



March 27, 1962

The Honorable Wright Patman,
Chairman, Joint Economic Committee,
Washington 25, D. C.

Dear Mr. Chairman:

During your Committee's recent hearings on the President's Economic Report, Senator Proxmire asked me to supply for the use of the Committee a memorandum on structural unemployment. I am enclosing 20 copies of a memorandum on this subject, prepared by Murray Wernick, a senior economist in the Board's Division of Research and Statistics.

I am sending a copy of this letter and the enclosed memorandum to Senator Proxmire.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.]

Wm. McC. Martin, Jr.

Enclosures

cc: The Honorable William E. Proxmire
United States Senate
Washington 25, D. C.

Some Aspects of Structural Unemployment

Much of the recent controversy relating to the causes of unemployment has largely been concerned with definitions, measurements and the time periods to be used in evaluating the impact of structural, frictional, and cyclical factors on changes in unemployment. A major difficulty and one which has resulted in differences of opinion is the inadequacy of the current labor force statistical series as a measure of the amount and changes in structural unemployment. While the available data do provide substantial information on trends, levels, characteristics of the employed and unemployed, they do not directly indicate the causes or forces which make for unemployment.

Also, as has been well documented in the Bureau of Labor Statistics recent study on Terminology, Measurement and Analysis of Unemployment, presented to the Subcommittee on Economic Statistics of the Joint Economic Committee, the specific meaning of structural unemployment is extremely vague and has a variety of definitions. At times, structural unemployment has been identified with long-term unemployment; some experts have identified it with technological change, others with shifts in consumer demands, international competition, or changes in the composition of the labor force. It is little wonder, with uncertainty as to definitions and inadequate data to measure these definitions, that differences in judgment as to the magnitude of structural unemployment have occurred among those who are concerned with the policies required to alleviate unemployment.

Fortunately, however, there is more agreement and less dispute at the policy level. Where misunderstandings have arisen they have usually been due to a tendency to approach the problems of unemployment from different starting points which often are thought to lead to clear-cut alternative policy choices. However, when the various approaches are examined in this complex area there are fewer choices than appeared to be the case at first glance. For instance, it has frequently been emphasized that the problem of increasing the mobility of labor by a better functioning of the labor market could be handled more easily under conditions of expanded over-all activity. This is undoubtedly true. The Board of Governors of the Federal Reserve System is and has been pursuing a monetary policy which has as one of its major aims the maximum utilization of our growing industrial and manpower resources.

The opposite side of the coin also has validity. It would, under current conditions, be much easier to achieve maximum employment with a relatively stable price level, if we were able to remove limitations which handicap the ready flow of the unemployed worker into useful job opportunities. Such action would unquestionably help prevent inflationary pressures developing short of our desired goals. The threat of inflation and the inadequacy of broad monetary and fiscal policies to curtail unemployment which is selective or structural in nature have been major obstacles to the reduction of persistent unemployment.

Measures continue to be required to reshape and increase the mobility of certain groups in the labor force. These conclusions are not new but have been frequently stated by a large majority of those in labor, management and Government who have expressed opinions on this subject in recent months.* (See attachment)

If we take the appropriate measures based on the broad consensus which now exists on policies to be directed toward the elimination of the causes of persistent unemployment, rather than to overplay differences of emphasis of measurements and definitions, we could well be on our way toward reaching our goals of full employment and price stability simultaneously.

Evidence of substantial structural shifts in occupations and industries in recent years has been extensively reported to the Joint Economic Committee, and many other committees of Congress. Mr. Ewan Clague, the Commissioner of Labor Statistics, only recently, and in considerable detail, gave testimony to the Subcommittee on Economic Statistics on December 18, 1961, to the effect that "In recent years there has been a dramatic shift in the pattern of employment in the United States." These shifts have resulted in a substantial rise in persistent unemployment in the postwar period evident in both good and bad times.

Of course, changes in the structure of industry and occupations are nothing new. What is new in the recent situation is the large absolute decline in employment since 1953 of almost 3 million industrial blue-collar workers; while employment in services, trade and Government,

mostly white-collar groups, rose by 7 million. There has not been as large and as absolute a displacement of workers in industrial employment or a shift away from blue-collar employment at any other periods of our history when over-all employment was rising.

Mining and railroad employment began to decline soon after the end of World War II and in manufacturing industries the decline became evident after 1953. By early 1962 production worker employment had declined by over 2 million workers or one-sixth although manufacturing output rose about one-fifth.

