap.

Since two out of the three processes mentioned in Section II that account for the Phillips relation occur in the labor market, i.e., those that determine unemployment and those that determine wage changes, we turn to the issue of structural changes through manpower policies.

IV. LABOR MARKET PROGRAMS AND POLICIES FOR FULL EMPLOYMENT

I would like to examine briefly the present status of manpower programs[1] and then consider directions for development. The bulk of manpower programs have been transferred from the federal level to the state and local (SMSA) levels through the CETA legislation. Although this decentralization was not adequately tested for workability in advance of its implementation, it probably was a sound move to build more manpower capability at the state and local levels. However, it has left the federal government with few programs for organizing a national manpower effort in response to *national* economic conditions. Because of the inclusion of public service employment in CETA and the transfer of funds between its titles, it would be possible through local decisions to have very small support of manpower programs and instead have a revenue-sharing type program which resulted primarily in state and local tax savings.

The Employment Service, which is a more integrated federal-state activity, is under increasing budget pressure and its role is being challenged.

Indeed, it might not be inaccurate to characterize the federal manpower thrust as being almost defeatist with respect to the difficult problems of improving our economic structure. To be sure, actions by the Executive branch and Congress have restricted manpower funds, but much more could have been done to improve program impacts. The points discussed above about research and its utilization are relevant here.

Let me give a few examples. The Employment Service is under pressure to increase placements and a drive is underway to improve career education. Yet neither DOL, HEW, nor the National Institute of Education have significant research efforts to find out what basic factors account for the success of a person in a job. Effective programs of placement and counseling require this knowledge. The effect of low job vacancies on placements is recognized by the Employment Service, but its potential to affect aggregate demand policies is not.

Improving the quality of work, which has important implications for the quality of life, turnover, and unemployment, has been declared a high priority

[1] Public service employment has been much more an aggregate demand measure than a manpower program in terms of developing human capital or dealing with structural problems. In this discussion I do not consider PSE a manpower program although it could and should also be so used.

objective by HEW, DOL, and the Productivity Commission, yet there is little basic research or carefully designed experimentation underway.

Evaluations of training programs have shown widely variable results, ranging from disappointing to spectacular, but little careful work has been done to find out what accounts for the differences.

I do not want to sound overly critical of what has been done, because all of these areas pose extremely difficult problems for both research and administration. But the efforts are utterly inadequate relative to the importance of finding manpower policy approaches to improving the structure of the economy.

While we need better knowledge, we cannot simply wait for the research to be completed. Manpower results achieved in Sweden, Japan, and West Germany suggest what can be done and lend encouragement, but they do not offer solid transferrable knowledge.

Against this background, what manpower policies should we pursue to help achieve full employment? Many people should contribute to the answer. I propose the following recommendations for consideration:

(1) Clear *policy targets* should be established through legislation directing that manpower programs be developed which would contribut to lowering unemployment *and* reducing inflation. This means concentrating attention on the one-third of the labor force that have the greatest employment problems and the one-third of the jobs that, at the time, are most difficult to fill, and, hence, contribute to inflationary pressures.

(2) Plan and fund a *process* of gradually developing, testing, and implementing programs and policies that would be effective in attaining the above objectives.

(3) Build up the imaginative, experimentally-oriented, administrative leadership necessary to get this job done.

(4) Support the administrators with research staff and a program of basic, applied, and experimental research.

(5) Gradually reorganize existing CETA, DOL, and HEW manpower programs and add new ones as needed in order to balance contributions at the federal, state, and local levels, each agency funded and empowered to make its best contribution. The system should be designed for both coordination and competition including the participation of community and commercial organizations. Resources should reward the most effective agencies.

(6) Discriminatory barriers in the labor market should be attacked more forcefully, both through enforcement actions and supportive programs which would absorb some of the costs of change.

In order to be successful, this program would need to be supported with as high a level of aggregate demand as possible consistent with reasonable restraint on inflation. Parallel structural reforms would need to be made in other areas including those designed to reduce disruptions resulting from inflation. Since sound programs and policies will more than pay for themselves in increased output, they should be implemented and funded as quickly as their effectiveness is reasonable demonstrated. However, unreasonably high standards should not be set in view of the fact that structural problems and the recession which we induced to fight inflation currently are wasting productive resources at the rate of over one hundred billion dollars annually, not to mention the inequity in the distribution of unemployment. Also weight needs to be given to improving the distribution of income as well as improving economic efficiency.

