ECONOMIC GROWTH—ITS LABOR ASPECTS

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Economic growth has been a keystone of our economic policy for a number of years. Yet, only fairly recently have serious attempts been made to analyze the determinants of growth in the American economy, to measure their effects in quantitative terms, and to propose programs to stimulate growth.

The role of labor as a dynamic factor in economic growth has not been nearly as well explored as the role of capital inputs. Further study along these lines is badly needed.

The problem we are dealing with here is excessive unemployment, aggravated by the inability to match the unemployed men and women with some of the jobs that are vacant.

In the balance of this decade, the labor supply in the United States will increase—spectacularly, by 750,000 a year—after 1965, when the young people born in the postwar baby boom that began in 1947 begin to come into the labor market. In terms of sheer numbers, an estimate made in 1959 indicates that the U. S. labor force of the 1960's, born and here to be counted, could staff an increase of 50 percent in the production of goods and services in this decade, for a gross national product of at least 750 billion dollars by 1970, in 1958 dollars. This would yield a 25 percent increase in the standard of living. These estimates assume the average long-term rate of increase in productivity.

As we seek to stimulate economic growth in the interest of more employment, we should remember that labor is not the initiating factor in the production process. The stimulus—and the capital—comes from the entrepeneur. This is the reason for encouragement to investment in the proposed tax bill.

Labor's contribution, like capital's, is basic. But the sheer quantity of labor's input apparently has not contributed as much to economic growth as its improved quality. The same is true of capital. Since 1929, the quantity of additional man-hours worked by employees accounted for only about 16 percent of the growth in output, less than in earlier decades [1]. During the same time, the increase in the physical volume of capital—buildings, equipment, and inventories—contributed about 15 percent. Thus, only a little over 30

percent of the economic growth in a whole generation is due to quantity of inputs. The remaining 69 or 70 per cent is ascribed to higher productivity [2]. What, then, is responsible for higher productivity?

The answer lies in the improved quality of both capital and labor and in economies of larger-scale operations, more efficient use of materials, and better allocation of labor and materials.

Improvements in the quality of the labor force have come about through a higher level of formal education and, perhaps more important, through extensive on-the-job training. Increased intensity of work done in an hour because of lessened fatigue in a shorter work week and other factors, has been less important. This analysis strongly supports public judgment of the importance of modernized education and training, and indeed, of the point of view that education and training must be a life-long continuum, not a process which ends with graduation from high school or college.

Let us review the present employment situation in terms of the need for economic growth to achieve a higher level of employment in the future, and consider the types of manpower programs which would stimulate growth.

Since the end of the Korean conflict, the gain in employment in the recovery from each recession has been progressively smaller in relative terms. In the recovery after the 1953-54 recession, employment went up by 8 percent; after the recession of 1957-58, by 5 percent. By this July, although the business upswing has continued and gathered force, the gain has been only 3.8 percent.

The unemployment record reflects this same picture in even more pronounced fashion. After the 1953-54 recession, the rate of unemployment dropped from 6 to 4 percent; after 1957-58 from 7.5 to 5 percent. In the current recovery, it has again dropped only to about 5.5 percent, and has fluctuated between 5.5 and 6 percent for nearly two years.

This summer, nearly 4 million people are unemployed. About 1 million have been out of work for 15 weeks or more. Their number has not diminished in the past year, despite recovery, although the fact that different individuals are involved must be emphasized, for this is a shifting group.

During this recovery the gross national product has risen 13 percent (in real terms) and industrial production by over 20 percent. Why this difference?

We do not know the full answer but some factors are identifiable. One is the relatively slow rate of expansion in investment in new plant and equipment. This is understandable, with excess capacity in some industries in relation to levels of demand. Another is the fact that the production of a million dollars in gross national product in the past few years simply has not required as many of the same kinds of jobs as before.

Traditionally, the basic production industries—manufacturing, mining, and agriculture—have been the nation's principal employers. They no longer are. By the mid-1950's, even with construction added, the goods-producing industries had been eclipsed by a combination of those enterprises which provide services rather than goods.

Manufacturing has not hired additional people in anything like the numbers it did in earlier recoveries. No more people are employed in manufacturing today than in 1956 and 1957. The reasons are to be found in higher productivity, the more rapid growth of highly mechanized industries producing a high dollar volume of output per employee such as the defense industries, and to the relatively low rate of capital investment and innovation. Similarly, contract construction, despite new high levels of building, has not increased its employment in this period.

What, then, supplied the new jobs which gave us a total of over 70 million employees this summer? First, the government—not federal, but state and local—has more than 2 million more employees than in 1956, mostly in educational activities. Commercial and personal services of all kinds, including medical services, and trade have also expanded their staffs, as have finance, insurance, and real estate.

To have kept unemployment at acceptably low levels, these expanding industries would have had to absorb not only the growing labor force but employees displaced from other industries. Where volume of business is declining and productivity is rising at the same time, as in coal mining or on the railroads, displacement can be very severe. Where the decline is slow and persistent, the senior employees are last to leave, and they are often least mobile and most difficult to place in other occupations.

