

September 27, 1945

My dear Senator Murray:

In reply to your letter of September 13, requesting estimates of employment and unemployment during the next two years, I am enclosing a staff memorandum which reflects not only the judgment of our own technical staff, but also the results of extensive interagency discussions.

Sincerely yours,

H Paul H. Appleby
Acting Director

Honorable James E. Murray
United States Senate
Washington, D. C.

Enclosure

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September 27, 1945

OUTLOOK FOR EMPLOYMENT AND UNEMPLOYMENT

Estimates of employment and unemployment depend, to a large measure, on the assumptions which are made with respect to Government policy. Our own estimates are based on the assumption that the Government acts by and large under existing legislation and existing policy plans. This, in fact, is the same type of hypothetical estimates as is required by the full employment bill, and designed to indicate the employment problem which will confront the Government. These projections, therefore, are not predictions, since no attempt is made to forecast policies that may be adopted in the future.

A great variety of factors determine employment on the one hand, and unemployment on the other during the reconversion period. Some temporary decline in civilian employment must be expected to take place in the near future, since the effects of cutbacks in war production will not be immediately compensated by increases in production for civilian use. Civilian employment that was estimated at 51.6 million for the first half of 1945 may drop by as much as 5 million during the coming months from its level on VJ Day. With successful reconversion, civilian employment should begin to increase again. It is estimated that it should regain its VJ Day level by the end of the calendar year 1946, and may slightly increase above that level in 1947.

The estimates of unemployment depend, first of all, on these estimates of civilian employment. Beyond that they depend on the speed of demobilization of the armed forces and withdrawals from the total labor force. We are assuming that the armed forces will be reduced to about 3.5 million by the middle of calendar 1946, and to possibly 2.5 million by the end of that year. These figures are subject to further changes.

It is even more difficult to estimate the expected withdrawal from the labor force at this time. About $6\frac{1}{2}$ million married women and older and younger workers entered the labor force during the war who probably would not have been drawn into it under peacetime conditions. A considerable number of returning war veterans will make use of the educational facilities offered to them and will not immediately enter the labor market. After allowing for the normal increase in the labor force of more than a half million a year, we estimate that by the end of 1946 the labor force will be about $3\frac{1}{2}$ million less than on VJ Day.

The combined effects of the behavior of the labor force, the rate of demobilisation, and the development of civilian employment give us an estimate of unemployment of the order of about 8 million at the beginning of 1946. We expect that during the year 1946 the increase in civilian employment, and the rate of decrease in the labor force, together will more than offset the reduction in the armed forces, so that there might be some decline in unemployment during that year.

Most of the unemployment during the early reconversion period is, by and large, an inevitable incident of the transition from war to peacetime production. As time passes, unemployment will become less of the frictional kind and more of the avoidable kind. By the latter half of 1946 the magnitude of unemployment will probably depend largely on the type of Government policies that will be adopted.

It should be emphasized that the estimates of employment and unemployment poses quite extraordinary problems in years of transition such as those before us. The uncertainty with respect to the year 1947 is

even greater than for the year 1946. There is no doubt that during that year considerable employment opportunities will be created through re-stocking of inventories and deferred demand for public and private construction, and for many kinds of consumers' goods. It is not likely, however, that these extraordinary activities will offset the termination of practically all war work and war services. Some estimators believe that the year 1947 may see the paradoxical situation of high-level activities in large sectors of the economy with considerable unemployment in other sectors unless positive Government action is taken. Other estimators believe that the re-stocking boom may pass its peak before the end of the calendar year 1947 and may lead into a deflationary spiral with very large unemployment unless positive Government action is taken. We hesitate, therefore, to venture a definite estimate of employment and unemployment for the year 1947 at this time.