The strategy of structural reform will take years to implement, and improvements will come in undramatic increments, but there is probably no other way to achieve sound and continuing full employment without inflation. The structural problems will be there until we face up to them. Shouldn't we accept the challenge now?

Fortunately, there are some encouraging signs on the horizon, with respect to structural reform. Secretary Dunlop is deeply knowledgeable about and interested in the issues that I have been discussing, and I understand, may be testifying again before this Subcommittee. Also, the National Commission on Manpower Policy, under the leadership of Eli Ginzberg, has expressed keen interest in plans for expanding our manpower capabilities. His testimony today will indicate some directions for that development. Finally, President Ford has strongly urged structural reforms in the area of government regulation. I hope the recession will spur a critical reexamination of policies needed to deal with inflation and unemployment.

Chairman BENTSEN. Thank you very much, Mr. Holt. I guess that was encouraging—in the long run.

Mr. HOLT. In the long run—but I offer you no panaceas.

Chairman BENTSEN. Mr. Ginzberg, when you talked about mobility allowance, what were you talking about?

Mr. GINZBERG. Well, I had in view that if people start to be unemployed, I raised it in terms of 65 weeks on unemployment insurance. I thought that was presumptive evidence that the individual was not going to get his or her old job back, and that is another way of saying that I think we have faced in the past, and we are likely to face again in the future, situations where there are plant closures. The economic base of a community erodes, and the only way to get people back into employment is in one of two ways. Either we have some kind of regional investment policy, which helps the local community reconstruct itself and provides it a chance to get going again in a new direction, or we must pull the people, at least those of working age, out and help them relocate.

There are European experiences, Sweden, in particular, in which a person who is willing to look for a job in a different community gets Government help. He leaves his family back home. He has to go to the new community. He tries it out there. There is some kind of support; that is a mobility allowance to see whether he can make it in the new place. We have had a few such experiments in the 1960's under the Department of Labor, but they were experimental programs that were so modest that I do not think we ever reached a conclusion as to whether they made sense or not. But we have had some.

Chairman BENTSEN. I assumed that was what you had in mind.

What do you say to people in Detroit? Politically, how would it work to say, all right, we are going to give autoworkers a mobility allowance because they live in a very high unemployment area, to go to Austin, Tex., where they have 2 percent unemployment? How do you sell that to the mayor of Detroit?

Mr. GINZBERG. My understanding is you cannot even sell it to the men; that is, as long as they had SUB. My understanding is that recruiters out of Houston and some other places in Texas came up to try and recruit some skilled workers, and the workers said come back and see us, after our SUB is out, or whether we are back at work. Obviously, Adam Smith already said in 1776, the hardest thing in the world to move are human beings, so I do not think that one can move people easily.

Mr. John H. Lyons, a member of the National Commission for Manpower Policy, and the head of the ironworkers union, has pointed out that there is a substantial shortage of labor, in his opinion, construction labor, all through the Mountain States from the Mexican border all the way up to Canada, because of a substantial acceleration in the building of big utility plants and dams. You cannot get the workers from New York, New Jersey, and so on, to go out because their benefit systems are so tied into their local unions as is their seniority—and they own their houses—so it is really hard to get them to move.

Now, I do believe that when Congress passed the new Pension Act a year or so ago, and provided for vesting—this was one move in the

right direction. I know that the local people are willing to help voluntary relocation by making some contribution—picking up a house of the person who finally moves from one community where there is no job to another community where there is work.

Chairman BENTSEN. Corporations often do that.

Mr. GINZBERG. They do that for their managers all the time.

Chairman BENTSEN. They do it for employees when they move the whole plant; sometimes they do that.

Mr. GINZBERG. What I think the burden of this comment would be, Senator Bentsen, is to say that we ought to look at all of the different instruments that are around. It is really along Mr. Holt's view, and we ought to try to make sure that we use the instruments in the most constructive way that can contribute toward a matching of people and jobs, and we have a lot of hurdles in our own path at present. And, I really don't want to sound too negative on public service employment because I am not negative on it, but I do want to indicate that a public service employment structure, which is geared to, let us say, a job of last resort, is quite different from a public service employment job, which is a basic countercyclical tool. In one case you are dealing with, maybe, a worker who made $14,000 and if he now gets $8,000, that is no great amount of money. On the other hand, for somebody that has never worked and is just entering the workforce, you really want a public service employment income, perhaps, just at the minimum wage level. So we have to think our way through some very complicated issues to avoid getting ourselves mixed up in a mass of different programs that cancel each other.