No other segment of the American economy is responsible for as much displacement as farming. In no other major industry has the rise in productivity been so spectacular. The super-abundant growth in agricultural production has contributed to expansion of the gross national product, but scarcely to employment. Over 1.5

million farm jobs have vanished since 1956—and new production records were set in virtually every year. Quite understandably, the total farm population has been declining dramatically as members of farm families have sought nonfarm employment. The influx from the South into northern cities was especially rapid during the fifties. We all know that this farm-to-city and area-to-area movement is nothing new. Rural areas have been one of the principal sources of U. S. industrial labor for a century. Today these people are trying to adapt to an increasingly mechanized industrial society; to fill jobs for which many of them are unprepared by education or experience and in occupations where demand for labor is not vigorous.

Take a cross section of the working force this summer, when employment was at fairly high levels, and consider the rates of unemployment, in order to get a focus on where the problem is most acute. The lowest unemployment rate is for married men with work experience—less than 3 percent. For young single men under the age of 20, it is approximately 15 percent—higher even than usual.

In terms of skill, unemployment is highest among unskilled nonfarm laborers, two-thirds as large among the semi-skilled, about one-third as great among skilled craftsmen, and still lower among white collar workers. For professional and technical workers, it was only 2 percent in July.

The rate among Negro men was nearly three times that of their white counterparts.

Education is a key factor. Special studies show that the less schooling, the higher the rate of unemployment. This is particularly true of people who lose their customary jobs, especially if they are over 45. Once out of a job, they have more difficulty finding employment than younger people, but this difficulty is often associated not primarily with age, but with the limited education which was customary when they were young. Job opportunities are more generally available in each group for those with high school training or better, than for those who have had only a grammar school education.

Available jobs and the unemployed do not match. Jobs are going begging—many of them in technical and professional specialties at the upper end of the range of skill and pay; but many, too, in some of the service occupations, especially household services and such commercial services as restaurant and other personal services, frequently at the lower end of the pay scale. Not only

are unskilled jobs diminishing with the rush to install new machinery, but entrance qualifications have been raised, especially in the fast-growing trade and service occupations. A high school diploma is the required ticket of admission. For men and women who grew up in the early part of the twentieth century, when an elementary school education was considered quite sufficient, this can be a real bar to re-employment.

For the future, what are the dimensions of the problem?

The population in 1970 has been projected by the Census Bureau at about 209 million, or some 20 million more than in 1963. According to the Department of Labor's projections, the labor force in 1970 may total about 85.5 million. To reduce unemployment to a far more acceptable level of 3 percent, the employment level in 1970 would have to be about 80.5 million—that is, 11 million, or 16 percent, greater than now. This assumes that the armed forces stay at their present total. If unemployment were to continue at its present unsatisfactory rate of about 5.5 percent, the employment total in 1970 would need to be about 78.5 million, or more than 9 million above its present level. Even the 9 million employment rise, which provides for no reduction in the unemployment rate, is more than twice as large as the employment increase recorded in the past seven years.

Now, how does this translate into production? One other factor must be considered—productivity. Productivity trends are difficult to predict, but if we assume a continuation of the long-run average rise of 2.7 percent a year in the economy as a whole, an increase in output of some 36 percent would be required to accommodate a 16 percent gain in employment.

Experience has taught us that hard core unemployment does not yield to generalized economic measures. Unemployment is not one problem. Consequently, it will not yield to one solution, or two, or three. Economic growth will reduce it—indeed, growth is essential if it is to be reduced. But it is a problem superimposed upon a problem. The best of tax bills will not guarantee a job to the unemployed 45 year old Negro farm hand who has spent his life picking cotton and who never went beyond the fourth grade, nor to the West Virginia coal miner when the mine shuts down, nor to the school "dropout" with a record of delinquency in a slum neighborhood in a great city.

The emerging federal tax bill is, of course, designed to stimulate investment in new plant and equipment. Accelerated depreciation allowances and the tax changes of 1962—plus the hope of a 1963

tax bill with lowered corporation and high-bracket personal income taxes—have already brought a higher level of plant and equipment expenditures. Another major effort of the federal government is to encourage research and its application to new processes and products in search of those innovations which, coupled with cost reductions, have widened domestic markets and enabled the U. S. to compete in world markets. These programs will lay the groundwork for many more jobs. They are imperative.

Yet, in the short run, despite the stimulus to consumption which would be provided by the projected cuts in personal income taxes, the rapid introduction of new plants and equipment is almost certain to cause some unemployment. Many processes will be automated. Many plants will be in different localities. Obsolescence of products (and today competition often comes from substitute products), of plants, even of localities by-passed by high-speed highways or impoverished by exhaustion of natural resources, and finally, of skills, create pockets of unemployment.

The national policy to promote technological advances is clear cut. Collective agreements which prolong inefficiencies by what we sometimes call "featherbedding" on the labor side, or by the failure to utilize effective new processes or products to protect existing processes on the management side, run counter to this policy.

