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Volume Title: The Business Cycle in a Changing World

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Volume Publisher: NBER

Volume ISBN: 0-870-14200-3

Volume URL: <http://www.nber.org/books/burn69-1>

Publication Date: 1969

Chapter Title: The Problem of Unemployment

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Chapter URL: <http://www.nber.org/chapters/c1180>

Chapter pages in book: (p. 200 - 220)

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The Problem of Unemployment

SINCE EARLY 1961 our nation has experienced increasing abundance and prosperity. Production, both in the aggregate and on a per capita basis, has risen substantially and with little interruption. The like has been true of employment, the flow of incomes, consumer buying, and corporate profits. Our growing prosperity, moreover, has been shared widely by the nation's families, communities, and businesses. And yet, the good times of recent years have been clouded by unemployment.

Although the rate of unemployment has gradually diminished, it has consistently remained above 4 per cent—that is, above the “interim target” which the managers of our national prosperity have set for implementing a full employment policy. To find an unemployment rate as low as 2 or 3 per cent, it is necessary to go back to the decade preceding the recession of 1953–54. To find an unemployment rate as low as 4 per cent, it is necessary to go back to the boom of 1956 and early 1957. In 1964, our best year since then, unemployment averaged 5.2 per cent. And although the unemployment rate has moved

Fairless Lecture at Carnegie Institute of Technology, November 2, 1965. Reprinted, by permission of the publisher, from *The Management of Prosperity*, Carnegie Institute of Technology, New York, 1966, pp. 33–50.

below 5 per cent this year, it was still nearly 4.5 per cent at the time of the most recent survey.

The persistence of sizable unemployment in the midst of increasing prosperity has been a disquieting experience to thoughtful Americans. An unemployment rate of 4.5 or 5 per cent is high for any country, and it is uncomfortably high for a nation that aspires to greatness. For that very reason, it is important to approach our unemployment problem searchingly and yet guard against exaggeration.

An unemployment rate of, let us say, 5 per cent does not mean, as social critics sometimes suggest, that one out of twenty breadwinners is anxiously pacing the streets in search of any sort of job to enable him to feed his family. Taken as a whole, unemployed workers in our country are neither a static nor an impoverished group. Normally, a high proportion of those who are unemployed in a particular month are either working again or are out of the labor force the following month. Most unemployed men with family responsibilities manage to find jobs within a few weeks. Moreover, they usually can draw unemployment insurance or dip into their savings while looking for work. A large fraction of the unemployed consists of married women, teenagers, or pensioners, who often wish only part-time or intermittent work. Not a few of the unemployed have given up their jobs to search for better opportunities or a different style of living. Some of the unemployed actually have a job but have not as yet reported for work or are absent from their present job while looking for another, or are waiting to be recalled when the temporary shutdown at the plant where they work, lasting perhaps two or three weeks, has ended. On the other hand, some of those counted as employed are doing temporary or part-time work when they would much prefer to have regular full-time jobs.

We may draw at once two inferences from these facts. First,

minor and not unreasonable adaptations of unemployment figures may change their look. For example, if all those having a job were omitted from the unemployment count, and if the unemployment figure itself were expressed as a percentage of the total labor force including the armed forces, instead of the civilian labor force alone as is customary, the unemployment rate would be lowered by about 0.5 per cent; that is, an unemployment rate of 5 per cent would usually become 4.4 or 4.5 per cent. Second, the reported unemployment for any month or year does not tell us nearly enough either about the waste of resources or about the human cost that is connected with unemployment. To deal with the unemployment problem intelligently, it is necessary to know what types of people are unemployed and how strenuously they may be looking for jobs.

