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SPECIAL STUDY ON ECONOMIC CHANGE: A REVIEW OF THE PANEL MEETINGS MAY 31 TO JUNE 22, 1978

REPORT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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LETTER OF TRANSMITTAL

SEPTEMBER 22, 1978.

To the Members of the Joint Economic Committee:

Transmitted herewith is the summary of the panel meetings of the Special Study on Economic Change which were held between May 31 and June 22, 1978, in some 13 sessions. Earlier you received an excerpt of this summary, and this is the more extensive version which was promised then. The full transcript of the panel meetings will appear in print later.

I view the effort of the Joint Economic Committee to understand the nature and the consequences of the marked changes through which the country is passing as very fundamental to the creation of sound policies to guide our Nation. It is our expectation that the work under the label of Special Study on Economic Change (SSEC) will make an important contribution to this understanding. The panel meetings represent the first public airing of this work which is moving ahead without publicity in multiple endeavors.

Although the ultimate responsibility for supporting the committee in planning and operation of the panel meetings lies with the staff of the SSEC, major contributions in advice on nominating participants, contacting and briefing participants, sharing in the questioning of participants, and in drafting the original version of this summary were made by the following individuals in the Congressional Research Service; Everett M. Kassalow, Senior Specialist in Labor Economics; John B. Henderson, Senior Specialist in Price Economics; Dennis L. Little, Specialist in Futures Research; and Cynthia E. Huston, Analyst in Futures Research.

The views expressed in this report represent a staff effort to summarize what the participants said in the panel meetings, and do not necessarily represent the views of other members of the Joint Economic Committee or the committee staff.

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

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SPECIAL STUDY ON ECONOMIC CHANGE: A REVIEW OF THE PANEL MEETINGS, MAY 31 TO JUNE 22, 1978

INTRODUCTION

Under the authority of House Concurrent Resolution 248, agreed to July 18, 1977, the Joint Economic Committee is conducting a Special Study on Economic Change (SSEC) which has now been in existence for 1 year, and which is expected to be concluded in 1980. The underlying thesis is that marked changes have occurred in contemporary society, the domestic political setting, the larger world, modern technology, and perhaps in general expectations, all of which combined have made earlier prescriptions for economic policy much less effective than seems to have been the case for the first 20 years after World War II. If this be true, then an understanding of these changes and their interactions is important to the design of new economic policies which will meet individual human needs, the national interest, and the requirement for a healthy global economy. The SSEC is designed to explore these issues, not to provide quick answers to current headlines, but as thoughtful interpretations of longer term trends, set forth in a way to give a common base of understanding to policymakers whose own positions may cover a wide spectrum of views.

To conduct the study, the committee has supplemented the regular staff with a small number of additional people, and also called upon the resources of congressional support agencies, and a number of consultants and contractors. For this phase, the study has been divided into 10 major areas, each headed by a director who has assumed the day-by-day responsibility for recommending people to write supporting papers, and for overseeing their progress. Work sessions and seminars bring together all those involved for detailed planning and review of progress. In turn, the 10 area directors also meet with each other and with the committee SSEC staff and other resource people to coordinate all these efforts.

As a way of reflecting some of the progress in the larger study, panel meetings treating some of the crucial issues were held for 13 days between May 31, 1978, and June 22, 1978. The notes which follow summarize the principal findings of those meetings.

BRIEF SUMMARY

In the United States demographic changes have received increasing attention over the last decade. For the U.S. Congress, these changes affect congressional districting as well as Federal legislation requiring the use of population and related demographic data. Most people know that birthrates are down, the population is aging, single-headed households are up, the number of working mothers is increasing, and people are moving from the snow belt to the sun belt. Little attention, however, has been paid to the question of how the size and composition of the population, when combined with specific governmental programs and expenditures, directly and indirectly affects the economy. The opening hearings of the Special Study on Economic Change of the Joint Economic Committee explored these relationships. Specific attention was focused on birthrates, changing age composition of the population, household and family formation, rural migration, metropolitan and central city decline, and regional shifts.

Human resource elements which influence the course of the U.S. economy have been undergoing many important changes in recent years, with significant effects upon employment, productivity, and hours of work. While offsetting developments will mitigate some of these changes in the years ahead, one can anticipate continued problems in a number of areas of employment and productivity—problems which will tax the ingenuity of employers, workers, and government.