Representative Martha Griffiths' basic studies over 3 years for the Joint Economic Committee, on the relationship between income transfers and manpower programs and other devices presents a mine of useful materials. The Congress really has to sort out and decide which pieces of that complex set of programs it can begin to deal with.

Mr. HOLT. Could I comment?

Chairman BENTSEN. Go ahead, Mr. Holt.

Mr. HOLT. I would like to respond to your question about mobility as well. You cannot expect the prime sponsor in the Detroit area to buy one-way railroad tickets. The political constraints do not make that feasible. This illustrates the need for the Federal Government to have a mobility program since it can more readily administer it.

I am not suggesting there will not be problems and conflicts with the local jurisdictions, but this is the kind of an area where the Federal Government, or the regional manpower offices, could act with greater political ease than the local mayor.

In any 1 year, in American cities, somewhere between 5 percent and 20 percent of the labor force moves away. People are moving in and out of the cities all of the time. With such high turnover flows you can make rather rapid adjustments to local unemployment. But there are serious questions of administration that make manpower programs different from other Government programs. If we want a highway from here to there, we can write a technical specification for the concrete to be laid, and so forth, but in Detroit's unemployment problems, who are the particular people that you ought to try to help move? It is a matter of getting the right medicine for the right family. There

is a lot of evidence that if you move the wrong people, within 6 months they will be back where they started from.

It is a very subtle problem of getting the right manpower program support to each individual in response to his personal needs, and the same applies to the employers. That is what makes the problem so subtle.

Chairman BENTSEN. Mr. Levitan, you gave some support to the idea of public works, and you refuted to a degree the argument that there is too much of a time lag before you get implementation with public works to help on unemployment. Could you develop that a little more, because I am seeking aid and comfort on that point? I support that viewpoint, but I want to buttress my viewpoint.

Mr. LEVITAN. I am delighted to be in such good company. First, assuming Congress enacts $5 billion public works program, I believe that the funds could be allocated for projects that cities and States have already planned, have done the engineering work, and are, therefore, ready to start right away. I would suggest that we ought to consider giving, as I think the legislation actually proposes, only a limited time for States and communities to come in with project proposals. Unfortunately, I do not think we can distribute public works funds the way we do it with public service employment—divide it up proportionately, according to unemployment and poverty, because some areas may not have ready-made projects.

If Congress passes legislation in June and the money is distributed within, let us say, the next 30 days and if the projects are cleared for construction, then orders for the bricks and mortar would be made within a few months. Therefore, the stimulus to the economy would start in a very short period, months before onsite employment materializes.

There is another misrepresentation, which I did not mention, but which is closely related. It is the assertion that public works costs on the magnitude of $40,000 per job. That is correct if you consider only onsite employment, but if you also consider the jobs being created in plants and the multiplier effect it would have even before actual construction starts, then I do not think that the cost per man-year of a public works job is much higher than in public service employment. To the extent that hourly rates in construction are higher than in most other sectors of the economy, there would be differential in costs. But to compare an $8,000 or $10,000 a year public service job to a $40,000 a year onsite public works job is misleading.

I think if we could have $5 billion, then the impact would be started, as I suggested, within a few months and, again, the time lag is not as great as some maintain. There has been a great deal of criticism of the accelerated public works program that Congress passed in 1962. For example, Ms. Teeters, while at the Brookings Institution, pointed out that some of these projects were not completed until fiscal 1966, in other words, 3 years later.

First, I would submit that we are too deep in this recession——

Chairman BENTSEN. Completed or started?

Mr. LEVITAN. Completed, in the sense that the money was not expended. Much is made of her findings. The important consideration is that we are too deep in the recession to worry that we will not need

jobs a year or two from now to achieve a 4-percent unemployment. I do believe that we can go down to a 4-percent unemployment level, and I do not think there is any evidence, except in simulations economists create in their computers, to support Mr. Holt's assertion that anything less than 5-percent unemployment will create an unacceptable inflation.

