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Economics and Our Public Policy of Full Employment

DURING the nineteenth century, full employment was just a dream of a small band of reformers. Today it is a firmly established objective of public policy through the greater part of the world, including our own country. The Employment Act, which was passed by the Congress in 1946, states plainly that it is the continuing responsibility of the federal government to create and maintain "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work."¹ This moral commitment to full employment has been reaffirmed time and again by successive Presidents and successive Congresses. There can be no doubt that it expresses faithfully the prevailing sentiment of the American people. What we debate nowadays is the scale, the timing, and the precise character of employment policies, not the need to strive

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¹ This Act, except for recent minor amendments, is conveniently reproduced in *Economic Report of the President*, January 1954, Appendix B.

for full employment or to use the powers of government to move the nation towards this goal.

The pursuit of full employment has naturally served to enhance the role of economists in the formation of public policy.² Government officials charged with the responsibility of administering the Employment Act need to know how economic trends have been developing. They need to form judgments about the demand for labor and its supply in the months or years ahead. They need to shape or readjust policies to relieve existing unemployment. They need to devise ways of minimizing unemployment in the future. In view of the frailty of much of economic knowledge, the economist cannot often speak with the impersonal authority of science on these vital matters. His power to predict the future is as yet very limited. As is true of other men, his economic judgments are influenced by ethical intuitions and philosophical attitudes. These limitations of economics and of economists must be understood. It is well, however, not to underestimate the power of economics to define and disentangle the issues with which policymakers are concerned. If economists cannot be implicitly trusted to lead the nation to the goal of full employment, they can at least clarify the nature of the goal and the obstacles that may be encountered by taking this or that route to it.

I intend to take advantage of the quiet setting of Rice University by discussing some issues surrounding the goal of full employment. I do so in the belief that a clearer notion of what full employment means may help our nation to deal with its unemployment—a problem which President Kennedy has recently characterized as “our number one economic problem.”³

² See “An Economist in Government” by the present writer, *Columbia University Forum*, winter 1957.

³ *Manpower Report of the President*, March 1963, p. xi.

I. CAUSES OF UNEMPLOYMENT

The causes of unemployment are complex and many. We usually associate it with business recessions or a lagging rate of economic growth, and we are apt nowadays to attribute both the one and the other to a deficiency of aggregate demand. However, even if the business cycle vanished, a troublesome volume of unemployment would remain.

In the first place, seasonal variations of economic activity will continue. At certain seasons of the year, a considerable number of workers will still be laid off or lose their jobs in the construction industry, in the garment trades, in the automobile industry, in vacation resorts, and in many other places and activities.⁴

In the second place, the fortunes of individual firms, industries, and communities will still vary enormously. The economic impact on working people will therefore be uneven. Here and there, men and women will become unemployed as new technology renders their skills obsolete, or as factories move to new locations, as old mines become exhausted, as construction projects reach completion, or as both old and new businesses shut down or reduce their operations because they are unable to compete successfully against their rivals. Inevitably, some interval often elapses before those who have lost jobs can find employment once again.

In the third place, the disappearance of the business cycle will not of itself eradicate certain differences among people that count in our labor markets. In all probability, the rate of

⁴ It is perhaps worth noting that the seasonal corrections of monthly figures of unemployment, as practiced by statisticians, merely redistribute the unemployment that occurs within a year. They do not serve to reduce the annual level of the figures. Nor should they do so; this function belongs to economic policy, not to statistical contrivance.

unemployment will therefore remain higher for young persons than for the labor force at large, for Negroes than for native whites, for women than for men, for older workers than for those in the prime of life, for those with little schooling than for educated persons, for the physically handicapped than for those free from disability, and for lethargic people than for those who proceed with energy and initiative. Needless to add, the rate of unemployment will also be higher for men and women who harbor somewhat romantic notions about their worth than for those who adjust readily to market conditions.

The significance of these familiar observations should be clear. What they mean is that a risk of unemployment is present for the individual even in times of prosperity, that whether times are good or bad the risk is uneven for different parts of the working population, that this risk increases materially during business recessions, and that it may remain uncomfortably large when economic recovery proceeds slowly. These are reasons enough for public policy to concern itself with unemployment. But if the goal of full employment is to be of constructive aid in diminishing unemployment, it must be framed with an eye to actual characteristics of people and the conditions under which they live and work.