We are on safer ground in making relative comparisons of unemployment over time, but even here we must be cautious. Although our statistics of unemployment have been compiled on a virtually uniform basis during the postwar years, they are insensitive to gradual changes in the character of unemployment. One of the telling advantages that wealth brings to an individual or to a family is a widening of choice. Clearly, a relatively poor man is under greater pressure to take a job than a man of substantial means. The former may need to settle on a job promptly, while the latter can bide his time and explore opportunities more thoroughly. And what is true of men is even more true of their wives and children. Unless supplementary income is needed to provide the necessities of life, the main breadwinner is likely to encourage his wife to hold out for a job that is reasonably attractive, and he is especially likely to urge his son to look for a post that has something of a future. But if the growth of individual and family incomes has tended to make people more selective about jobs,

it has for that very reason tended to lengthen the usual interval of unemployment. The spread of unemployment insurance, and more liberal welfare programs generally, have also worked in that direction. The great merit of these social measures is that they maintain the flow of income on a modest scale even during periods of unemployment, so that even poor men may practice some of the discrimination in job choosing that comes as a matter of course to the well-to-do. Our statistical measures, however, do not recognize this voluntary aspect of unemployment, nor the fact that our growing prosperity and social legislation are tending to increase it.

Another factor that needs to be considered is the changing structure of the labor force. Although men are still the nation's primary workers, accounting even now for about two-thirds of the labor force, both the interest of women in gainful work and their opportunities have been growing rapidly. Women accounted for 56 per cent of the growth in the adult labor force during the eight years from 1948 to 1956, and they accounted for a still larger fraction—65 per cent—of the growth during the next eight years. Also, as the war babies have been coming of age, young workers have become a larger factor in the labor market. The number of teenagers in the labor force was practically the same in 1956 as in 1948; but they have become much more numerous since then. The increasing role of married women and young people in industry must be kept in mind in interpreting statistics of employment or unemployment. Since women commonly have responsibilities as wives, mothers, or housekeepers, they tend, on the average, to work fewer hours and less regularly than men. For example, about 48 per cent of the women who worked in 1963 were part-time or intermittent workers, while only 21 per cent of the men can be so classified. And just as family duties make women prone to part-time and intermittent work, so attendance at school has

similar consequences for many youngsters. That this factor is of some consequence is evident from the fact that in recent years a little over half of the teenage labor force has consisted of students.

The emergence of a large part-time and intermittent work force is one of the neglected aspects of the changing structure of the American economy. The growth of this part of the labor force has been substantial. Not only are women an increasing part of the nation's work force; it also appears that the proportion among them who seek part-time or intermittent work is tending to become larger. And although the great majority of men continue to be regular full-time workers, the proportion who work part-time or intermittently is also rising—indeed, it is rising faster than among women. Taking the entire working force together, we find that the part-timers and the intermittently employed accounted for 27 per cent of the population with work experience during 1950, for 29 per cent in 1957, and for 31 per cent in 1963. This upward drift reflects, on the side of demand, the rapid growth of trade, clerical tasks, and service occupations. On the supply side, it reflects the spread of public and private pensions, as well as the growing participation of married women and students in gainful employment. Elderly men on a pension can often get along without steady full-time jobs, and not a few of them are driven to part-time or intermittent work by the penalty imposed by our social security system on those whose income exceeds the low statutory maximum.

The changing structure of the labor force has left its mark on both the character and the magnitude of the unemployment problem. Whether unemployment is viewed from the side of efficiency or that of welfare, the unemployment of a student seeking a summer job or the unemployment of a housewife

seeking part-time work cannot be readily equated with the unemployment of the family breadwinner who needs a regular full-time job. Furthermore, the increasing participation in the labor force of women, youngsters, students, part-timers, and intermittent workers—these, of course, are overlapping groups—is exerting upward pressure on the unemployment rate.

A new entrant into the labor force rarely finds or takes a job immediately; in other words, he is unemployed for a time. These unavoidable intervals of unemployment tend to be repeated for intermittent workers, among whom part-timers are a large and increasing group. Women, whose role in the economy is growing, are typically less inclined or less able than men to end their unemployment by taking a job in another city. Indeed, they are even less prone to move to another occupation or to another firm within the city of their residence. That, of course, is one reason why the unemployment rate is characteristically higher for women than for men. Also, the unemployment rate for young men and women is consistently much higher in our country than for adults. There are many reasons for this—among them, the limited or utter lack of experience of young people, their low seniority status, and their healthy propensity to test their aptitudes and opportunities by experimenting with different jobs. My point at the moment is merely that youngsters are an increasing part of the nation's total labor force, and that students—who often seek part-time or intermittent work and whose mobility is necessarily very limited—are a large and growing part of the youthful labor force. Although it is difficult to determine the degree to which the various and complex changes in the character of the labor force are tending to influence the unemployment rate, I do not think there can be much doubt that the general effect is upward. One thing we know definitely—persons seeking part-

time jobs are an increasing part of unemployment. In 1964 one out of every six unemployed workers was looking for a part-time job, in contrast to one of thirteen a decade earlier.