Chairman BENTSEN. You do not buy the numbers that Mr. Holt has on his Phillips curve?

Mr. LEVITAN. No. I do not buy them. Definitely not.

Mr. HOLT. They are right there.

Mr. GINZBERG. 1966 to 1969.

Mr. LEVITAN. Well, you see what happened from 1966 to 1969, Senator Bentsen, is that unemployment during each of those years was less than 4 percent, and the price deflator rose annually by 3 to 4 percent. I do not want to fight a Vietnam war again. If, at that time, President Johnson, when the war was accelerated, would have also recommended immediately an additional tax, then I think a great deal of the inflation that Mr. Holt laments could have been avoided. As it actually happened, we experienced a reasonable 3½-percent unemployment rate with 3½ to 4 percent inflation. Of course, the wisdom of hindsight is always very useful. The mistakes of the seventies are clear. What we have done in the last year or two was try to control inflation with tight money policies and by reducing employment. The result is a worse trade-off than we had in the 1960's. We have both more inflation and more unemployment. I really do not see that there is any solid evidence that we have to accept more than 5-percent unemployment to prevent unacceptable inflation.

Chairman BENTSEN. I certainly agree with you that we should have had a tax increase at that time. I'm not sure whether it was the President's fault; it was the Congress fault as well. I understand that some of his people met with some Members of Congress who assured him it could not pass at that particular point.

Mr. LEVITAN. I should not have said it was only the President. It was a matter of public policy.

Chairman BENTSEN. Whosever fault it was, it should not have been done.

Let me ask you this. You strive for 4-percent unemployment. Mr. Holt, would you say that if we restructured the labor market, we might be able to have more productive jobs? I think that's a point Mr. Ginzberg made—you would have a better chance of accomplishing 4-percent unemployment without inflation.

Mr. HOLT. Absolutely.

Chairman BENTSEN. You did not rule out that with restructuring we might be able to get unemployment as low as 4 percent without significant increase in prices?

Mr. HOLT. Precisely. I think there are two parts of the problem. First is to get aggregate demand up so we could get rid of the cyclical component of excess unemployment, and second is reducing the base level of unemployment which is somewhere in the region of 4 or 5 percent. If you want to reduce that, a lot of tough things have to be done to make the labor market much more fluid, in terms of occupational and geographical mobility, and decreasing barriers with respect to youth and women and the disadvantaged—over half of the unem-

ployed are young people—and doing something that is really effective on the point that Eli Ginzberg made.

One of the points I skipped over in my prepared statement is that the basic understanding is weak on what type of person is going to be successful in what type of a job—neither the Department of Labor, HEW, nor the National Institute of Education is doing basic research on the relationship between the man to his job. Unless we know more about that relationship, we are not in a good position to counsel young people as to what kind of education they should take or what kind of job they should take. The employment service needs this knowledge to do its job. It is not just a matter of dollars; we have to learn more about how to do the job.

Chairman BENTSEN. It seems to me, and Mr. Ginzberg touched on it, that when young people graduate from high school, I do not think they all need a college education. There is only about one out of four or five jobs that calls for a college education. They either ought to be qualified to go to college, those who want to go, or they ought to be qualified the day they step out of that high school, to be gainfully employed at something, and to have some kind of a skill. Would you agree with that, Mr. Ginzberg?

Mr. GINZBERG. Yes. Well, I would put it this way. I had the chairmanship of that National Manpower Advisory Committee for many years before I got my present chairmanship; and at the time of the end of the first Nixon administration, the Committee wrote to the President and made this very simple point, saying that at a minimum one ought to think about a revision of the many different programs that the Congress had legislated, having to do with Neighborhood Youth Corps, in school, out of school, summer, and it was the beginning of PEP at that time, public employment program. At a minimum, we thought one ought to think about is now these young people, while they were still in school, could get some work experience and some skills, and perhaps carry them over a transitional period, let us say from 16 to 19. So that at least by 19, when many are finished with their formal schooling, they would have accumulated some real work experience, which would have been put together with their classroom work. We have a certain number of work-study programs, of course, around the country. But this is one of the areas that we thought public service employment could make a very considerable contribution to, if it was developed with an idea of providing initial work experience with some on-the-job training for a large number of these young people.