II. FULL EMPLOYMENT AND OTHER VALUES

In popular discussions, the goal of full employment is sometimes described in phrases that are so sweeping as to suggest that it would be well if every man, woman, and child worked twenty-four hours every day. Of course, no one wants or means that. Everyone recognizes the infirmities of childhood and old age, that human endurance has its limits, that much of leisure is sanctioned by custom or religion, and that a free soci-

ety leaves it up to an individual to decide whether to work or not. When we speak precisely, we do not therefore identify the unemployed with the jobless. Instead, we consider as unemployed only those among the jobless who are able, willing, and seeking to work. If all persons of this category actually succeeded in finding jobs, employment would surely be at a maximum while unemployment would disappear.

This seems to be the objective of public leaders when they assert, as men often do in a mood of exuberance, that the elimination of unemployment is a basic goal of our society. For example, the Council of Economic Advisers recently declared that "ideally, all persons able, willing, and seeking to work should be continuously employed."⁵ Statements such as this convey a noble sentiment, but they can hardly be taken literally. I doubt if anyone who has seriously thought about the matter really believes that the complete elimination of unemployment would be ideal or even good for our type of society, in contrast to one that is rigidly governed by custom or authority.

We can put what I say to a test by a little reflection. Let us provisionally agree that full employment means a condition of zero unemployment. This, let us say, is the goal towards which public policy should be directed. Let us suppose, next, that the rate of governmental spending is sharply increased in the interest of stimulating the economy and that a large and well-sustained upsurge of private spending follows. Employment in most lines of activity will therefore rise progressively, unemployment will diminish, and the economy will move towards the established goal. As the process of expansion gathers momentum, young men and women embarking on their careers will find it easier to obtain suitable work; members of minority groups and many of the physically handicapped will

⁵ *Economic Report of the President*, January 1962, p. 44.

discover that they and their services are wanted; and not a few women who took jobs because their husbands were temporarily out of work will resume their normal family responsibilities. Hence, there will be ample cause for satisfaction in the improved performance of our economy.

Prosperity, however, has a habit of creating problems of its own. When the demand for all sorts of commodities and services steadily increases and unemployment decreases, costs of production and prices do not stand still. In the early stages of expansion, increases of output can commonly be achieved without significant addition to overhead costs. As output keeps growing, this source of economy diminishes and eventually vanishes. Technological and managerial advances continue, of course, to be made at a thousand points. Their favorable influence on costs is offset, however, as older equipment is again put to use, as the quality of newly hired labor declines, as hours of work lengthen and overtime rates are paid, as fatigue grips both managers and their employees, as workers become more restless and independent, and as deliveries of needed materials or equipment become less dependable.

These developments would in time raise costs of production even if wage rates remained constant. That, however, will not happen. With aggregate demand continuing to expand, labor shortages will appear first in this trade or community, then in another, and so keep multiplying. Wages will therefore rise on a wide front, and they would do so even if trade unions were few and weak. Prices will likewise rise under the pressure of expanding demand, sometimes advancing before, and sometimes after, wages have risen.

Not all of us, of course, will be troubled by the higher prices that now have to be paid for consumer goods. Indeed, most of us may point with pride to the power of our economic system to provide employment for more and more people who are less

fortunate than we, but who also want to live decently, raise families, and give their children a good start in life. Many of us will have a more personal cause for rejoicing—either because our incomes have risen faster than the cost of living or because the market value of our holdings of common stocks or real estate has soared. There will be some among us, however, whose savings have been accumulated chiefly in the form of bank deposits, savings bonds, or life insurance. There will be others, too, whose salaries or wages have failed to keep in step with the rise in the cost of living. There will be still others whose livelihood depends on a pension, annuity, or some other type of fixed income. These groups will not be indifferent to the rise of prices. Nor will economists, public officials, and others who ponder the future as they watch speculation spreading, economic injustices multiplying, the balance of payments deteriorating, and—perhaps also—the world's confidence in the dollar declining.