Immediately after the Korean hostilities it was thought that the decline in factory employment was temporary and mainly due to the curtailment in defense industries. There was, therefore, little general concern in the sharp expansionary period in 1955 and 1956 when factory worker employment failed to return to the previous postwar highs of 1953 and unemployment among workers from these industries increased. Nonindustrial employment was rising very rapidly, and was accompanied by one of the sharpest increases in the civilian labor force for a two-year span on record, as workers entered the labor market to fill the new white-collar job opportunities. But when in the recovery period of 1959 and 1960, the unemployment rate did not go below 5 per cent and industrial employment again fell below prerecession 1957 levels, there was more widespread recognition and concern of the significance of the selective declines in employment which were so heavily concentrated among certain semiskilled and unskilled occupations in an exceedingly important sector of the economy.

It was the judgment of many informed observers the forces making for higher unemployment could not be wholly explained by an insufficiency of aggregate demand. In 1959, consumer demands were high and the economy was being excessively stimulated, by a rapid run-up in inventories before the steel strike, and again in early 1960 when inventories were being replenished.

The employment patterns of recession and recovery obvious since 1953 seem to be repeating themselves again this year. In February 1962, although industrial production and GNP were at about the highest levels in history, following a vigorous recovery, there were 600,000 fewer factory workers employed than when the recession began in the spring of 1960.

A critical aspect in measuring the magnitude of structural unemployment is to know what has happened, on net, to the over 2 million production workers who were displaced in manufacturing activities between 1953 and 1962. This is impossible to answer accurately at present because our current statistics primarily give us a cross-sectional view of the labor force and unemployment at a given point in time. We would know much more about the various causes of unemployment if we were able to trace the flow of displaced workers as they moved into other jobs, unemployment, or outside the labor force. This can now be done only in a very indirect way.

The decline in industrial employment, as best we can tell, has resulted in a substantial rise in unemployment among experienced workers who were previously employed in factories and related activities

as well as some withdrawal from the labor force. Because of their specialized skills, previous experience, and geographical location, only a small proportion of these workers have been readily absorbed into the expanding industries. The available statistics do show that characteristics and employability of workers released from the declining industries is substantially different from the new entrants and re-entrants into the labor market. They have been mainly adult males, a high proportion of whom are heads of families and were formerly employed in semiskilled occupations. Once unemployed their spells of unemployment tend to be relatively long.

Secretary of Labor Goldberg, in his testimony before the Joint Economic Committee on January 31, 1962, pointed out that the long-term unemployed were concentrated in several groups out of proportion to their number in the labor force. In 1961 the long-term unemployed, those unemployed 15 weeks or more, averaged 1.5 million and was the largest number in over 2 decades. The problem involves, he testified:

"1. Men 45 years of age and over who represented 1/3 of the very long-term unemployed, even though they accounted for only 1/4 of the total labor force.

"2. Workers from durable goods industries accounted for 14% of the labor force and 25% of the long-term unemployed.

"3. Negroes accounted for 24% of persons jobless for over six months and only 11% of the civilian labor force.

"4. Semiskilled operators and unskilled laborers represented 45% of the very long-term unemployed compared to only 24% of the labor force. In contrast, professional workers made up less than 3% of the very long-term unemployed even though they account for 11% of the labor force.

"5. Persons with no previous work experience, who accounted for less than 1% of the civilian labor force, made up 9% of the persons looking for work for over six months. These were chiefly young workers in search of their first job."

The growth in the number of workers reporting long duration of unemployment, and the fact that the hardest hit have been unskilled and semiskilled males in the middle age groups, indicated by the Secretary of Labor, confirm other findings that those who were displaced because of structural factors have had a more difficult time in adjusting to new employment opportunities. They have contributed significantly to the rising levels of long-term unemployment in recent years. Their job needs as heads of families and their limitations in making a rapid transition to new skills or different geographical areas has resulted in real hardship. Measures to reduce unemployment in these groups is especially urgent.

There has also been an increase in recent years in unemployment of workers who report that their last job was in nonindustrial activities. In part this is a statistical classification problem. A worker whose lifelong or major experience has been in a declining industry will, nevertheless, be classified as unemployed in, say, trades and services

if that was the industry in which he held his last job, even if it were only of short duration or part-time job.

The greatest cause of unemployment, aside from layoffs in declining industries, appears to have been the rapid rise in the number of new entrants or re-entrants into the labor force in recent years. These unemployed are more diffuse in origin and not as concentrated geographically. An important distinction is that the characteristics of these unemployed in respect to age, sex, skill, educational background and duration of unemployment is substantially different from those whose loss of jobs can be related to structural factors. The unemployed who are associated with the expanding industries tend to consist mainly of secondary workers; mainly youths and married women, many of whom supplement family income. They may have had some work experience but their spells of unemployment are relatively short. If they fail to find jobs, they are likely to withdraw from the labor market. They almost always seek work in nonindustrial activities such as trade or services which employ persons with entirely different occupational and demographic characteristics than those of the laid-off factory workers.