Facts such as these deserve more recognition than they usually receive. Certainly, an unemployment rate of 4 per cent, or for that matter any other fixed figure, is an excessively crude guide to economic policy. It would be an error of judgment, however, to leap to the conclusion that unemployment of the magnitude experienced by our nation since 1957 is not a serious matter. Much of our unemployment has been concentrated—and still is—among low income groups, particularly Negroes, whose political voice is now becoming stronger. Unemployment contributes to crime and social tensions, and in recent years it has contributed also to racial strife. Moreover, unemployment tends to be a disrupting influence on people in every station of life, particularly in a society—such as ours—which is accustomed to identifying work with virtue. The fact that growing affluence has made people more selective about jobs, or that some individuals could give up gainful employment without inviting economic hardship, or that many individuals now prefer part-time work, does not mean that jobs have become less vital to personal happiness or individual fulfillment than they were a generation ago. Abundance as well as equality of opportunity is still the great American dream. No matter how we qualify the interpretation of unemployment figures, they do tell us that in recent years our nation has not succeeded as well as it did during the early fifties, or during other periods of prosperity, in enabling men and women—whether young or old, married or single, rich or poor—to fulfill the normal desire of having a job and thus finding usefulness.

The uneven impact of unemployment on people is perhaps its harshest feature. Factory workers and office workers may share the same roof, but the risk of becoming unemployed is

much larger for the former than the latter. When a slump in sales or some technological improvement leads a business firm to cut back its work force, the brunt of the adjustment is usually borne by ordinary production hands, especially those with low seniority status, while the supervisory and clerical employees are affected little, if at all. Again, seasonal factors are of little importance in some industries, but a major disturbance in others. Certainly, civil servants or even workers in the steel and automobile industries do not experience protracted periods of seasonal slack such as are common in the construction industry or in food canning or in the garment trades. The business cycle also impinges very unevenly on the lives of working people. When a recession develops and employment declines, the rate of decline is typically much larger for wage-earners than for the self-employed, for blue-collar workers than for white-collar workers, for manufacturing or mining employees than for those engaged in the service trades, and for workers in the durable goods branch of manufacturing than for those in the nondurable branch. These disparities of risk are at the very heart of the unemployment problem. Indeed, if all workers were subject to the same unemployment hazard, in the sense that the unemployment experienced during any year was shared evenly, a 5 per cent unemployment rate would mean at worst an unpaid—and perhaps unplanned—vacation of about two and a half weeks for everyone. Production would still suffer, but not necessarily the morale or the welfare of people.

The fact that the risk of unemployment has lately become disproportionately high for some major segments of our working population is therefore a troublesome development. Last year the unemployment rate for adult females was a third higher than for adult males. This is the largest such discrepancy in a dozen years. In 1963 the unemployment rate for

teenagers was three and a half times that of adult males, and in 1964 this ratio became still larger. There is no precedent for such extreme differentials, at least in the postwar period. The differential between whites and nonwhites has also widened ominously. Since 1955 the unemployment rate for all nonwhites has been rather consistently more than twice that of white workers. In the forties and early fifties, the difference between the two groups was much smaller. In the case of male teenagers, the average ratio of the nonwhite unemployment rate to that for whites was 1.1 for the years between 1950 and 1954, then rose to 1.6 during 1955-59, and reached 1.7 during 1960-64. In the case of female teenagers, the corresponding ratios were 1.5, 2.2, and again 2.2. I do not think that these wider differentials can be explained simply by the persistence of a relatively high rate of unemployment. I find, for example, that the comprehensive unemployment rate was the same in 1950 as in 1964, and yet all these differentials were then appreciably smaller.

