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Summary of Remarks by
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Panel Discussion on the National Economic Situation and Outlook
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The outlook for employment, productivity, prices, and wages in 1962 is, as is customary, my assignment on this panel.

Our judgment of the coming year must, of necessity, rest on our appraisal of our current position and how far we have so far come along the recovery road.

In terms of the volume of general economic activity, as you well know, the rebound was quite rapid in the spring and early summer, but in the last four months the rate of recovery has slackened. This is evident in most economic indicators, including employment.

This October total employment exceeded the level of a year ago by about 350,000, with a gain in non-farm employment partly offset by the long-term decline in farm work. Non-agricultural employment has risen considerably more than seasonally since the recession low early this year, and since June it has recorded a new high for the month, every month.

Nonetheless, the growth has not been adequate to provide enough jobs for our expanding labor force.

To be sure, unemployment has declined in absolute terms and was slightly below 4 million in October. However, it was still 400,000 above last year's level. The rate of unemployment, seasonally adjusted, has remained virtually unchanged for 11 months at the high rate of slightly under 7 percent. The unemployment rate is, of course, affected not only by the volume of employment, but also by the growth in the labor force. For the first 10 months of 1961, the increase in the labor force has averaged 1,200,000.

In periods of recovery, it is usual for employment to lag behind the rise in the volume of activity, and so it is not surprising that much of the gain of about $4\frac{1}{2}$ percent in overall output since the low in February has been made through additional hours of work and higher productivity. But in this recovery period, the lag in industrial re-employment has now gone on longer than is usual and the continued high rate of unemployment is a matter of concern. True, there has been real improvement in recent months, particularly in the decline in long-term unemployment but it is still substantially above last year and it is clear that we still have quite a way to go.

When we look at employment in the various sectors of the economy, as shown in the data from non-farm payrolls, we find that the changes in this cycle have been far from uniform. In government, finance and services, the recession was scarcely felt; employment in state and local government, in particular, has continued to expand sharply, adding nearly 300,000 employees over the past year, mostly in the school systems. On the other hand, in all the industries involved in the production and distribution of goods -- manufacturing, mining, transportation, and trade -- employment is still somewhat below its best level of 1960, despite the genuine improvement in recent months. Over the 12 months ending in September 1961 -- the latest month for which we have detailed payroll data -- employment in government, finance, and services increased about 450,000, while in the goods-producing industries there was a drop of about 275,000 in payroll employment.

Against this background, what is the outlook for 1962? Let us take the range of economic projections by economists which envisage a vigorous rise of activity in 1962 and translate them into terms of employment. I refer to the fairly common anticipation of an average of around \$550 to \$560 billion in Gross National Product for the coming year with a peak of \$560 to as much as \$575 billion in the fourth quarter of 1962.

If we take a forecast at the upper end of the range -- say \$575 billion by the end of 1962 -- it would mean an increase in employment of some 3 million from present levels. Taking into account the somewhat larger growth in the labor force which would be expected to accompany such a vigorous rise in activity, the resulting decline in unemployment would be about one million. Thus, the rate of unemployment even in this projected model of the Gross National Product would remain too high -- a little over 5 percent.

If the Gross National Product were to be appreciably less than \$575 billion by the end of 1962, the rate of unemployment would be higher, although not proportionately, since the accompanying growth in the labor force and the rise in productivity would both be expected to be smaller.

This brings me to the question of the recent rise in productivity:

As you know, productivity moves with the business cycle. In any consideration of policy, it should be averaged over time. But in the short run, it has an immediate effect on jobs. In the early phases of every recovery period, output per man-hour in industry increases rapidly as the capacity of both men and machines is utilized more fully. This recovery is no exception. The rise in output per man-hour has been quite vigorous and this explains in good part the fact that industrial employment has not kept pace with output. It may well be that a good part of the advantage

which comes from fuller employment of men and equipment has already occurred; nevertheless, we anticipate a rather large increase in productivity for the economy as a whole next year, with the rate of increase slowing down in the latter half of 1962. In making our manpower calculations, by the way, we have assumed for agriculture a slightly slower rate of increase than the phenomenal average rise of 6 percent since the end of the war.

Now let me give you a rule of thumb for translating productivity increases into jobs. For every 1 percent by which productivity in the economy as whole increases around 600,000 jobs are involved. This means that, for example, if there should be an increase of 3 percent in overall productivity there would have to be roughly 1,800,000 additional jobs to help offset that rise. The economy would have to run much faster just to stay in the same place in terms of employment and unemployment.

As we look ahead to job expansion in the coming year, in what industries are the increases likely to occur?

We can look, I believe, for a continuation of the trends of this past year: expansion in government, especially state and local government, and in other service industries; in construction and in trade. In the kind of recovery here projected, employment in manufacturing would also rise, especially in defense-connected industries, but also with a substantial gain for consumer-goods industries in general. But we must all realize that a pickup in employment is likely to be spotty, both geographically and industrially.