Although, for example, the great bulge of teenage entries into the labor force will taper off by the early 1980's, this will be much less characteristic of black teenagers. This group, along with the ever-swelling ranks of female workers, will continue to face special structural difficulties in seeking employment. Also on the labor market problem agenda is the necessity of coping with the mounting flow of illegal alien workers in the United States. The aging of the American population in coming decades will pose problems of employment for more older workers, as well as how to meet the cost of health and retirement benefits for this expanding cohort.

The employment market will probably continue to face the challenge of a labor force whose capacity to expand seems almost constantly to outrun new job creation, even when the latter is in a favorable phase in the business cycle. This is likely to tax manpower policy, and to make the latter more effective it will be necessary to bring about better linkages between government training and job creation programs, on the one hand, and the private sector on the other.

Some possible relief in the labor market may spring from the great growth in service industries. The growth in service employment is already benefiting by some switch away from capital-intensive industry investments, which are being pinched by energy costs, inflation, and what is, at times, onerous regulatory legislation. The availability of women in the labor force, as well as the rising education level of new entrants (compared to older groups) also encourages the more rapid growth of certain service sectors.

After a sharp increase in the immediate postwar decades, the productivity rate of the U.S. economy has begun to lag noticeably. To the extent that this lag was caused by the entrance into the labor force of unusually large numbers of less skilled or less experienced workers, some productivity improvement should occur in the 1980's as the distribution of the labor force becomes more favorable. The favorable impact of some environmental and safety legislation, as well as the growing costs of combating crime in industry, may continue to hamper productivity improvement. Several witnesses also argued that the recent unfavorable trends in capital-labor ratios should be offset by tax changes which would encourage more research and development and general business investment.

There was widespread agreement that better organization of the human side of American business, including improved labor-management relations and the wider sharing of decisionmaking, would encourage better human inputs into production, and strengthen the productivity rate. Such strengthening, it was agreed, was vital for protecting the U.S. standard of living, the effectiveness of U.S. industry in competing at home and abroad, and in laying the basis for an improvement in the quality of life.

Work time in the United States in recent decades has not followed its earlier course of steady and substantial cuts in daily working hours. Some of the forces which seemed to hold back such cuts in work time in the postwar decades are diminishing, and there was general agreement that the future would bring significant reductions in work time, primarily in the form of longer vacations and more personal holidays. Certain present-day governmental social security and income tax policies seemed to act as a constraint on any reduction of work time. Significant growth in flextime arrangements of work in American industry appear to be likely in the coming years.

The high concerns of recent years about unemployment are now matched or exceeded by concerns about inflation. These latter worries grow out of the high rate, the persistence, and the intractibility of this inflation, with the widespread unfavorable consequences which flow therefrom.

The panelists identified several causes of inflation such as government actions, wage/cost/price spirals, supply shortages, and at least briefly, aggregate demand.

Methods of slowing inflation were identified as fiscal and monetary policies; direct wage and price controls; measures to increase competition in labor and product markets; and a noncompulsory incomes policy. All of these methods seemed to have unacceptable costs or limited effectiveness.

A deterioration in the general social consensus was seen as making progress against inflation difficult.

Complex relationships were seen between growth and inflation. Rapid growth can stimulate inflation, yet multiple measures to encourage growth may have a positive effect on price stability.

Some inflation symptoms were seen as transient. But no quick fix is likely, and solutions may lie in gradualism, balance, and a sense of equity.

A monetary policy which accommodates ongoing price increases will provide the basis for persistent inflation. But reducing the rate of growth of the money supply would risk slowing down the growth of

real output. Slowdowns will have to be done with care over an extended period.

One panelist saw the financial system as fragile and crisis prone, with these difficulties leading to inflation, because the economy tends to follow a cyclical rather than a self-equilibrating path.

Monetary policy was seen as the key determinant of aggregate demand, and hence, of inflation. But breaking the momentum of a deeply ingrained inflation through monetary policy alone would cause an unacceptable economic slack. Therefore, measures should also include attention to technological change, steps to increase productivity, and to promote capital formation.

The panelists also identified many intricacies of banking and economic policy as affecting inflation, such as problems of long lead time investment, bank liabilities that are not part of the money supply, the ineffectiveness of ceilings on increases in bank loans, tax inducements to debt rather than equity financing, and the inadequacy of macroeconomic policies unaided by microeconomic measures.