The heavy impact of recent unemployment on teenagers, women, and Negroes means, of course, that unemployment has lately become increasingly concentrated among relatively inexperienced and unskilled workers. Available statistics do not enable us to differentiate very precisely between the skilled working population and the unskilled group. However, since experienced and more skilled workers predominate among married men, the unemployment rate for this group gives a clue to what has been happening in the market for skilled labor. So too, although more crudely, does the unemployment rate for adult males or the unemployment rate for insured workers. If we go back to the eighteen-month stretch from January 1956 to June 1957, when the economy was booming and jobs were plentiful nearly everywhere, we find that the unemployment rate averaged 2.4 per cent for married males,

3.4 per cent for adult males, and 3.4 per cent again for insured workers. In the years that followed, the unemployment of these groups became much higher; but by 1964 they began to approximate the 1956-57 boom level, and by the second quarter of this year they were fully back to that level. Meanwhile, the unemployment rate of teenagers, nonwhites, and women has persistently remained above the 1956-57 rates. This year, the gap has narrowed sharply for women, but not for nonwhites or teenagers.

These divergent trends suggest a sort of dual economy, with persistent shortages of skilled labor existing side by side with surpluses of relatively unskilled or inexperienced labor. The first Manpower Report of the President, issued in March 1963, strongly emphasized the prevalence of unemployment, and yet noted a shortage of scientists, teachers, engineers, doctors, nurses, typists, stenographers, automobile and TV mechanics, tailors, and some other types of labor. Since then, the increase of help-wanted advertising indicates that recruitment efforts by employers seeking skilled labor have mounted. And there are also other indications of increased inequality in the distribution of work among our people. During the boom of 1956-57, one out of every eighteen or nineteen workers engaged in moonlighting, and so it was still in 1963 and in 1964—although the rate of unemployment had become much higher. Meanwhile, overtime work at premium rates, which averaged 2.6 hours per worker in manufacturing during the boom of 1956-57, rose to 2.8 hours in 1963, 3.1 hours in 1964, and 3.4 hours in the first half of this year. In view of the extensiveness of overtime, it need surprise no one that part-time idleness—that is, the extent to which individuals seeking full-time work find themselves on part-time schedules—has been running lower this year and last than it did during the boom of 1956-57. Clearly, serious shortages in some major sectors of the labor

market have been existing side by side with high unemployment, much of it of a long-term character, in other sectors.

In our dynamic economy, shortages in some parts of the labor market frequently accompany surpluses elsewhere without becoming a matter of national concern. They are apt to become that, however, when the correction of the disequilibrium proceeds slowly; that is, when geographic pockets of chronic depression emerge or when persistently high unemployment develops in some major industries or occupations or other social groups. Two schools of thought on the unemployment problem have made their voice heard in recent years. According to the expansionists, whose views have dominated public policy in recent years, the fundamental cause of our relatively high rate of unemployment is a deficiency of aggregate demand. The structuralist school, on the other hand, claims that the fundamental cause is the intensified tempo of economic change, which has created more jobs than can be filled in some occupations and communities while substantial unemployment exists or is being created in others. In principle, these differences of diagnosis could be settled by comparing the size and composition of unemployment with the number and composition of vacant jobs. Unhappily, despite the general excellence of our statistical system, even rough statistics of job vacancies are unavailable on a nation-wide basis. The protagonists of the two schools have therefore had to rely on indirect and circumstantial evidence.

In the early stages of the debate, the expansionists tended to minimize the importance of structural changes. They took their stand on the theoretical ground that once aggregate demand increased sufficiently, the groups that have been suffering from abnormally high rates of unemployment would find their position dramatically improved. By and large, the structuralists conceded the theory. They insisted, however, that the im-

provement would come much too slowly, that it would involve the nation in inflation, and that the problem of unemployment could be solved without this heavy cost by concentrating on policies for better matching of jobs and workers. As the discussion proceeded, the gap between the two schools narrowed. The evidence amassed by the structuralists gradually led the expansionists to give greater weight to geographic, occupational, industrial, and other imbalances in the labor market. Also, since the new labor market policies proposed by the structuralists often required additions to governmental expenditure, they were to that extent welcomed by the expansionists. The expansionist school has persisted, however, in denying that structural factors are a greater cause of the unemployment of the past few years than they were in earlier times.

