

GORDON and GORDON

PROSPERITY
AND
UNEMPLOYMENT

7962954

5



E7952954

Prosperity and Unemployment

Edited by **ROBERT AARON GORDON**

and **MARGARET S. GORDON**

*One of a series of books from the
Research Program on Unemployment*

*Institute of Industrial Relations
University of California, Berkeley*



JOHN WILEY & SONS, INC.

NEW YORK LONDON SYDNEY

**Copyright © 1966
by John Wiley & Sons, Inc.**

**All Rights Reserved. This book or any part thereof must not be reproduced
in any form without the written permission of the publisher.**

**Library of Congress Catalog Card Number: 66-16138
Printed in the United States of America**

Prosperity and Unemployment

WILEY BOOKS IN RESEARCH PROGRAM ON UNEMPLOYMENT

Unemployment and the American Economy
Arthur M. Ross, Editor

Prosperity and Unemployment
Robert Aaron Gordon and Margaret S. Gordon Editors

Preface

In 1962 a four-year program of research and conferences on the subject of unemployment and the American economy was initiated at the University of California. The Ford Foundation made a generous grant to the Institute of Industrial Relations on the Berkeley campus to support this work. We have had the privilege of serving as co-directors of this research program since it was initiated.¹

Our program grew out of widespread and deep concern over the persisting high level of unemployment in the United States, a concern that has not disappeared even with the gratifying acceleration in the growth of employment and output during the last four years or more. It was our hope to stimulate research on the underlying forces at work which were affecting both the demand for and the supply of American workers—not merely in the aggregate but also along all of the significant dimensions of what is perhaps the most heterogeneous labor force of any industrialized nation. Through such research and the convening of groups of specialists to exchange views on various facets of the unemployment problem we hoped to make some contribution to the formulation of policies, both public and private, that would help to move us closer to the goal of full employment.

To these ends we have been conducting a coordinated group of studies which we hope will help us to understand more fully

¹ Arthur M. Ross is now on leave from the University of California to serve as U. S. Commissioner of Labor Statistics.

what has been and is happening and at the same time will furnish new and better guidelines for the development of appropriate policies. The project also includes closely related studies designed to clarify our employment goals and to facilitate more accurate prediction of labor-market trends in the next decade or so. The studies are being conducted by economists and sociologists at Berkeley, by doctoral candidates, and by several economists in eastern universities who have become associated with the project.

An important element in our program is an annual conference on unemployment which brings together key people involved in research and in the formulation and administration of policy. The first of these conferences, in 1963, resulted in the book *Unemployment and the American Economy*. The second, a year later, led to the publication of a substantial collection of research papers under the title *Employment Policy and the Labor Market*. The present book contains the papers and formal comments presented at the third annual conference, held in New York in June 1965.

It seemed to us that a useful purpose would be served at this time if a group of experts were to gather to review in detail the behavior of aggregate demand, employment, unemployment, and the labor force during the last several years of uninterrupted expansion. This book is the result. We believe that it makes a significant contribution to our understanding of the forces which have been determining the course of employment and unemployment in the United States in recent years. Further, we believe the articles and comments included here offer valuable suggestions for the kinds of policies needed in the years ahead to achieve and maintain the goal of full employment.

We are glad to acknowledge our indebtedness to Mrs. Marcia Schramm, until recently Secretary of the Research Program on Unemployment, for her invaluable assistance in organizing the 1965 conference. Thanks are due also to Judy Cowman, Joan Lewis, Barbara Palmer, Ruth Parker, and Günter Wittich for their help in getting the manuscript ready for publication.

Berkeley California
February 1966

R. A. GORDON
ARTHUR M. ROSS



Contents

Chapter 1	Introduction	1
	The Editors	
 PART I THE CURRENT BUSINESS EXPANSION		
Chapter 2	The Current Business Expansion in Perspective	15
	R. A. Gordon, <i>University of California,</i> <i>Berkeley</i>	
	Discussion	
	Otto Eckstein, <i>Member, Council of Economic</i> <i>Advisers</i>	48
	Martin R. Gainsbrugh, <i>National Industrial</i> <i>Conference Board</i>	57
	Joseph A. Pechman, <i>The Brookings Institution</i>	64
 PART II THE RESPONSE OF LABOR SUPPLY TO THE DEMAND FOR LABOR		
Chapter 3	Labor-Force Participation and Unemployment: A Review of Recent Evidence	73
	Jacob Mincer, <i>Columbia University and</i> <i>National Bureau of Economic Research</i>	