I would to call your attention, if I may, as to what I think are the differences not only among this panel, but everybody who comes before the Congress to testify these days. We have proceeded in the United States, if you look at it broadly—the only advantage of being a professor is, you are supposed to look at these broad things—on the assumption that we could manage the economy through fiscal and monetary and related devices. All through the sixties, there was a fight between the Council of Economic Advisers and the Labor Department on just that issue. The CEA said that one did not need any manpower programs; they were unnecessary. One could handle the economy through macropolicies.

Now, interestingly enough, you get a different split. You get a split between what I would call the liberals and the conservatives on the financial front. The liberals are arguing that all you have to do is to use the Federal spending power and everything will fall into place. It is a quite interesting paradox, having lived through this; and I would submit that we have to recognize that while the Federal Government's economic policies are tremendously important, we still run a substantially private-sector economy, and that is why I earlier used the illustration of poor management in one or another industry. There is no way, I believe, for the Federal Government, no matter how adept it is, to guarantee the maintenance of a highly productive economy without any slippage.

It would be nice but it is not possible. I think what the Federal Government has to aim at is to make sure that the innocent victims—the poor fellow who gets thrown out of his job, he is an innocent victim—that he does not have to carry the full burden of the recession.

We have a very peculiar economy. The greatest percentage of the people go through a recession without any trouble; and we put the whole burden of the recession on innocent victims who have to carry it all by themselves. Now, that is not a good way to run any economy. But that is different from saying that if the Federal Government only was more effective, it could guarantee our economy to run at very high levels at all the times. I do not think it can do that, and I would argue that one of the things that your committee should pay close attention to would be how can we share the cost of a recession more equitably among all the people in this country? Because the costs are surely not being shared equitably now. It was construction and automobile workers that have been most severely affected.

Now, I do not want to argue that all the monetary and fiscal policies of this administration, or any other administration, are ideal. But no matter whether they were ideal or not, I think there are cycles in construction. Some fluctuations are more or less inevitable, though they need not be as severe as at present. Therefore, I think more attention should be paid to these recession problems, not only by integrating manpower and economic policies, but by figuring out how we can get a more equitable distribution of the costs of the recession, so that some people do not pay a very, very high cost.

Chairman BENTSEN. Some reference was made to Sweden and to West Germany, and to Japan, in utilization of manpower. Mr. Smith or Mr. Holt, could one of you comment on that?

Mr. HOLT. In the first place, their governments tend to be more unified, rather than decentralized, at the Federal, State, and local levels, than ours do, and their programs reflect that. For example, in Japan, the Government operates a system that brings the young people graduating from school together with employers in a very systematic way over a period of about a year before they leave the school system. In many other countries, youth unemployment as we know it simply does not exist. But the difficulty is that we cannot simply grab what the Swedes did, and do it here, and be terribly confident that it will work. Our economy is much more diffuse geographically, and much more heterogeneous. Furthermore, we are much more mobile; recall the figures which I quoted about how much people move from one city to another. Also some actions have serious

side effects. For example, if we tried to improve the employment service so that it gets a person a job fast, it is possible that turnover will rise when people do not need to be inhibited by a long period of unemployment between jobs. So if we want to get people into jobs fast, we also need to get them into jobs better—so that the jobs will last longer. The problems come where you get down to the program level of exactly what you should do. I think it is reasonably clear what you want to do in broad outline—and I would very much agree with the general thrust of what the Eli Ginzberg commission is coming up with.

But this is not a full-time Commission, and I think their contribution is going to be to tell the Government what it ought to do. I fear that it is not going to be able to tell the Government a great deal about how to do it. The sad fact is that, when it gets right down to the nitty-gritty, we simply do not know exactly how to do it effectively. We do have a great deal to learn from the practical operating experience of these other countries; and I am pleased to hear that the Manpower Commission is going to send people over to Europe to talk with them. However, the Swedes have talked to many people from all over the world, and they must be getting a little tired of it by now.

Up until very recently, the Swedes have simply gone out and done a lot of reasonable things, and have not made a lot of benefit-cost analyses that OMB wants on American programs. They simply have not collected a lot of numbers that prove that these programs are effective; that is a weakness that they recognize. They are now in the process of collecting more data, because their lack limits their ability to further improve the programs. But we have a long way to go to catch up with what they have done, in terms of putting together an integrated and balanced manpower structure. But our problems are larger and more complex.