As far as I can judge, the expansionist theory is sounder in what it claims than in what it denies. In view of the fact that our nation experienced a recession in 1957-58, that the recovery which followed was incomplete, that another recession occurred in 1960-61, and that a good part of 1962 was marked by sluggishness, there can be little doubt that a deficiency of aggregate demand was a major cause of unemployment during much of the period since 1957. However, there are cogent grounds for believing that if the pressure of aggregate demand had remained at the boom level of 1956-57, the unemployment rate would still have been higher in recent years than it was then. In addition to the factors I have already noted, statistics on productivity suggest that the displacement of labor through technological and other improvements in industry has proceeded somewhat faster during the past few years than it did during the late fifties. To the extent that this has occurred, it has complicated the adjustment of the supply of labor to the changing requirements of employers. At any rate, with a part-time and intermittent work force growing, with a tendency to-

ward voluntary unemployment increasing, with the employment opportunities of the unskilled declining, and with inequality in the distribution of work increasing, it appears that our economy has been changing in ways that make it harder to achieve full employment merely by stimulating aggregate demand. If this generalization is valid, as I am increasingly inclined to believe, it would be wise to devote much more attention than we are giving to policies for facilitating the mutual adjustment of supply and demand in the labor market.

Fortunately, recognition of this need is increasing. While the dominant emphasis of economic policy in the past few years has been on the expansion of aggregate demand, numerous programs have also been initiated to improve the functioning of the labor market. These programs run the gamut from training people for available jobs to helping workers relocate where the jobs are or bringing new jobs to depressed areas. I cannot stop to examine or evaluate these programs. Surely, some suffer from being spread too thinly, and others are handicapped by overlapping authority or conflicting provisions. But what is chiefly important, the new activities being directed to the training or retraining of unemployed or poorly adjusted workers seem to be very promising. At first, these activities were focused exclusively on vocational skills. They are now being broadened to include also instruction in the rudiments of language, arithmetic, and personal conduct. Although these new educational efforts are still being conducted on a small scale, they are likely to expand as experience is gained and as the needed teaching and counseling staffs become available. We must not overlook, however, the lesson to be drawn from earlier experience with vocational education, namely, that constant vigilance is needed to assure that the teaching and counseling are realistically geared to the changing job requirements of employers. In 1918, when federal concern with vocational

education started, less than 30 per cent of those enrolled in federally aided vocational classes received instruction in home economics or agriculture. Incredible though it may seem, this proportion had grown by 1963 to over 60 per cent, while technical education languished.

Our governmental authorities recognize that the success of the new training programs will depend heavily on the effectiveness of the federal-state employment service. Modern high-speed electronic computers and telecommunication have opened up exciting opportunities. With their aid, it should be possible for an unemployed person to walk into a local employment office, express his need or preference for work, and be referred in a matter of hours, if not minutes, to a list of plausible jobs in his own community, or—if none are available there—to jobs in more distant places. Employers seeking to fill vacancies could be similarly served. If the employment service took full advantage of modern technology and began to function in this manner, our labor market—or rather that part of it being served by the public employment system—would become so organized that supply and demand could, in principle, be matched almost instantly. Some reduction of the level of unemployment, perhaps a very substantial reduction, is virtually bound to be achieved through such a reform. The results, of course, would be all the better if some practical way could be devised of coordinating the activities of public and private employment offices.

The effectiveness of the new training programs in reducing unemployment will depend also on how speedily and how accurately the authorities can detect shifts in occupational and industrial trends. Although good statistics are not enough to make good forecasts, they are an indispensable tool to the analyst and forecaster. Statistics on unemployment have already proved very helpful in the analysis of labor market

trends, but there is as much need for statistics on job vacancies as for statistics on unemployment. Recent research and experiments have demonstrated that useful statistics on job vacancies can be collected on a current basis, and the Department of Labor has therefore sought an appropriation for this purpose. In view of the need for job vacancy statistics on the part of administrators of the new training programs as well as local school authorities, vocational counselors, personnel officers, and practical economists concerned with labor market problems, I have no doubt that the Congress will in time provide the necessary funds; but it would be wise to take early steps to supply this vital missing link in our system of economic intelligence.