The advance of costs and prices will therefore arouse some skepticism about the ideal of full employment that we postulated. Symptoms of shortage, besides that of soaring prices, will add their mite to this changing mood.⁶ In view of the scarcity of labor, more and more of us will find that we must deal with a salesgirl whose understanding is faulty, or that we must get along with a janitor who seems never to be around, or that we must defer to the plumber who arrives a week after we had discovered a leaky pipe, or that we must learn to wait patiently for the new sofa that was promised for the wedding anniversary we celebrated three months earlier. So great is the variety of human nature and of personal circumstance that, notwithstanding the persisting advance of prices and the mounting of personal inconvenience, there will still be some

⁶ Cf. Bertil Ohlin, *The Problem of Employment Stabilization*, New York, 1949, chap. 1.

among us who continue to espouse with fervor the goal of zero unemployment. But there will now be others, and their number is likely to swell as the expansion of aggregate demand becomes more intense, who will not only question the practical wisdom of their earlier ideal but will actually complain that the economy is suffering from overfull employment.

Once this stage has been reached, the simple concept of full employment with which we started will have lost its usefulness for public policy. True, all or most of us may still believe sincerely in full employment, but this will now mean different things to us, reflecting our individual values, attitudes, and circumstances. Compassion for the unemployed will weigh heavily in the scales, but other values will also count—among them a concern about the cost of living, industrial efficiency, the rate of economic growth, the scope of governmental authority, the level of taxes, the balance of payments, the prestige of our country abroad, to say nothing of such earthly matters as personal convenience in riding trains or shopping. This diversity of values is, of course, the condition in which we find ourselves in actual life, and it is one reason why economists, among others, differ in the advice they give to lawmakers.

III. FUNCTIONS OF SOME UNEMPLOYMENT

If my analysis has run close to the track of human sentiment, it follows that zero unemployment, apart from being unattainable,⁷ would not really be a desirable condition for our society.

⁷ Popular impressions to the contrary, some unemployment has persisted even in the U.S.S.R. See Warren W. Eason, "Labor Force Materials for the Study of Unemployment in the Soviet Union," and the discussion of this in *The Measurement and Behavior of Unemployment*, Special Conference 8, Universities-National Bureau Committee for Economic Research, Princeton University Press for National Bureau of Economic Research, 1957; also, I. Kaplan, "A Questionnaire Study of the Causes of

But if that much is true, we should recognize that not all unemployment is evil, and that some unemployment actually serves a useful function from the viewpoint of the individual or that of society. Although this proposition may appear strange to some of you, let us consider the case for it.

To begin with, some of the unemployment experienced by young men and women when they look for their first regular job is linked to our national tradition of freedom. Having a job is obviously important to them, and there are times when any job is better than none. Ordinarily, however, some picking and choosing helps young people to decide what they would like to do and how they can make the most of their capabilities. This, of course, results in a certain amount of unemployment. The only conceivable way of avoiding it would be to have young people take the very first job that came along. Such a rule of conduct would hardly recommend itself to them or, for that matter, to older men and women when they decide to reenter the labor force.

Unemployment arises voluntarily also among those who already have jobs. Independent businessmen sometimes discontinue one business before they establish another. Employees frequently leave their jobs before they have found new work. Some workers quit because they become dissatisfied with the rate of pay; or because they see no opportunity or insufficient opportunity for advancement; or because they do not like their work, or their working conditions, or the neighborhood where they live. Others leave because they think that their talents can be put to better use elsewhere; or because they wish to try out different jobs, or live in different places before settling down; or because they are moved to sudden anger by a foreman's or

Labor Turnover in the Industry of the Economic Councils," *Problems of Economics* (IASP Translations from Original Soviet Sources), December 1961, pp. 42-47.

colleague's injury to their feelings; or because they decide to seek or to follow husbands, wives, or sweethearts. Migration from job to job occurs at all stages of life, but it is especially common among young folk, who have both more opportunity and better reason for experimenting. To the extent that unemployment arises from the striving of men and women to escape the limitations of one environment and to seek out the opportunities of another, we may justly regard it as useful both to the individual and to society.

But if the exercise of freedom by new job seekers or by established employees creates some unemployment, so also does the exercise of freedom by employers. Individual employees are undoubtedly injured in the process. This fact warrants steady search for constructive ways of easing personal adjustments, but it should not blind us to the advantages that accrue to society from the exercise of freedom. In every group enterprise—whether it be a business firm, a government bureau, or a university—a certain degree of discipline is essential if the efforts of the group are to prosper. Individuals who are incompetent, undependable, or dishonest must be subject to the risk of dismissal, or else order and efficiency will suffer. Moreover, we could not have an efficient economy if employers who closed down their shops were required to support in idleness the men who previously worked for them, or if those who remained in business but needed fewer workers—whether because of dwindling markets or of technological changes—still had to retain their earlier work force on the payroll.