Discussion

W. G. Bowen, <i>Princeton University</i> , and T. A. Finegan, <i>Vanderbilt University</i>	113
Frank C. Pierson, <i>Swarthmore College</i>	122
Richard A. Easterlin, <i>University of Pennsylvania</i>	126

PART III THE CHANGING LEVEL AND PATTERN OF EMPLOYMENT

Chapter 4 The Behavior of Employment, 1961–1965	137
Margaret S. Gordon, <i>University of California, Berkeley</i>	
Discussion	
Solomon Fabricant, <i>New York University and National Bureau of Economic Research</i>	177
Harold Goldstein, <i>U. S. Bureau of Labor Statistics</i>	180
Stanley Lebergott, <i>Wesleyan University</i>	184

PART IV THE PATTERN OF UNEMPLOYMENT

Chapter 5 Lessons from the Pattern of Unemployment in the Last Five Years	191
Gertrude Bancroft, <i>U. S. Bureau of Labor Statistics</i>	
Chapter 6 The Composition of Unemployment and Public Policy	227
Edward D. Kalachek, <i>Washington University</i>	
Discussion	
Charles C. Killingsworth, <i>Michigan State University</i>	246
Lester C. Thurow, <i>Council of Economic Advisors</i>	256

**PART V UNEMPLOYMENT AND THE STRUCTURE
OF WAGES****Chapter 7 Wage Levels and Differentials 265**

George H. Hildebrand, *Cornell University* and
George E. Delehanty, *Northwestern
University*

Discussion

H. M. Douty, *U. S. Bureau of Labor Statistics* **302**

M. W. Reder, *Stanford University* **308**

Lloyd Ulman, *University of California,
Berkeley* **314**

PART VI AN OVERVIEW**Chapter 8 Economic Expansion and Persisting
Unemployment: An Overview 327**

Albert Rees, *University of Chicago*

Index 349



CHAPTER 1

Introduction

Excessive unemployment in the face of unprecedented prosperity: this is the troubling theme with which this book is concerned.

American aspirations to keep unemployment at a low level are less ambitious than those of the Western European countries. Since the adoption of the Employment Act of 1946, "full employment" has been interpreted in official circles as meaning a national unemployment rate of about 4 per cent,¹ although since 1962 this figure has been labeled only an "interim target" by the Council of Economic Advisers. Yet for most of a decade now we have failed by a wide margin to achieve this moderate goal. In terms of annual averages, the unemployment rate has not been below 5 per cent since 1957, although the annual average is virtually certain to fall below this figure in 1965. The seasonally adjusted rate of 4.8 per cent achieved in the first six months of 1965 was the lowest semiannual average since the second half of 1957.

During this time the American economy has been enjoying a period of unprecedented prosperity. The current business upswing is now approaching the end of its fifth year—a period of uninterrupted expansion longer than we have ever experienced in peacetime, certainly for more than a century. The rise in

output and employment began with the end of the very mild recession of 1960-1961; this mildest of the postwar recessions meant that there was little lost ground to be recovered first. The expansion since then has been a vigorous one, with new vigor being added by the highly successful tax cut in 1964.

Yet the national unemployment rate has remained uncomfortably high. Moreover, unemployment is not merely uncomfortably but tragically high in some parts of the labor force, notably young people and nonwhites.

Why have we had so much difficulty in reducing unemployment to a satisfactorily low level; and why did unemployment rates of 5 per cent or more persist for so long?

These questions have generated a debate which is still going on. More important, these and related questions have led to a good deal of new, useful research which has added significantly to our understanding of the recent behavior of the American economy, including the various parts of the national labor market. It is fair to say that we have made considerable progress during the last five years in narrowing the area of disagreement on what has been happening—and why—and what needs to be done.

The papers and commentary in this book, the results of a conference held in New York in June 1965, provide a valuable, although incomplete, inventory of what we now think we know about the reasons for the continued high level of unemployment in the United States in the last five years.

