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"EFFECTS OF THE NATIONAL DEFENSE PROGRAM ON UNEMPLOYMENT AND NEED"

The following address was delivered by Howard B. Myers, Director of the Division of Research, Work Projects Administration, at the National Conference on Social Work at Atlantic City, N.J., at 2 p.m. (EST) Thursday, June 5, 1941:

The developments of the past year have brought a widespread hope and belief that the stubborn problem of unemployment will soon solve itself under the stimulating influence of the defense program. Last summer and fall, when new billions were being appropriated for defense every few weeks, there were many to predict this fortunate, if incidental, result of rearmament. Thus, for example, the Secretary of Labor estimated that employment, including the armed forces, would increase by 6 or 7 millions by the end of 1941, and prophesied that unemployment would cease to be a serious problem by that date. Second thought has made most estimators more cautious, but many persons still believe that the next year will see the end of our number one economic problem -- at least until the period of post-war readjustment.

An attempt to arrive at a reasoned judgment on this question will be aided by a review of the progress made thus far, some analysis of the present situation, and a discussion of certain factors which will determine the size of the problem during the next year or two.

Appropriations and authorizations for defense have now grown to 43 billion dollars, and it is clear that many more billions will soon be added to this already impressive total. Industrial production has reached record highs; in March the Federal Reserve Board's production index was 143, 25 percent above the 1929 peak. Feverish activity is reported from centers of defense activity, and airplanes, guns and other war materials will soon be flowing from our factories on a large scale. Employment, too, has risen sharply. Between April 1940 and April 1941 non-agricultural employment increased by 2.7 millions. During the same period the armed forces grew by 1.1 million men, nearly all of whom came from the active labor supply.

These figures, however, tell only part of the story. Total employment in April was still below the peak of 1929. In the intervening years population growth has been adding steadily to the labor supply. Since 1929 the total labor force has grown by nearly 7 million workers. Thus, despite the rapid employment gains of the preceding 12 months, there were still more than 6.5 millions unemployed in April of this year. In contrast to the marked activity in a few centers of defense production, many sections of the country report little or no improvement in employment.

The overtime schedules and backlogs of unfilled orders reported for some industries are matched by part-time work and reduced production schedules in other industrial sectors.

The consideration of a number of pertinent facts is necessary both for an understanding of the present situation and as a basis for judging probable future developments. First, it should be emphasized that the passage of appropriation bills does not of itself provide employment. To give jobs money must be expended. Of the 43 billions thus far appropriated or authorized for defense only about 6 billions will be expended during this fiscal year, and official estimates indicate that barely half can be spent before July 1942.

Furthermore, the defense stimulus has been very highly concentrated in a few industries and in a few areas. Seven leading industries in the defense field -- iron and steel, shipbuilding, aircraft, machine tools, engines, explosives and aluminum manufacturing -- together with construction, have been responsible for a large part of the employment gains to date. Twenty industrial areas received 68 percent of all prime defense contracts awarded by May 1. These 20 areas contain only 27 percent of the population of the country and only 24 percent of WPA employment. Almost half of the contracts were concentrated in and around 8 large cities -- New York, Philadelphia, Boston, Norfolk, Los Angeles, Detroit, Seattle, and San Francisco.

In many areas where defense contracts have been awarded much of the employment will be short-lived. The building of army cantonments or of powder plants involves only temporary work. Employment at army camps reached its peak in February, when 369,000 workers were reported as employed. By April employment on camp construction had already dropped by 145,000, and it has since continued to decline.

Even in the areas where defense work is most highly concentrated, the effect on unemployment is frequently less than is commonly believed. In Hampton Roads, for example, although employment has increased sharply during the past year, it is probable that unemployment today is higher than a year ago, due to the influx of tens of thousands of workers in search of jobs.

The shipbuilding area around Boston has received more than \$850 millions in defense contracts, but it is estimated that less than one-third of the total man hours needed to complete these contracts will be required before July 1942. In the Pittsburgh area, although iron and steel plants are working at capacity and production is the highest on record, iron and steel employment is still 8 percent below the 1937 peak. Unemployment in the area is locally estimated at about 136,000.

In other parts of the country -- the 2,300 counties with no direct defense contracts -- the volume of unemployment and need continues almost as great as ever. Agricultural employment has not been increased by the defense program. In large areas it has been reduced by mechanization and the loss of export markets. The vast reservoirs of unskilled labor and the

basic needs for relief continue nearly as great as a year ago in the southern states largely dependent on cotton and tobacco, in the wheat states, the corn and hog states, the former drought areas, the mountain states, and in the fruit growing valleys of California.

Employment in rural industries, such as mining, has risen only slowly, in part because of technological advances. In the mines of southern Illinois, southwestern Indiana, southeastern Ohio, southern Colorado, and the great coal producing areas of Pennsylvania, the effects of defense activity on employment have been negligible. In a number of these counties as many as 50 percent of the population are still dependent upon public assistance. A similar situation prevails in other areas where formerly abundant natural resources have been depleted, such as the iron ore and lumber counties of the Upper Peninsula of Michigan.