Industrial efficiency depends not only on the maintenance of certain standards of job performance and on the ability of every enterprise to dispense with labor that is no longer needed. Industrial efficiency depends also on the ability of an enterprise to maintain smooth operations and to meet unforeseen contingencies. We have already seen how the normal

activities of consumption are impeded when unemployment tends to vanish. But if inability to locate a plumber, or a laborer, or a spare part may cause trouble or inconvenience to households, it will also impede the efficiency of business firms. Just as stocks of raw materials help to insure the continuity of production, so does the existence of a certain number of people seeking work help to insure the continuity and efficiency of production and thereby also contributes to the stability of total employment itself.⁸

The upshot of these remarks is simply that some unemployment is necessary or desirable from the viewpoint of a society that values freedom, equity, and efficiency. More specifically, we must have some unemployment if new entrants into the labor force are to be free to choose among jobs, if employed individuals are to be free to change jobs, if employers are to be free to replace unsatisfactory workers or to dispense with those whose services they no longer require, if business firms are to be able to carry on their productive operations with reasonable continuity and efficiency, and if the purchasing power of the dollar is to maintain some semblance of stability.

IV. MINIMUM RATE OF UNEMPLOYMENT

These broad but basic considerations may be stressed differently by individual economists. All economists recognize, however, that if the concept of full employment is to serve public policy constructively, it must at least allow for seasonal variations in economic activity and for the familiar frictions of the labor market. Since the adoption of the Employment Act, economists have also been under pressure to add precision to

⁸ The need of continuity could, of course, be met in part by hoarding labor, but only at the cost of efficiency and the fluidity required for growth. See also pp. 189-190 in this connection.

the concept of full employment. This has proved to be a difficult and sometimes a very disconcerting task.⁹

An obvious starting point of the quest for precision is the Act's specification of the goal of "maximum employment." Some students have reasoned that since the Act takes maximum employment as the objective of public policy, it is desirable—even if not strictly necessary—to express this magnitude numerically. Others have gone further and argued that unless the objective of full employment is expressed by a definite number, policymakers will not know the magnitude of the gap in activity that needs to be filled and therefore will be unable to devise satisfactory public policies. In line with this thinking, the Council of Economic Advisers declared in its Report of March, 1961, that an unemployment rate of 4 per cent is a reasonable target for full utilization of resources.¹⁰ In this pronouncement the Council merely used a figure which had gradually become something of a convention in economic circles during the postwar period. The Council, however, took the novel step of making this figure official.

The use of a 4 per cent unemployment rate as a criterion of full employment in our country can be rationalized in different ways. One possible justification is that when unemployment has been at that level or lower, it does not appear to have been much of a political problem. This argument will hardly satisfy those who believe that the American people need to apply a more exacting standard to the performance of their economy. Another possible justification is that the average unemployment rate during peak years of the business cycle works out for

⁹ See E. G. Nourse, "Defining our Employment Goal under the 1946 Act," *Review of Economics and Statistics*, XXXVIII, May 1956.

¹⁰ *Hearings on January 1961 Economic Report of the President, Joint Economic Committee, 87th Cong., 1st sess., p. 326.*

the period since 1900 to a figure that is close to 4 per cent.¹¹ This historical generalization is surely not irrelevant to a practical judgment concerning full employment, but it too will not satisfy those whose hearts are set on a different numerical goal. After all, there is nothing sacred about an average, especially when it varies with the precise period covered and with the treatment accorded to extreme cases, such as the war peak in 1918 or the depressed peak in 1937. Those who deem a 4 per cent unemployment rate too high can always point to historical instances when the rate was lower, while those who deem 4 per cent too low can point to inflationary conditions in years when the rate was at that level or even higher.

Of course, criticism of the 4 per cent figure along these lines is not directed against the desirability of numerical targets as such. But if what I said previously about the subtle role of human attitudes and values is valid, any unemployment rate that identifies full employment in the minds of people at one time may fail to do so at another time, for example, if prices begin rising swiftly. On this view, the presence or absence of full employment must be judged with reference to the entire complex of conditions that bear on a nation's economic health.