The Needed Rate of Growth

One thing that stands out immediately is how fast we must run today just to stand still. Apparently the national output will have to grow during the rest of the 1960's at an average annual rate of 4 per cent or better just to prevent unemployment from rising further. The needed rate of growth in the 1950's, the result of a less rapid increase in the labor force than is now occurring, was probably only around 3.5 per cent. However, from 1953 to 1960 Gross National Product in constant prices grew only at a rate of about 2.5 per cent—and the unemployment rate climbed from a low of 2.9 per cent in 1953 to 5.6 per cent in 1960. (The

peak of the cyclical upswing out of the 1957-1958 recession occurred in June 1960.)

R. A. Gordon's chapter seeks to explain why the economy grew so slowly during the period 1953-1960. Thus, when the present expansion began, what the economy had to recover from was not the mild cyclical dip of 1960-1961 but more than half a decade of retarded growth dating back to the end of the Korean War.

The American economy expanded rapidly enough after 1961 to permit some reduction in the over-all unemployment rate. But, as we have seen, the expansion in output and employment left us for too long a time short of our goal of full employment. The uneven course of the rise in employment and decline in unemployment is traced out in the chapters by Mrs. Gordon and Miss Bancroft and is also discussed by Eckstein.

Could we have expanded more rapidly after 1960 without untoward consequences in the form of unacceptable price increases or other maladjustments that might by now have brought on another recession? And what are the chances of bringing the unemployment rate down to 4 per cent or less during the next two or three years? To do so implies further acceleration in the expansion of aggregate demand and continued success in avoiding another recession.

Gordon gives somewhat pessimistic answers to these questions. This pessimism is obviously not shared by Eckstein or Gainsbrugh in their discussions of his chapter. Pechman argues that we could have had full employment before this—and could achieve it in the next few years—if we were prepared to make sufficiently vigorous use of fiscal policy and avoid the monetary restraints that have been imposed on some previous cyclical expansions.

Deficiency of Aggregate Demand or Structural Changes?

Is the high level of unemployment since the late fifties to be attributed primarily to a deficiency of aggregate demand or to "structural" changes which make a growing fraction of the labor force unsuited for the jobs available? The "structural" argument emphasizes technological change (particularly of the sort im-

plied by the term "automation"), the increasing emphasis on education and training in industrial and commercial employment, and the decline in the importance of blue-collar jobs. An implication of the structural argument is that expanding aggregate demand will not bring about a significant reduction in unemployment; that it is likely merely to create bottlenecks in occupations and industries in which qualified workers are already in short supply without significantly reducing unemployment among the poorly educated and relatively unskilled workers who have the highest unemployment rates. This general position is stated by Killingsworth in his discussion in this book.

The chapters presented here suggest that this debate on the relative importance of deficient aggregate demand and of structural changes in the composition of the demand for labor is on its way to being resolved. The chapters and discussions in this book as well as the general discussion at the conference give substantial confirmation to the position that the chief problem has been the failure of aggregate demand to rise rapidly enough. There is almost complete agreement that what we call automation has not been a significant factor in keeping unemployment at a high level. This theme runs through the chapters by Mrs. Gordon, Miss Bancroft, and Kalachek. It is stated strongly by Rees, who comes to the conclusion that "one can say with confidence that automation and the structure of demand have not been major forces in the unemployment experience of the last four years." The same theme runs through the comments of many of the discussants, with the important exception of Charles Killingsworth.

To say that structural changes in the composition of the demand for labor are not an important reason for the high level of unemployment in recent years is not to deny that we now have, and always have had, structural imbalances in the relation between demand and supply for particular kinds of labor. The differential unemployment rates cited by Miss Bancroft are eloquent testimony to the difficulties experienced by teenagers, those in their early twenties, nonwhites, and the least skilled in finding jobs. But with one important exception there is little evidence that changes in the composition of the demand for labor have played an important role in explaining the rise in unem-

ployment rates for these groups relative to the national rate. The exception results from the marked decline in agricultural employment. For a detailed analysis of the changing volume and pattern of employment during the current and earlier postwar upswings, the reader is referred to the chapter by Mrs. Gordon and to the discussion by Fabricant, Goldstein, and Lebergott.

However, as Miss Bancroft's chapter brings out, there have been significant structural changes on the *supply* side of the labor market. This theme is repeated by Eckstein and is taken up again in Rees' concluding essay. The changes in the composition of supply have been of several kinds. First, there is the sharp increase in the supply of teenagers entering the labor market. Second, the share of the labor force composed of women is continuing to increase. And third, the particularly sharp decline in agricultural employment in the early stages of the present upswing was an important factor not only in holding back the over-all increase in employment but in releasing supplies of workers from agriculture. In an environment of declining employment opportunities in agriculture and of improving urban job opportunities, both push and pull factors encouraged accelerated migration from farm to city and the resulting augmentation of the urban labor supply. This has been particularly true of the nonwhite labor force. Nonwhite migrants tend to have little education or marketable skills, and, as Rees points out in his concluding paper, "hidden" unemployment on the farm is converted into open unemployment in the city.