Reasons for lower than desirable rates of investment were seen both in inflation and in uncertainties created by government. Inflation leads to higher interest rates and more uncertainty as to future prices and costs. Changes in government regulations, or even the fear of these, overshadow market forces in making decisions on investments.

Incentives to invest are reduced because of rising costs and lower present values of future returns. One panelist recommended a combination of a tight fiscal policy with easier monetary conditions as a way of stimulating capital formation.

Lower profit margins in recent years have discouraged investments. Inflation compounds this problem as investors demand higher returns on new investments to offset the effects of rising costs.

The tax system does not adequately take account of the rising replacement cost of capital in its present depreciation guidelines.

The aging capital stock and less investment in advanced technology in the United States compared with many other countries puts this country at a competitive disadvantage.

To a degree, consumer expectations of temporarily rising inflation may result in deferred major purchases and more savings, which helps to restrain inflation. But once inflation is seen as persistent, then buying plans may be accelerated on big ticket items before prices move still higher, which stimulates inflation.

Interest rates have risen steadily since 1976, while real profits have been squeezed. This has given a greater incentive to buy bonds rather than make investments in equity securities when the expected rate of return is so uncertain.

Opinion survey studies have suggested the danger of assuming past behavioral patterns will necessarily apply in the future, making it difficult to know the effects of proposed new economic policies.

In addition, tax and regulatory policies distort rational choices of investments.

The panelists agreed that consistent government policies might gradually lower inflation expectations.

Debt structure extends over time, and the past cannot be completely renegotiated, so that policy really can apply only to the ongoing, and we must recognize that it will be necessary to put up with some conditions in order to solve the more acute or serious problems.

DEMOGRAPHICS

Birthrate

The rate of population growth and the annual number of births in the United States has declined considerably since the 1955–65 decade. During those years the average annual increase in population was 2.8 million individuals. Since 1971, the yearly increase in the Nation's population has averaged only 1.9 million. The current fertility rate is 1.9 births per woman—a historic low. It is possible that the rate may drop even further to the lowest projection level depicted by the Census Bureau—1.7 births per woman.

While the national birthrate has declined, the percentage of births to adolescents has risen, and the percentage of adolescents who bear a child out of wedlock has climbed sharply. "Kids with kids" may impose considerable long-term costs on society. These were among the data presented by Dr. Peter A. Morrison.

The overall drop in the birthrate has transformed the population's age structure. Dr. Jerry L. Fletcher noted that the number of elementary and secondary students in public schools, for example, dropped by nearly 900,000 between 1970–74. The general pattern of decline, however, is not universal. A reduction in population in declining areas has brought an even greater reduction in school populations, leaving many city districts with students who require more individual attention because they are socially and physically handicapped. On the other hand, the Sunbelt region, outer suburbia, and rural areas are actually experiencing growth in their school-aged population. Any change in existing Federal legislation or new legislation designed to deal with any portion of these problems will need a degree of flexibility to apply differently to different conditions. Where enrollments are declining, it is likely that to protect the jobs of teachers, and to more fully utilize the physical structure, attempts will be made to expand the number of students.

Aging

Changes in the birthrate (along with related technological and health service and delivery advances) have led to an increasingly higher ratio of elderly. Dr. Mayer N. Zald noted that by 1995, persons over 65 will have increased 7 million over the present 23 million; this number will then increase to approximately 50 million by 2030. This may place increasing demands upon our Nation's health care system. As the population becomes older, one-half of all personal health expenditures might eventually be expended on the aged (i.e., the total cost of health and medical services might represent 12–15 percent of the GNP as compared to 8.6 percent in 1976).

Our Nation's social security program has been visibly affected (destabilized) by changes in the age distribution of the population. The problem became noticeably serious when, as a result of rising birth-

rates in the 1950's followed by a "baby bust" during the 1960's that there will be considerably fewer workers to support the vast number of persons on social security in the future.

From the point of view of the business, according to Dr. George H. Brown, the most direct impact of population shifts has been in the area of demands for goods and services. The major implication of the wide variation in the rate of population change for different age groups is the increased need for capital to finance the flood of plant equipment and to train workers required to meet the constantly changing but relatively short run distortions in demand. More rapid write-offs of assets devoted to production and distribution of age-related products and services, and quicker administrative decisions on rulings affecting these products was suggested.