Still another criticism is that it really makes little difference whether the unemployment target is, say, 3 or 5 per cent. The point here is that the two figures are very close, that they imply an employment target of either 97 or 95 per cent, and that the economy will be doing about as well at one level of activity as at the other. This way of thinking must appear strange, if not irresponsible, to those who see and judge the economic world in terms of its unemployment. To them it

¹¹ Based on official data and Stanley Lebergott, "Annual Estimates of Unemployment in the United States, 1900-1950," in *The Measurement and Behavior of Unemployment* (cited in n. 7), pp. 215-16.

makes a great deal of difference where the unemployment target is set. According to their lights, if unemployment happens to be 5 per cent, then the distance from full employment will be twice as large with a target of 3 per cent as with one of 4 per cent. One who believes that compelling human or economic factors favor 3 per cent can therefore urge with a show of plausibility that whatever increase of governmental spending is being proposed to move the economy to the 4 per cent goal is merely half of what is required.

In view of the rich diversity of such judgments, it is not surprising that a storm of criticism from both the left and the right followed the Council's announcement that a 4 per cent rate of unemployment is a reasonable goal for full utilization of the nation's resources. The Council responded by explaining that the figure is simply "an interim goal, a way-station."¹² Needless to say, this modification will also not satisfy everyone, although the nebulous part of the new official goal is perhaps its strongest feature. The crucial weakness of the Council's 4 per cent figure is not that it is arbitrary. On the contrary, this figure is sufficiently grounded in experience to be useful on many occasions. The difficulty is rather that any numerical goal of full employment, once it has been made official, can be easily misinterpreted and become an obstacle to rational economic policy in a changing world.¹³ For instance, if several hundred thousand teenagers or women suddenly entered the labor force and sought temporary, part-time jobs, unemployment could jump from 4 to 5 per cent but that would have little economic significance and require no change in public policy. On the other hand, even an unemployment rate of 3

¹² See *Economic Report of the President*, January 1963, p. 42; also *ibid.*, January 1962, pp. 44-48.

¹³ Cf. my comments in *Hearings on January 1955 Economic Report of the President, Joint Committee on the Economic Report*, 84th Cong., 1st sess., pp. 43-45.

per cent could be dangerous to a nation if it rose to that level in the course of a new recession. The threat at such a time would not be the unemployment that exists, but rather the cumulating force of recession that could in time carry unemployment to 6 or 8 per cent or even higher.

V. CRITERIA OF FULL EMPLOYMENT

There is no need to dwell further on the point that full employment cannot be wisely identified with a fixed numerical target. This conclusion, however, will not make life easier for the makers of federal economic policy. True, it may help them avoid some costly mistakes, but they also need positive assistance in interpreting their duties under the Employment Act.

As far as I know, there are only two passages in the Act that give any promise of eventually bringing some precision to its employment objective. One is the specification of the goal of "maximum employment" which, as we have just seen, easily leads to unhappy arithmetical debates. But the Act also specifies, as I noted at the beginning of this lecture, that the federal government has the responsibility of promoting conditions that will afford "useful employment opportunities . . . for those able, willing, and seeking to work."¹⁴ This passage does not invite absolute numerical targets of employment or of the unemployment rate. It will not suit those who seek the illusory comfort of precise targets. It nevertheless provides, in my judgment, a more useful handle for a public policy of full employment.

The central thought of this passage of the Employment Act is simply that ample employment opportunities are of great social or public importance. Let us now pursue this thought in the light of our earlier conclusion that some unemployment is

¹⁴ See n. 1.

socially desirable. That conclusion rested on a tacit assumption which very much needs to be made explicit, namely, that unfilled jobs exist. Clearly, new entrants into the labor force will be unable to exercise their freedom to choose among jobs if there are no jobs to be filled. Nor will those at work be able to exercise their freedom to change jobs if there are no vacancies. Nor, speaking more generally, will those who are seeking jobs, whatever the cause of their searching, be able to get work unless jobs are being created or vacated. It follows that job opportunities—or, more narrowly, vacant jobs—are absolutely vital. It further follows that if the number of job vacancies equaled the number unemployed, there would then be sufficient employment opportunities to permit, in principle, a job for all who are able, willing, and seeking to work.