Lester Thurow, in his prepared discussion, takes a more optimistic view of the problem of youth unemployment than Miss Bancroft does. He points out that (a) the growth in the teenage labor supply will decelerate sharply after 1966, (b) youth employment is highly sensitive to increases in total employment, and (c) a significant part of the high unemployment rates among young people reflects the high mobility which is part of the process of "getting ahead" and contributes to the flexibility of adjustment which a dynamic world requires of the labor force.

As Miss Bancroft and Mincer both point out, the fact that the national unemployment rate is higher today than in the mid-1950's results almost entirely from higher unemployment rates among secondary workers—youth and women—who move

in and out of the labor force. The same general point is emphasized by other contributors. Kalachek argues, however, that even this new "structural" element is largely explained by the failure of aggregate demand to rise rapidly enough. He explains how the composition of unemployment depends to a significant degree on the time-path of employment and unemployment in the past. A 5.5 per cent unemployment rate reached at the bottom of a short recession will reflect substantial layoffs of primary workers during the period of declining output. But if roughly the same unemployment rate is maintained for a relatively long period of moderate expansion in output, which was substantially the case during 1962-1965, the pool of unemployed will come to be increasingly composed of youth and women—i.e., of those who acquire the status of unemployed through voluntary quits or new entry into the labor force. Kalachek is inclined to place more weight on this set of factors than on changes in the composition of labor supply. In the remainder of his paper, Kalachek not only argues for the strong use of monetary-fiscal policy, but takes a skeptical view of the effectiveness of labor-market policy—a view not shared by the majority of conference participants.

Killingsworth, although badly outnumbered at the conference, skillfully defends his version of the "structuralist" position. He particularly emphasizes the plight of the poorly educated, especially when account is taken of the decline in their labor-force participation rates.

The Sensitivity of Labor-Force Participation

A vigorous debate has gone on during the last few years as to how sensitive the size of the labor force has become to changes in employment conditions. If a rise in employment directly stimulates an increase in labor-force participation rates, the increase in the demand for labor may be in good part offset by an automatic increase in supply, so that unemployment declines relatively little.

A number of recent studies mentioned in Jacob Mincer's chapter have concluded that labor-force participation rates—except those for men in the prime working-age groups—have become very sensitive to changes in the level of unemployment. This

has generated considerable argument about two related aspects of the current situation. First, how much "hidden unemployment" exists among people who do not report themselves as looking for work but would actively enter the labor market if they thought jobs were available? Second, if attempts are made to speed up the increase in aggregate demand, how much of this increase will be absorbed by a rise in labor-force participation rates without consequent reduction in unemployment? Some fairly pessimistic answers to this second question have been offered in the last few years.

Mincer's chapter makes a significant contribution toward the clearing up of these issues. There *has* been a trend toward increased responsiveness of the labor supply to employment conditions, primarily because of the growth of the female labor force and the lessened attachment to the labor force of youth and older workers; but Mincer presents convincing evidence that labor-force participation is less sensitive cyclically than some recent studies seem to show. Easterlin adds some useful historical perspective on the sources of growth in the labor supply over the successive decades in this century, and suggests that during the remainder of the 1960's the labor force will grow less rapidly than is generally assumed.

Mincer concludes, as have a number of others, that there is a substantial amount of hidden unemployment today. His cautions regarding the indiscriminating addition of such hidden unemployment to reported unemployment are well taken, although, as Bowen and Finegan suggest in their discussion, he may be overemphasizing the differences, from the point of view of both policy and behavior, between these two groups. Pierson, more than the others, emphasizes the need for specific policies to deal with disguised unemployment.

Another striking aspect of Mincer's paper is his examination of the possible effects of changes in social-security benefits and in minimum wages. Liberalization of social-security provisions has contributed to the downward trend in participation rates among older people—and also to an increase in part-time and intermittent work at the expense of full-time work among men in the 65-and-over age group. At the other end of the age distribution, increases in minimum wages and extension of coverage