It is clear that defense spending has not yet broken the back of unemployment. What of the future? Will unemployment disappear or decline to nominal proportions within the next year or so? Will we face a general shortage or near-shortage of labor? Will the volume of need shrink to the vanishing point as far as employables are concerned?

The effects of the defense program on unemployment will be determined by three major factors: (1) the extent to which total production is increased, (2) the amount of employment that is provided by this production increase, and (3) the changes which occur in the supply of labor.

The rate at which total production will increase depends upon the supply of existing facilities, the extent and effectiveness of their use, and the rate at which they are expanded to meet increases in the demand for goods.

The period of very rapid production increase is now nearly at an end; from here on expansion will occur at an appreciably slower rate. The piling of billions in armament orders on top of existing demand has resulted in capacity shortages in many crucial fields of production. Bottlenecks already exist in machine tools, shipbuilding, shipping facilities, railroad equipment, certain types of highly skilled labor, plane engines, aluminum, magnesium, steel, nickel, neoprene, zinc and copper. Furthermore, the situation is rapidly growing worse; shortages will soon appear in a number of other lines, including electric power and imports from the Far East. Since production has reached capacity in these important lines, further substantial increases in industrial output, and consequently gains in employment, must wait on additions to plant and upon measures to increase the supply of certain essential raw materials.

It takes time to build new plants, to develop new sources of materials supply, or to train highly skilled workers. In relatively few lines can new plants be built and tooled ready for production in less than a year; in many types of production the process requires two or three years.

A year ago we faced a choice between an adequate program of plant expansion and "business as usual." After months of precious time had been

lost in working out a policy of amortization which would be satisfactory to business interests, some private capital was invested in plant expansion. The government itself financed and built plants for the production of powder and certain other types of armaments. In the main, however, we decided to take "business as usual" and to attempt to meet the new demands with existing plant facilities. We are now beginning to pay for our earlier mistakes through restrictions on consumer demands, higher prices, rearmament delays and a large volume of unemployment. Contracts for new plant facilities are now being negotiated, but it is doubtful whether the expansion now contemplated will be adequate in many lines by the time the facilities are completed.

Bottlenecks and shortages of crucial materials have given rise to official priorities. The purpose of priorities is to ration materials when demand exceeds supply. The most urgent defense needs get first call; what is left is divided among other defense uses and civilian consumption. The effect of priorities is thus to shift shortages from armament to non-armament production. Priorities already cover a considerable list of commodities, and it now appears probable that the priority system must be expanded rapidly to cover a wide list of additional items of which the supply will be inadequate.

The recourse to priorities will affect us in many ways. We already understand that no aluminum will be available for civilian uses. Automobile production has been cut 20 percent for next year, and appears likely to be cut much further in the near future. The effects of priorities will be serious even in the defense industries. Planes and ships have higher priority ratings than tanks; as a consequence tanks urgently needed by the British and by our own forces are delayed by inability to get sufficient machine tools.

The shortage of steel is already reported to be delaying the production of merchant shipping on the West Coast; the steel shortage will also seriously delay the manufacture of railroad equipment urgently needed to relieve the bottleneck in transportation. Shortages are acting as a brake even on airplane production. A recent report states that production of our great bombers ceased entirely early in May and cannot be resumed until sometime in July owing to lack of aluminum.

The bearing of these developments on the rate of reemployment and on the volume of unemployment is direct and immediate. In so far as the priorities are substituted for new plant capacity, total production fails to expand. Thus, we restrict employment gains and tend to maintain the volume of unemployment. In addition, priorities themselves create unemployment. Employment reductions in plants not receiving defense contracts have already been reported from a number of areas, due to shortages of materials. The 20 percent cut in automobile production will mean the loss of 45,000 jobs in Detroit alone, according to experts in the industry.

It is estimated that the effect of materials rationing already imposed will reduce employment in Pontiac, Michigan, by 4,300 workers during the next 12 months, thus practically offsetting employment gains resulting from defense orders.

Now that priorities have been resorted to on a large scale there is the further danger that emphasis will swing from the addition of new plant capacity to shifts in the use made of existing plants. If, instead, of building new plants to meet the increased demand, plants now engaged in producing civilian goods shift to the manufacture of armaments, the effect will be to freeze total output and employment near existing levels and a large volume of unemployment will persist even at the height of the defense program.

The difficulties of redirecting available facilities to produce a maximum of armaments presents enormous technical and organizational problems. To a large extent American industry is being called upon to produce new products. In many cases the handling of defense contracts involves only relatively simple conversions. In many other cases, however, the transformations that must take place require the services of a diversified and resourceful engineering staff for long period of time. Eventually machine guns will be produced by companies formerly manufacturing refrigerators and spark plugs. But the process takes time. Munitions are infinitely more complex than peace-time machines and few of them lend themselves to the methods of the assembly line. The London Economist reports that it took something like 4 years of planning before the curve of aircraft production really began to rise in Great Britain, and a still longer period for army ordnance.