This line of reasoning leads at once to a basic criterion of full employment, namely, equality between the number of jobs seeking men and the number of men seeking jobs. Of course, these quantities need to be considered in terms of the market place. If the prevailing wage in a given trade happened to be approximately twenty dollars a day, it would make little sense to treat a man who holds out for thirty dollars as being unemployed. It would likewise be pointless to treat an employer who is willing to pay only ten dollars as having a real vacancy. In other words, we need to think of the relation between unemployment and job vacancies in terms of actual market conditions. Furthermore, we need to recognize that it makes a good deal of difference to the general welfare, and therefore also to public policy, whether equality between the number of unemployed and the number of job vacancies comes to rest at a figure of three million or thirteen million. Taking all these considerations together, full employment may be said to mean that the number of vacant jobs at prevailing wages is as large as the number unemployed and that the labor market is so

organized that everyone who is able, willing, and seeking to work already has a job or can obtain one after a brief search or after undergoing some training.¹⁵

Let us now see how helpful this interpretation of full employment can be in formulating public policy. First of all, the criterion of equality between the number of unemployed and the number of vacant jobs poses squarely what in the economic sphere is perhaps the major policy problem of our generation, namely, whether aggregate demand at a particular time is deficient and, if so, what action the government can wisely take. Many of us have become accustomed to attribute every drop in general economic activity—more recently also every sign of sluggishness in the rate of economic growth—to a

¹⁵ Stated more formally, equality between the number of vacant jobs and the number unemployed is a necessary but not a sufficient condition of full employment. The two other conditions are, first, that the equality holds at prevailing wages, second, that the labor market is so organized that practically all of the unemployed could obtain a job after a brief search or after obtaining some special training. Cf. W. H. Beveridge, *Full Employment in a Free Society*, New York, 1945, pp. 18–20, 124–31.

Equality of job openings and job seekers, at prevailing wages, could emerge at a high level of unemployment. In that event, the obstacle to full employment would not be the level of aggregate demand, but rather that the unemployed lack the highly intricate skills that are wanted, or that they choose not to practice them, or that they are located in the wrong places, or that they lack information about available jobs, or that legal wage minima are out of line with conditions in some markets. Even this statement is incomplete, for it assumes that adjustments must be on the side of supply, whereas some could in fact be made by those demanding specific types of labor.

The present concept of the goal of full employment would require for its full implementation detailed statistics on the structure (occupational, geographic, sex, age, etc.) as well as on the over-all level of both job vacancies and unemployment. However, even if we had nothing more than national totals, we would still be able to judge whether or not existing unemployment was due to a deficiency of aggregate demand. In deciding this issue, both job vacancies and unemployment would need to be expressed in seasonally adjusted form.

deficiency of aggregate demand, and we are therefore apt to urge the government to compensate for any deficiency that we believe exists. This way of thinking is often sound, practically useful, and socially beneficial. It rests, however, on an excessively simple view of the economic process. There can surely be difficulties on the supply side as well as on the demand side; for example, when a protracted strike in a major industry or a concentration of geographical shifts of businesses brings economic trouble, including unemployment. In diagnosing the state of the economy, it is critically important therefore to check the number unemployed against the number of job vacancies before concluding that aggregate demand has become deficient or to what degree this has happened.

Let me be more specific. I think that informed citizens will generally agree that our economy has suffered in recent years from excessive unemployment. There is less agreement, however, about the causes of the unemployment or the proper remedy for it. According to one school of thought—I shall call it the expansionist school—the principal cause is a more or less chronic shortage of aggregate demand. According to another school of thought—to which I shall refer as the structural school—the principal cause is found in the rapid piling up of economic changes, which have been creating more jobs than can be filled in some occupations and communities while substantial unemployment is being created in others.

Each school has presented impressive evidence to support its position, but neither the one nor the other has been able to demonstrate conclusively that its diagnosis is the right one. Thus the expansionist school stresses the recent failure of business investment in fixed capital to match earlier economic performance, the reduced rate of growth of total production since 1957, and the higher rate of unemployment since then. These facts may be granted; but they still leave open the vital ques-

tion whether the number unemployed has been larger or smaller than the job vacancies. Unless this question is resolved, there is bound to be at least some lingering doubt about the characteristic remedy of the expansionist school—namely, easy credit, larger federal expenditures, lower tax rates, or some combination of these policies for increasing aggregate demand.