The current national railroad situation which is today much in the public eye should not lead to the mistaken conclusion that American trade unions, as a general policy, have opposed the introduction of new technology. Incidentally, this is the whole problem at issue on the railroad. In many instances unions have not opposed the introduction of new methods. Classic examples are in the men's clothing trade, in coal mining, and recently in the steel and telephone industries. The unions have bargained to get a share of the gains for their members, in higher wages, fringe benefits, and more leisure.

Technological advances, which in the short run can give rise to unemployment, are certain to be the center of hard bargaining, as unions seek to protect job rights, to provide for retraining or transfers to new plants, or to secure dismissal pay; or, alternatively, seek work-spreading programs, including a shorter work week and "sabbatical" leaves. Faced with the spectre of unemployment, you too would bargain with all your might to hold your jobs. The most careful and imaginative attention must be given to this aspect of technological change if growth is not to be impeded by long and costly work stoppages.

New plans to deal with the results of improved technology like the Armour plan, now being worked out in Sioux City, Iowa, after the closing of the Armour plant there; the Human Relations Committee in the steel industry; the Kaiser agreement and the West Coast long shore agreement are innovations which point new directions in industrial relations.

I do not mean to suggest that the pace of technological change should be slowed down or interrupted, but rather that the nation's social, economic, and political machinery, both private and public, should be geared to deal with the social and economic effects of technological change upon people on a scale commensurate with the size of the problem. Individual workers who happen to be affected should not be expected to bear the brunt of the effects of economic progress from which society benefits. In the past, we have too frequently let individuals make this adjustment as best they could. We are beginning, I believe, to recognize the seriousness of this problem and to try to deal with it—and nowhere, may I suggest, are the solutions more difficult than in some rural areas, unless it is in the slums of the great cities.

The reduction of this "structural" unemployment requires a series of specific programs designed to deal with the circumstances which give rise to high unemployment in various groups and areas. Unemployed youth, older workers, minority groups, the unemployed in depressed areas all require special attention.

The Area Redevelopment Act of 1961, to stimulate local economic development and provide training in depressed areas, and the accelerated public works program, are examples of job creating activities already under way.

In the field of education and training we have had a long series of measures, including the National Defense Education Act to stimulate training in mathematics, the sciences, and technical skills. The Manpower Development and Training Act of 1962 encompasses research in the manpower problem as a whole as well as a large-scale training program.

Currently under consideration is the Perkins bill which would provide more funds for vocational education in occupations not now eligible for federal aid, such as clerical and stenographic work, and to permit use of federal funds now earmarked for home economics and vocational agriculture for training in occupations in related industries. The urgency of training both youth and adults in trades and skills that are in demand can scarcely be overemphasized.

For the young people, a whole series of special programs is essential—to keep them in school through high school, if that is possible; and if it is not, then to train them on the job, on public work of civic value if private jobs are not available. The pending bill for a Youth Conservation Corps and a "Home Town Youth Corps" in Title II of that bill, which has already passed the Senate, is a step in this direction.

We have, it seems to me, forgotten the personal touch, forgotten the meaning of "welfare" in the best sense of that word. Many of the problems of the unemployed are readjustment problems; they are social problems, educational problems—not merely economic problems.

This area seems to be ready made for leadership by the Extension Service. The Extension Service is unique in the world as a means for bringing scientific knowledge into practical use through its contact with the farmers and farm families where they live and work. The land-grant colleges, founded to foster the agricultural and mechanical arts, have become great centers for research and training in engineering and the sciences as well as in agriculture, hence, in management and their related industrial arts and sciences. Why should the Extension Service not take leadership in developing new ways to train and retrain adults in other modern mechanical skills, as they are already doing in agriculture and home economics? Why should they not move into the metropolitan centers where the American people are living?

Education and training for tomorrow's skills should reach all groups, especially men and women who do not finish high school, much less college, but who are entirely competent, given training, to make a much-needed contribution to the nation's economy. In our zeal for science and mathematics in this space age, we have not given enough attention to other occupational needs or to people who are not going to be scientists.

Here we need to do some pioneering. We need to look around us at the unmet demands for workers and train for those needs. Take, for example, those personal service functions built around that center of American life—the home. We have a great shortage of help for gardening, for repairs, for the major "fix it" jobs which fill the evenings and week ends of husbands, and of household aid for mothers. Can we not devise ways to organize these services, as has been done with part-time clerical help, to give these home service jobs the recognition and status they deserve—at the same time providing work for the unemployed?

As for economic growth, per se, we need invention, innovation, and incentives. The economic history of the United States is that the spur to growth in production and employment has come through new products, and new services which meet the acceptance of consumers, at a price which will develop our mass market. We must so educate and train the people of the U.S. that they can help to produce and maintain and enjoy these new products. We must so organize our institutions that those who seek gainful employment may find it. We need social invention and innovation as well as new technology, for in this democracy our ultimate goal is the well-being of people.

REFERENCES

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