The question of what will happen to employment depends in large part upon the volume of production, but the relationship is not a direct and simple one. Production increases today are accompanied by smaller employment gains than was the case even a few years ago, due to the steady progress of technology. In industry after industry the manpower required per unit of product has been constantly reduced. This means that a thousand tanks, a hundred ships or a million uniforms require fewer workers to produce than were required 10 years ago and many fewer than were required 25 years ago.

There is an additional reason why employment may be expected to lag behind production. Increased production is being achieved in part by lengthening the hours worked by those already employed. There has been much discussion of over-time in defense industries, and it is generally realized that over-time cuts down reemployment. It is not widely known, however, that more than 8 million workers were employed part-time in the United States even in April of this year. Employers shift existing employees to full-time before hiring additional workers, and it can be expected that a substantial proportion of the man-years of employment provided by defense orders will be absorbed by the full-time employment of persons who already have jobs.

Finally, the effects of the defense program on unemployment will depend in part on the supply of labor that is offered in the market. I have already pointed out that the normal increase in the labor supply amounts to about 600,000 workers annually. For this reason alone an increase of 2.5 million in total employment during the next 12 months would mean a reduction in unemployment of less than 2 million.

Additional allowance must be made for an abnormal growth of the labor supply during this emergency period. It seems certain that employment increases resulting from the defense program will be accompanied by a considerable net increase in the industrial labor supply; such increases have, in fact, already been reported in some centers of defense activity. The Department of Agriculture has recently estimated that from 2 to 3 million surplus farm workers are ready to seek employment in urban industries as soon as jobs are available. Better employment opportunities and higher money wages should bring into the market a considerable number of youths who have continued in school because they could not get jobs. Similarly, many women not normally seeking jobs will be attracted into the labor market. None of these types of workers is included in current unemployment estimates and yet they very clearly constitute immediately available labor. And, as recent studies have shown, large numbers of these "newcomers" will secure jobs at the expense of those already seeking work, thus diminishing the effect of employment gains upon the supply of workers now counted among the unemployed.

The potential labor supply of the nation obviously runs into millions. The available evidence indicates that an abnormal increase of more than 3 million workers occurred during the first World War. Professor Alvin Hansen of Harvard has recently estimated that if the same proportion of the population of working age is available for work as existed in 1918 and in 1929, the total labor supply, actual and potential, would be more than 60 million persons. This would give a surplus over present employment of some 12 million workers.

In view of the fact that unemployment remains at more than 6.5 millions, with a reserve of several additional millions of potential workers available, and in the light of the various obstacles to increases in total output which operate as drags on the rate of reemployment, it is obvious that nothing approaching a general shortage of labor is in prospect for the near future. What rate of reemployment can reasonably be anticipated for the next year or two, and what may be expected to happen to the volume of unemployment and need?

The best analysis of the prospects for reemployment has been provided by Professor Hansen. After careful study Hansen concluded that not more than 2.5 million workers can be reemployed in each of the next two years. This represents roughly the reemployment rate of the best years of the '20's and '30's in the United States; it also approximates the rate in Germany during the period of maximum rearmament in that country.

An increase in employment of 2.5 millions for the next 12 months, even if the labor supply increases only moderately, means that in the neighborhood of 5 million workers will be unemployed in the summer of 1942. Even in the summer of 1943 unemployment will total several millions.

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It follows that the number of employable workers in need of public assistance will continue large for a very considerable period in future. Many of the needy unemployed will, of course, get jobs during the next few years. Some 600,000 workers left WPA for private employment during 1940, and substantial numbers of employables from local relief rolls undoubtedly went back to work during the same period. At the same time it is clear that the vigorous young workers now beginning to seek jobs in large numbers are preferred by many employers. A very sizeable group among the present needy unemployed, although quite able to do a good day's work, are seriously handicapped by age, sex, race, occupational background or residence in the keen competition prevailing in the labor market.

The extreme selectivity of present demands for labor is not generally realized. The demand is not only concentrated in relatively few areas of the country, it is also restricted largely to young white males, particularly those with experience in certain skilled or semi-skilled occupations. Age is becoming an increasingly serious handicap to reemployment. The average age of all employees in one large aviation company is 24 years; the emphasis on youth is only slightly less pronounced in the shipyards and in many types of construction work. Defense industries need only small proportions of unskilled workers. Nearly 50 percent of the additional workers required in shipbuilding will be skilled, 40 percent of those in aircraft assembly, and 70 percent of those in building construction. Negroes are apparently almost entirely barred from many lines of defense production. The demand for women and for white collar workers has also been relatively small.

Restrictive hiring practices naturally affect both the composition of the unemployed population as a whole and that portion of the jobless group which is in need. The average age of the needy unemployed is rising steadily, the proportions of Negroes, women and unskilled workers also appear to be increasing. As reemployment proceeds and employers have less opportunity to pick and choose among large numbers of work seekers, employment standards necessarily must be lowered. When this time comes, many of the present needy unemployed will get their chance at reemployment. In the meantime it would appear to be economy to utilize the services of these workers to the full to further the national defense program and also to provide essential facilities and services for the civilian population.

The time has long since passed when we can afford the luxury of "business as usual." It has also long passed when we can afford the waste of involuntary idleness.

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