Mr. GINZBERG. Senator Bentsen, I heard Secretary Dunlop give a speech in New York about 10 days ago, in which he made one point that Holt just mentioned; and that is that the question is not only jobs, but the question really hinges in part upon good jobs. A member on my staff at Columbia, Marcia Freedman, is just finishing a major book entitled "Labor Markets: Segments and Structures," in which she has analyzed all of the jobs in the 1970 Census by occupation and industry and comes up with a judgment that about 44 percent of all the jobs that people hold in this economy leave something seriously to be desired—that is, by a simple income test, not to get very more refined, they hold poor jobs. If we have a large number of poor jobs—which means, in other words, that people cannot be very productive and earn a decent wage—that does play into the unemployment story. Because if you have a lousy job—and I will use straight language—there is no reason why you should not throw it up, because you are likely to be able to get another lousy job 10 days later if you want to go back to work again. And living in New York, we have everything in New York; including 3½ million jobs—many of which are not very good. I remember in 1968–69 going through some of the poorer neighborhoods of New York, and you would see signs up, "Help Wanted," but one could not get help; not because there was nobody left to go to work, but many of these people preferred to

work intermittently rather than regularly at what they considered were poor jobs.

Chairman BENTSEN. Mr. Ginzberg, what do you do about the lousy jobs? Who fills those? Who washes the dishes?

Mr. GINZBERG. Well, I think there are ways of making lousy jobs less lousy. We did that and in the process we almost bankrupted New York—but the sanitation jobs in New York now pay about $14,000 or $15,000. At that figure, we have 30,000 people waiting to become sanitation men; in short, garbage collectors. So there are ways of balancing out the good and bad aspects of a job. Jobs with real security are not usually considered to be lousy. Most of the lousy jobs pay little and the conditions of work are poor and there is little security. In New York City, the lousy jobs in the hospitals improved substantially as a result of actions by management, by the union, by management and union working together. The pay went from $55 a week to about $140 a week within a few years.

It is difficult to say what happened to productivity but the workers are better off.

Much of the gain reflects the sheer power of the union. I do want to identify with Mr. Holt, in part, by stressing, unsettling as the unemployment figures are, there is no simple singular answer. We need to do many constructive things on a broad front.

Chairman BENTSEN. Mr. Levitan, you referred in your statement to a 16-percent personnel cut in the Manpower Administration during the first year of CETA, and to a 30 percent reduction in research funds. Mr. Holt also discussed the serious inadequacy of Federal research in this area. How large a budget do we need in this area? How inadequate is the 1976 budget proposed by the administration?

Mr. LEVITAN. Once CETA was passed, we certainly should have kept appropriations at least at the pre-CETA level so as not to cause communities to give up on initiatives which they would have undertaken, if the money were available. And as far as research is concerned, I think that the Labor Department's Manpower Administration has had a very modest and—although I sometimes make a living criticizing Government programs, I must say in this case—a very successful, productive and imaginative program. I do not know, and do not understand, why some official in the Labor Department last year decided that this is a place to save money. I think this is part of the general point that Charles Holt referred to before, that a negative approach to manpower programs exists somewhere in the Labor Department—not under Secretary Dunlop, of course, because I do not think Secretary Dunlop would ever be associated with that. As a result of the very sharp cut in research funds, they cannot start any new research. As I suggested before, one area that is really crying for research is the impact of long-term joblessness on the skills the unemployed have or need, what kind of training can be offered, do they want training, and so on. But the Labor Department simply does not have the resources to study these problems.

The first thing that we have to do is at least continue at the original level for titles I and III. These sections do not provide for public service employment, but for the general training programs as well as the Job Corps, programs for Indians, and programs for migrant labor. In money terms to maintain the level of these efforts requires an in-

crease to at least make up for the inflation of the last 2 or 3 years. There appears room for an increase immediately of 25 percent, so that they do not have to cut down on essential programs; but at the same time, I would like to see a 10-percent increase in the funds provided to communities for innovation and for planning/training projects for the unemployed. If Congress really meant what it said when it wanted to turn greater responsibility for manpower programs, which were basically a Federal creation and under Federal control, to State and local governments, then it also should have provided them the wherewithal to some initiatives. What we have done is, on the one hand, said go ahead and do your own thing, and then, on the other hand, denied them the money to try it.