The structural school, in its turn, stresses the existence of extensive shortages of scientists, teachers, engineers, doctors, nurses, typists, stenographers, automobile and TV mechanics, tailors, domestic servants, and some other types of labor. In view of these shortages, it denounces the fiscal remedies proposed by the expansionists as being circuitous and needlessly costly. A far more effective way of dealing with unemployment, according to the structuralists, is to focus policy on better organization of the labor market—for example, by disseminating fuller and more timely reports on occupational trends, by bringing together pertinent data on every unemployed individual and every vacant job in a pool of information coordinated by employment exchanges,¹⁶ by improving the existing system of vocational training and guidance, and by extending as soon as experience justifies it the retraining programs that have been established under recent legislation. All this and even more may be granted by the expansionists without budging from their position. They can properly insist that the mere existence of shortages in various occupations or communities

¹⁶ Electronic computers open up exciting possibilities for the future. With their aid, an unemployed worker expressing his need or preference to an officer of an employment exchange might be referred in a matter of hours, if not minutes, to a list of potential employers (outside his community if there are none in his own) who need that type of employee. Employers could be served in a similar way. If all this seems remote, the main reason is that our Federal-State Employment Service has failed to flourish.

by no means discredits their thesis that, taking the nation as a whole, unemployment substantially exceeds the unfilled jobs.¹⁷

These recent discussions have served to illustrate once again that inadequate knowledge of the causes of economic difficulty is by no means a bar to strong opinions on the part of economists or of others. This is unavoidable when a problem like unemployment, about which men feel deeply, becomes a subject of public concern. It is not so much the exaggeration by this or that school that I find deplorable, as the complete absence of national statistics on job vacancies. The Employment Act has now been on the statute books nearly twenty years. It has come to serve as a sort of "constitution" for economic policy-making.¹⁸ Its authority is constantly invoked by both public officials and private citizens. Its emphasis on ample employment opportunities is widely applauded. In its name all sorts of governmental programs are debated or undertaken to expand aggregate demand. Yet our nation has thus far failed to take the trouble to equip itself with the facts needed to determine whether, when, or to what degree, aggregate demand is deficient. If over-all national statistics on job vacancies existed, and if they were supported by data on job openings and unemployment in individual occupations and communities, much of the debate between the expansionists and the structuralists could be resolved on a factual basis.¹⁹ Controversy

¹⁷ My own speculations on this issue, if of any interest in this connection, are expressed, among other places, in the Preface to Thomas B. Curtis, *87 Million Jobs*, New York, 1962, and in a statement at *Hearings on January 1963 Economic Report of the President, Joint Economic Committee*, 88th Cong., 1st sess.

¹⁸ See A. F. Burns, "Some Reflections on the Employment Act," *Political Science Quarterly*, LXXVII, December 1962.

¹⁹ There is some reason to hope that the report of the Gordon Committee will be more successful than an earlier effort by the Council of Economic Advisers in getting a national system of job vacancy statistics or-

about public policy would doubtless continue for reasons to which I have already alluded, but it would proceed along more constructive channels, concentrating on future prospects and needs of the economy—a subject on which men are bound to hold different opinions.

VI. EFFECTIVENESS OF LABOR MARKETS

The concept of full employment that I have sketched may be helpful to policymakers also in other ways. By focusing on job opportunities as well as on job shortages, on employment as well as on unemployment, this concept should help to keep the healthy and the pathological aspects of economic life in perspective. Moreover, it should help to make students of public policy more alert to structural problems of our economy. As I have already noted, even if the business cycle vanished, unemployment would remain troublesome. Even if there were never any shortage of aggregate demand, the mutual adjustments of supply and demand for labor would often proceed slowly. Hence, whatever one may think of the merits of the controversy between the structuralists and the expansionists, there can be no doubt that unemployment would be very substantially reduced through better organization and functioning of the labor market.

This aspect of the unemployment problem has not received the attention it deserves on the part of economists. For example, economists frequently urge extension of the coverage of unemployment insurance and liberalization of benefits on the ground that such reforms would make the unemployment-insurance system a more powerful stabilizer of personal in-

ganized. See President's Committee To Appraise Employment and Unemployment Statistics, *Measuring Employment and Unemployment*, September 1962, pp. 25, 199–202, and Appendix B.

comes and of consumer buying. This argument, which I think is valid, does not justify the tendency to neglect the supply side or the interaction of supply and demand. There is a serious need to study how the structure of the unemployment-insurance system may need to be modified to promote better adjustment of the supply of labor to the prevailing demand. Indeed, it is doubtful if the advantages sought from extended or liberalized insurance benefits will be realized unless they are accompanied by extensive structural reforms.²⁰