Besides devoting energy to new labor market programs, it is desirable to reappraise older governmental programs that influence the efficiency of the labor market. One of these is the social security system which has strengthened our economy and brought blessings to many millions, but which has also had some unhappy side effects. Whatever may be said of present eligibility requirements for unemployment insurance, they have not been adjusted sufficiently to cope with the increasing trend toward part-time and intermittent work. Too many individuals are tempted to work for a short time, then leave and draw unemployment insurance. Also, too many employers manage to attach workers to their establishments by a combination of subnormal wages and the assurance of unemployment benefits during protracted periods of seasonal slack. Of course, the employees of such subsidized firms often become unemployed only in a technical sense. The same is true of workers who have just retired on a pension and yet draw unemployment insurance. To the extent that these conditions prevail, they cry out for remedy. If such abuses were stopped or substantially reduced, our actual as well as statistical unem-

ployment would be somewhat lower, and there would be the added advantage that public policy could then look more favorably on the liberalization of benefits for the great mass of the unemployed who are truly willing and seeking to work.

More important still, there is a need to improve our understanding of the effects of minimum wage laws on the workings of the labor market. I have already noted the great influx of women and teenagers into the labor force in recent years. This major development in the market for relatively unskilled labor has been reinforced, on the supply side, by migration of both whites and Negroes from farms to the cities. Meanwhile, many employers have been finding ways of economizing on costs by substituting machinery or other automatic devices for unskilled or semiskilled labor. In these circumstances, in order to perform the function of bringing the demand for labor and its supply into mutual adjustment, the price of unskilled labor should have declined in recent years relative to the price of skilled labor.

As far as I have been able to learn from the meager accessible data, this did not happen. For example, records for the construction industry show an increase in average hourly wages of 40 per cent between 1956 and 1964 for skilled labor and 50 per cent for common labor. During the same period, the average hourly wage rose 36 per cent for skilled maintenance workers in manufacturing plants, and the increase was the same for unskilled workers. Again during this period, the minimum union wage rose 41 per cent for drivers engaged in local trucking and 43 per cent for their helpers. Systematic data for office employees go back only to 1958. Here we find that the average wage of office boys has risen more since 1958 than that of accounting clerks, and that the average wage of file clerks has risen more than that of any other group of female office workers. These comparisons, it should be noted, are

useful only in judging the skilled-unskilled differential of a particular industry or group. They cannot be used to compare industries, since the samples differ and so too does the treatment of fringe benefits.

If the wage trends that I have cited are at all representative, it appears that the skilled-unskilled wage differential has lately been out of equilibrium; in other words, unskilled labor has been relatively overpriced. One reason for this development is the tendency of trade unions to press for uniform or even narrower wage differentials between skilled and unskilled work. Another and more powerful reason is the minimum wage legislation of our federal government. During the postwar period, the minimum wage per hour has been raised four times, first in January 1950 when it went up from forty to seventy-five cents, next in March 1956 when it rose to a dollar, then in September 1961 to a dollar and fifteen cents, and in September 1963 to a dollar and a quarter. Each time the minimum was raised, it was set at approximately half of the average manufacturing wage. However, the statutory minimum was only 29 per cent of average hourly earnings in manufacturing just before the increase of 1950, while the corresponding figure reached 40 per cent just before the increase of the minimum in 1956, 43 per cent before the increase in 1961, and 47 per cent before the increase in 1963. There has thus been a strong upward drift across the years in the actual ratio of the minimum wage to the average wage. This drift is most simply indicated by the fact that the minimum wage rose 67 per cent between early 1956 and 1964, while average hourly earnings in manufacturing rose 34 per cent. Meanwhile, the federal minimum has become effective over a greater range of industry, and many states have likewise raised or expanded the coverage of their minimum wages.