Chairman BENTSEN. The President now has vetoed the $5.3 billion emergency jobs bill, and we see a projection on unemployment by the administration through 1977 of between 7.2 percent and 8.7 percent, by their own projections. You are looking at at least 3 years of high, unacceptable unemployment. Do any of you agree with that veto?

Mr. GINZBERG. Well, could I say this, Senator? I surely am very dubious about projections. I remember that the summit took place in September of 1974, and while I did not read all of the wisdom that was propounded at the summit, I think it is fair to say that among almost everybody who was there—had little perception of what was going to happen within the next 30 days to the American economy. Now, if that is the state of our projection capabilities, I would hope that it may work also a little bit on the other side of the equation. I do not say it will. We may be even worse off than the pessimists now project, but I hope not.

I do not feel that we have a capability, even though we engage in making projections all the time—sound 3- or 4-year forecasts—in our kind of dynamic economy. We have some simple-minded notions about what x dollars on the money side are going do to y kinds of employment. One of the things that bothers me—and I am not really expert in this arena—is the structural changes in employment in an increasingly service economy. We have been transforming our economy quite rapidly, and the implications of the drift to services remains obsecure. You have these big, overhanging groups that Messrs. Holt and Smith mentioned. I believe that the long-term interest of women to work more or less regularly is greater than their figures suggest. So I believe that a better formulation would be to say that we should move as rapidly as we can to find that mix of policies that will push for the more rapid expansion of the economy.

Chairman BENTSEN. Let me ask you, Mr. Ginzberg; with all that, if you were President of the United States, would you have vetoed that bill or not?

Mr. GINZBERG. Well, frankly, I have not studied the employment effects in detail. I am not as sure as Mr. Levitan is of the employment consequences of that particular bill. Let me put it to you this way; we have had some money in EDA—but it is moving slowly.

Chairman BENTSEN. Mr. Ginzberg, if you are President, you just cannot say, on the other hand.

Mr. GINZBERG. I am not—fortunately.

Chairman BENTSEN. You have to choose. What would you do, Mr. Levitan?

Mr. LEVITAN. I would not have vetoed the bill for the simple reason that although I share Mr. Ginzberg's healthy skepticism of the projections, I think we can learn something from the five recessions we have had since World War II. Mr. Ginzberg suggested there would be some new people entering into the labor force even if birth rates are declining, but lower birth rates are not going to be reflected in the labor force for a few years. Based on the five recessions we have had since World War II, unemployment is going to continue for a long period. The economy must grow at the rate of 7 percent for 3 years consecutively to reduce unemployment to 5 percent, and that is still a very long period of high unemployment. As long as all the President is doing right now is drawing the line at a $60 billion deficit, I just do not see how we can avoid high unemployment for several years. I would suggest for people who are in public life that it is no way to celebrate the Bicentennial of this country with mass unemployment, to use a term Secretary of Labor John Dunlop coined only 15 years ago, and I wish he would have told us how to prevent mass unemployment when he testified before your subcommittee.

Chairman BENTSEN. Mr. Levitan, you have just given me a good line. May I have the Texas rights to that one?

Let me ask you, Mr. Holt and Mr. Smith. Would you have vetoed that bill or not?

Mr. HOLT. No. I unequivocally would not. I think that George Meany was closer to the right target when he was talking about a deficit of $100 billion, rather than $60 billion. The question is what is enough? I think that in the short run with the very slack economy we have now, we can afford, without inflation risks, to stimulate it rather drastically. But the risk is that actions will be taken that will last too long. The point of whether public service employment or public works are going to lead to an inflationary problem depends on the response 2 years from now. That is something you need to pay real attention to. We are looking for a sharp stimulus at the present time. One of the best ways would be sharp jump in the money supply.

Chairman BENTSEN. Mr. Smith, would you have vetoed it or not?

Mr. SMITH. I have only read the newspaper accounts of the bill, but I think it is rather foolish to worry about the inflationary impacts of a bill, now, with unemployment and joblessness this high. I do not see how I would have vetoed it.

Chairman BENTSEN. Gentlemen, it is 12 noon.

Thank you very much. It has been productive and helpful.

The subcommittee stands adjourned.

[Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.]