Another problem that deserves the attention of economists is that while many workers have recently been unemployed or have had to be content with part-time jobs, many others have been working overtime or holding down extra jobs. For manufacturing, accurate data exist on overtime and they disclose a disturbing development. In 1956, a year of booming business, overtime accounted for three hours of the average workweek. In 1962, when business activity was sluggish, overtime was equally abundant, although the number of manufacturing workers had in the meantime fallen by 8 per cent. One possible explanation of this increasing tendency to keep people on overtime is the steady growth of fringe benefits, the cost of which to a business firm tends to vary with the number of men employed rather than with the number of man-hours worked. Another possibility is that employers are gradually learning that disputes about work rules are fewer when they resort to overtime than when they add to their work force and therefore need to rearrange some of the jobs. These and other hypotheses require the most careful study by economists. For if it is really true that collective bargaining and some of our social legislation are tending to complicate the unemployment prob-

²⁰ Cf. the writer's comments in the *Proceedings of the Fourteenth Annual Meeting of the Industrial Relations Research Association*, December 1961, pp. 198-200.

lem, it would be well to turn at once to exploring ways of reducing the dangerous side effects.

The very high unemployment rate among young people in recent years is still another problem that cannot be understood in its entirety in terms of the theory of deficient aggregate demand. More recognition needs to be given to what the increasing emphasis of our society on academic training and college education is doing to the minds of young people. The dignity of honest labor, whether skilled or unskilled, is no longer stressed by parents or teachers as it once was. Not all youngsters, however, are capable of climbing high on the competitive educational ladder. Some lack the interest, or the intelligence, or the emotional stability to do so. When they are told on all sides that life holds out little for a person who lacks a good education, it is not surprising that many young men and women, who could have become good workers at some trade, drop out of school and join the ranks of casual labor. Whatever the answer to this distressing problem may be, we can be quite sure that the mere expansion of aggregate demand will not solve it.

The main reason more attention has not been devoted to this and other peculiarities of labor markets is the preoccupation of economists with the problem of demand. The belief has developed and is now widely held that, whatever the cause or causes of unemployment may be, a sufficient increase of aggregate demand will in time work an effective cure. On an abstract plane this theory seems quite valid, as I in fact have shown by analyzing what would happen for a time if the government constantly kept injecting new money into the income stream. But I also concluded that demonstration by stressing the revulsion of feeling that would eventually be stirred by any such experiment.²¹ There are limits to the amount of inflation,

²¹ See pp. 179-182 of this paper.

and the inefficiency and inconvenience associated with it, that our country will tolerate. Indeed, these limits are more severe in actual life than in my illustration. The practical significance of this is that the discontent aroused by a large inflationary experiment would be likely to lead to its discontinuance before enough of a dent had been made in structural unemployment.²² Not only that, but massive political resistance could develop to any early repetition of the experiment even on the modest scale that might be needed to deal with that part of unemployment which, in the event of a recession, is really due to an insufficiency of aggregate demand.

I am well aware of the need for further research on the problem of business cycles and on the more general problem of maintaining aggregate demand at satisfactory levels. I surely hope that such research will go forward at Rice University and elsewhere. I particularly hope that economists will seek better understanding of the subtle forces that shape the confidence that businessmen, investors, and consumers have in their own and the nation's future. But I also feel that far more of the best thought of economists needs to be devoted to the several structural aspects of unemployment that I singled out for attention, as well as to related problems such as the influence of the minimum wage and current ways of administering welfare programs on the supply of labor, the influence of prejudice on the job opportunities of older men and minority groups, the effectiveness of both old and new training and re-training programs, the feasibility of reducing seasonal fluctuations in employment, and so on. If I am also right in thinking that comprehensive statistics on job vacancies are a vital mis-

²² Given the number of vacant jobs and the number of unemployed for the entire nation, the smaller of the two figures (or either one if they are equal) may be taken as a rough indication of the size of the structural problem.

ing link in our entire system of economic intelligence, there is plenty of useful work ahead for economists.²³

It is by patient extension of the still small area of knowledge and understanding that economics has made its principal contribution to public policy in the past. That is also the way in which new usefulness to our public policy of full employment will be found in the future.

²³ The new annual report on manpower (see n. 3) should foster a more balanced approach to the problem of unemployment. This report is required by the Manpower Development and Training Act of 1962.