Now what is the significance of this for you in agriculture? No one needs to spell this out for the Extension Service. You are fully aware of the problems of farm families as they adjust to non-farm occupations. The state of the nation's job market is directly important to them. In December, 1960, more than one-third of all employed persons living on farms had non-farm jobs. Many of them were dual job-holders. But perhaps more important, the young people growing up on farms who must go elsewhere for work can always find jobs more readily when activity is expanding.

The decline in employment opportunities in farming has added to the nation's unemployment and underemployment potential -- and to its industrial labor force -- for many years. Nineteen sixty-two is expected to show a further decline in farm employment. Rural employment problems are being compounded in some areas by the very rapid introduction of mechanization in handling crops which formerly used a lot of hand labor. I refer especially to cotton-picking and the harvesting of potatoes and other vegetables. This growing mechanization will reduce job opportunities still further. Especially it will affect the streams of migrant labor which move from the South

into northern growing areas and back again. It will leave pockets of severe unemployment in the areas in which these unskilled laborers -- often with little education and little opportunity for alternate employment -- normally make their headquarters. They present a special problem with which we must deal much more effectively than in the past.

We have come to call the kind of job dislocation which goes with changes in industrial markets "structural unemployment." I think it is important to recognize that it applies to agriculture as well. Unemployment of this kind requires specific, tailor-made attacks in terms of each particular local and occupational problem. We are becoming increasingly aware of how important it is to train and retrain people in occupations for which there is a future demand so that they may shift from outmoded occupations. This is quite as true for farming as for other industries. Should we not, for example, train farm residents systematically in the use and repair of these new types of farm machinery -- and of other modern machinery as well?

To solve these problems of unemployment and underemployment we clearly need to improve the occupational and geographical mobility of labor and the functioning of the job market on a much wider scale. Such measures are the center of efforts to make the most effective use of our manpower. It is most heartening to see the vigor with which you in the Extension Service are attacking this whole matter of economic development through the rural development program in connection with Area Redevelopment. We hope that effective training and retraining programs will form an increasing part of this effort. The present Area Redevelopment Program is, of course, limited in scope. If, however, the broader Manpower Development and Training Bill, which passed the Senate should become law in the next session of Congress -- and the Secretary of Labor has just indicated that it will have a very high priority on the Administration's program -- then sources of Federal assistance for much broader, new training programs could be made more readily available.

I now want to refer briefly to two other subjects which are part of my assignment: trends in prices and in wages.

For prices, even given the generally projected strong rise in activity, we do not anticipate any marked rise for 1962. For virtually three years, the wholesale price level has remained quite stable. For 1962, some rise in industrial prices and in some consumers' goods is to be expected with a modest overall rise in the wholesale price index. Prices are unlikely to rise materially when there is still ample capacity for many industrial raw materials and semi-finished goods. It is expected, however, that prices for fabricated industrial goods which are in heavy demand -- such as machinery and electrical products -- will continue to show a rise, particularly since costs are rising.

At the consumer level, a slow, rather small rise in retail prices is anticipated. Retail prices for consumers' goods and services do not follow closely the turns of such moderate business cycles as we have had. We would anticipate a somewhat slower rise in changes for services than in past years, with not much change in food prices and slight rises for some other goods.

With respect to wages, it is expected that the rate of increase in money wages and expenditures on fringe benefits such as are negotiated in the major industrial wage settlements, will be at least as great in 1962 as in 1960 and 1961. That is to say, they are likely to rise by about 3 - 3½ percent during the year 1962. Next year about one-fourth of the workers covered by major bargaining agreements will receive deferred increases which average 2½ percent of average hourly earnings, excluding overtime. A moderate rise in the Consumer Price Index might add another 1 percent. In addition, a number of major contracts are coming up for renegotiation or reopening next year.

So far in 1961, about 2/3 of the workers affected by major settlements were employed in establishments where the wage-rate increase averaged 1½ to 4 percent, not counting "fringe benefits."

This September, the Federal minimum wage under the Fair Labor Standards Act became effective. It raises the minimum to \$1.15 an hour for employees already covered and extends coverage to about 3½ million workers not previously covered, chiefly in retailing, at a minimum rate of \$1 per hour. Studies are now underway to gauge the effects of these changes, with comparisons between 1961 and 1962.

Thus, in summary, the outlook described here today means a sustained, strong rise in overall economic activity -- with rising productivity, only a moderate rise in the price level, a sizeable increase in employment of perhaps three million jobs, and a decline in the level and the rate of unemployment.

Such a recovery is, of course, conditional upon sustained confidence by both producers and consumers. It implies that we will learn to live with international tensions and to view them as a prod to greater efforts to increase the vigor of our domestic economy.