Recent analysis of labor force movements indicate there are large potential resources of manpower now classified outside the labor force. Knowledge of the complex relationships between changes in output, labor force and unemployment are uncertain. It is entirely possible, under present labor market conditions, for any increase in demand for labor, more than cyclical in nature, to be largely met by a

flow of persons into the labor force rather than in a reduction in high levels of persistent unemployment. It is therefore a mistake to think there are simple or precise solutions of our persistent unemployment problems.

Our best judgment continues to be that structural unemployment has increased over the last decade as reflected in the sharp decline in industrial employment and an increase in persistent unemployment which has not been responsive to general monetary and fiscal measures even during periods of high level of activity and rising prices.

* The Report of the Commission on Money and Credit, Prentice-Hall, Inc., 1961, pp. 27, 29-30, 35.

"Despite the wealth of detail available on the characteristics of the unemployed, there are no reliable ways of determining from current figures how many are unemployed as a result of which cause. . . .

"What is the prospect for future levels of unemployment? Unfortunately the trend of unemployment has not been improving. Not only were unemployment rates higher in 1959 and early 1960 than in earlier recovery periods, but the proportion of long-duration unemployment has been higher. This long-duration unemployment continues to be serious in depressed areas, and it has become more widespread. Technological displacement of workers in manufacturing and agriculture has been heavy, and the total number of jobs in those sectors as a percentage of total employment has been decreasing.

"Two factors of special importance may make more difficult the achievement of low-level unemployment in the decade ahead. First, the expected rate of growth in the labor force increases sharply in the sixties, compared to the fifties, as the population bulge reaches the employable age. Many more jobs per year will be required to keep the unemployment rate low. Second, the pace of technological change, typified by the term automation, shows no sign of abating; on the contrary it may be increasing. Whether technological change will create new job opportunities as rapidly as it displaces other workers is not predictable. In addition, there are the problems of obsolete skills of some workers and resistances to labor mobility flowing from such things as nontransferable pensions and labor union restrictions on entry into some occupations.

"The employment problem ahead is formidable. It calls for effective use of monetary, credit, and fiscal policies to induce adequate levels of demand and to stimulate economic growth. It also requires new and imaginative programs to deal directly with structural unemployment--programs for distressed areas, education and training of new and displaced workers, an improved job information service. Action is also needed to ease the burdens of the technologically unemployed lest restrictive work practices develop which will inhibit productivity gains.

"Measures which improve the efficiency of labor will also contribute to growth. Incentives for advancement in income and job responsibility, effective employment services, retraining programs for workers displaced by technological change, programs to help move workers from depressed areas and industries into others, policies to move marginal farm workers into more productive nonfarm employment, elimination of redundant workers--all are measures that have favorable effects upon the growth rate."

President's Advisory Committee on Labor-Management Policy, January 11, 1962, pp. 2-3.

"While advancing technology has given rise to new industries and jobs, it has also resulted in employee displacement; the fact that new work opportunities are eventually created is no comfort or help to the displaced individual who cannot, for one reason or another, secure comparable or any employment. . . .

"Regarding technological advance in unemployment, it is clear that unemployment has resulted from displacement due to automation and technology. It is impossible, with presently available data, to isolate that portion of present unemployment resulting from these causes. Whether such displacement will be short-run depends to a considerable extent on our ability to anticipate and plan for programs involving technological change and to make better use of various mechanisms for retraining and relocating workers who find themselves unneeded in their former occupations."

Ewan Clague, Commissioner of Labor Statistics, Testimony before the Subcommittee on Economic Statistics, Joint Economic Committee, December 8, 1961.

"Some analysts believe that the current high rate of unemployment is entirely a function of inadequate aggregate demand. This analysis discounts the apparent uptrend in unemployment rates at the end of World War II to about 1956 and places all the emphasis on the rise in unemployment that has occurred in the last 4 years. . . .

"The other point of view is that structural changes which have taken place in recent years have had some influence in causing higher rates of unemployment. In my judgment, this is a factor which cannot be ignored."

Arthur J. Goldberg, Secretary of Labor, Testimony before Joint Economic Committee, January 31, 1962.

"Again, to say that we can put all of our people to work in useful and satisfying activities only or mainly by upsetting our monetary system, or by massive intervention of the government into the millions of free decisions which are the basic essence of our economic system--to say these things is to demonstrate a lack of understanding of our dynamic system. We do not advocate growth for growth's sake, nor can we advocate stability for stability's sake. We need both. . . ."

Stanley Ruttenberg, Research Director, AFL-CIO. Paper presented at
the Annual Meetings of the American Statistical Association,
December 29, 1961.

"It is unfortunate that the problem of our persistent high levels of unemployment has been framed by some very well-intentioned people on an 'either-or' basis--that is, that our problem is one of aggregate demand rather than structural unemployment. In my view, it is not 'either-or'; it is both.

"To achieve full employment we must simultaneously increase aggregate demand and address ourselves to the structural problems. Neither one alone will attain our objective in the years immediately ahead."