When the statutory minimum wage rises, the effects spread

out. In the first place, forces are set in motion to restore previous differentials, so that there is a tendency for the entire lower end of the wage structure to be lifted. Secondly, the higher minimum has an influence on prevailing attitudes and opinion. Not a few uncovered workers are apt to feel that they too are entitled to a higher minimum and that nothing else would be just. This sentiment is often shared by others, including businessmen in the community, so that even some reluctant employers give way. However, the mere raising of the statutory minimum does nothing of itself to improve the productivity of workers, and it therefore also does nothing to enhance their worth to employers. In a large and complex economy such as ours, there is always some range of substitution, depending on relative costs, between skilled and unskilled workers or between labor and machinery of this or that degree of automaticity. The broad result of the substantial increase of the minimum wage in recent years has therefore been a curtailment of job opportunities for the less skilled workers. With unskilled labor being overpriced, employers have been using relatively more capital or skilled labor and relatively less unskilled labor. Large firms have frequently made this adjustment in the course of expanding their operations, while many small businesses that previously managed with a helper or two have learned to get along with just one or without any.

These broad observations are borne out by statistical evidence. During the postwar period, the ratio of the unemployment rate of teenagers to that of male adults was invariably higher during the six months following an increase of the minimum wage than it was in the preceding half year. The ratio of the unemployment rate of female adults to that of male adults has behaved similarly. Of course, the unemployment of teenagers and women depends on a variety of factors—certainly on business conditions as well as on the minimum wage. I have

tried to allow for this in a more refined analysis. It appears, whether we consider the unemployment rate of teenagers or that of women, that its primary determinants are, first, the general state of the economy as indicated by the unemployment rate of adult males, second, the ratio of the minimum wage to the average wage in manufacturing. The influence of the wage ratio turns out to be particularly strong in the case of nonwhite teenagers. According to my equation, it appears that in the absence of any change in the general state of the economy, another increase of twenty-five cents in the minimum wage would be likely to raise the unemployment rate of nonwhite teenagers by as much as eight percentage points. This, I need hardly say, is a very disturbing estimate. However, the same equation also indicates that a reduction of the ratio of the minimum wage to the average wage tends to lower the unemployment rate. In other words, the slow reduction of this ratio since 1963, when the minimum wage was last set, has contributed somewhat to the improvement that has recently taken place in the teenage unemployment rate. Of course, the effort made during the past few months to enroll teenagers in various training programs has also contributed modestly to this result.

The subject of minimum wages is surrounded by human emotion and political commitment. Compassionate concern for the poor does credit to our age, and yet the programs to which it gives rise can be effective only to the degree that they meet the test of economic soundness. The surest way to improve the income of poor people is to help them become more productive. However, some unfortunate people are so handicapped that they cannot become more productive. Hence, there is also something to be said for a society that would assure a minimum income for every family. Legislation of a minimum hourly wage does no such thing. It helps some of the poor and harms others—often those who need help most. In view of our

nation's newly aroused interest in the problem of poverty, economists can no longer ignore, as they virtually have, the minimum wage.

Beyond the questions that I have discussed, there is a great need for more vigorous research on labor market problems. The rate of unemployment today is appreciably lower than it was a year or two ago, and it may before long reach 4 per cent—a level that economists often associate with “full employment.” That condition, however, would still mean extensive unemployment for some significant parts of the working population. Partly for this reason, and partly also because the labor force will probably rise more rapidly in the years ahead, we should prepare for the future by improving our basic knowledge. According to a study by the Bureau of Labor Statistics, seasonal variations in industry and trade account for at least 20 per cent of total unemployment in a good business year. This major source of unemployment is not receiving the attention it deserves. The growth of overtime is another subject that calls for research. While scarcity of skilled labor may well be the principal cause of this development, other causes have been suggested. One is the steady expansion 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 is that employers are finding that disputes about work rules are fewer when they resort to overtime than when they rearrange jobs in the process of adding to their work force. Still another factor is that some large employers seek to regularize the number of jobs in order to maintain good community relations, and this necessarily means more overtime when sales are brisk. These and other suggested causes of the growth of overtime need to be thoroughly investigated. Still another highly important subject for research revolves around the need for business planning of technological

improvements or of shifts in plant location so as to ease the problem of adjustment for the employees.

Let me say, finally, that in this discussion I have assumed that the managers of national prosperity will seek to maintain aggregate demand at a high level. I have not stressed this need, because at present there is little danger that the state of demand will suffer from neglect. The danger is rather that philosophical commitment to the theory of deficiency in aggregate demand has now become so strong that it will lead us to seek solutions without attending sufficiently to the structural causes of unemployment.