Household and Family Formations

Morrison and Zald presented data on households. New households currently are forming at nearly three times the rate that the population is growing, a trend which is likely to persist in the coming decade if not longer. Between 1960 and 1976, the number of white households grew from 48.8 to 64.6 million and the number of black households grew from 5 to 7.5 million. This surge of household formations can be attributed to the massive numbers of young adults born during the postwar baby boom, who are presently passing through the prime household forming ages (20–30 years), the tendency for unmarried young adults to set up independent households, and the increase in the number of "survivor" (mostly elderly widows) households who choose to live alone.

American households appear to be becoming increasingly fragmented. Since 1960, unrelated individual households have grown at an annual rate of between five and seven percent compared with a 1- and 2-percent rate for households of related individuals. The growth in the number of unrelated individuals living together has had unique implications for the housing market in that while the family size is shrinking, the size of the home is increasing.

Family composition also has been changing. Between 1970 and 1976, the number of white female-headed households grew by 4.6 percent a year; black female-headed households, on the other hand, increased by 7.8 percent a year. This trend is highly correlated with the divorce rate and is unlikely to decline. In addition, the setting up of separate houses amongst the elderly and amongst females is partially a result of the availability of resources including social security and welfare payments. In general, these households are less well off.

Intertwined with the trend toward smaller families has been a noticeable increase in the percentage of wives who earn income. The future worklives of men and women will likely come to resemble each other more and more in terms of occupation distribution and time spent in the labor force. At the same time, the rapidly increasing representation of women in higher paying professional occupations could foreshadow a widening of income difference between families with two workers and those with a single outside worker. This income disparity would automatically be reflected in future patterns of expenditure.

Rural

Since 1970, for the first time in the Nation's history, population growth of non-metropolitan countries in the United States has exceeded metropolitan growth, according to Dr. Calvin L. Beale. Between 1970–76, rural areas across the country reported an influx of 2¼ million people as compared to an outflow of 3 million individuals during the 1960's. This recent rural growth is noticeable both in remote areas and in those areas which are partly urbanized and incipiently metropolitan.

Rural migrants tend to be young, well-educated and white. Older persons are undoubtedly in a minority in the migration although several hundred rural counties have become retirement destinations. A majority of them seem to be driven primarily by non-economic motives (i.e., improved retirement and/or recreation facilities, a better place to raise children, and, an overall improvement in the quality of life). A substantial fraction of the migrants accept an income cut, but the true effect on their cost of living has yet to be determined since the Federal Government does not collect cost of living data for rural and small town areas as a whole. Currently, the income disparity for non-metropolitan areas is 20 percent less than for metropolitan areas; however, incomes from the two areas are believed to be converging (i.e., since 1970, the growth rate of non-agricultural wage and salary jobs in non-metropolitan areas has been twice as high as for metropolitan areas). Non-metropolitan economies are becoming more similar to urban economies in many ways. The unemployment rate, for example, normally is lower in non-metropolitan areas, but it rose above that of metropolitan areas in the acute phase of the last recession.

Intra-Metropolitan

Urban data were analyzed by Dr. Thomas Muller as well as Morrison and Zald. The counterpart of the trend toward rural renaissance is metropolitan and central city decline. Central cities lost 8.2 percent of their white population between 1970–77 (i.e., 10.3 million people). This cessation of metropolitan growth, partly the result of the low birthrate, is mostly due to the excess of departing migrants over arriving ones. A thoroughly widespread phenomenon since the early 1970's has been net migration out of most central cities as sharp in the South and West as in the North. Minority populations in central cities, however, are actually growing at an annual rate of one percent. As the outflow of the white population from declining cities continues, the population left behind (the poor, elderly, and minorities) is proportionately more disadvantaged, impoverished, and dependent.

A substantial back-to-the-city movement among those currently residing in the suburbs or rural areas is not likely since the typical city does not contain the kind of base that would induce regeneration. Even a rise in gasoline prices would probably not change existing migratory patterns due to the fact that middle class people would be apt to use more efficient cars or other transportation before they would radically change their life style.

Once a jurisdiction stops growing, the traditional mechanisms of municipal finance are severely strained. The cost of paying for an infrastructure already in place has to be shared among fewer persons, increasing the per capita burden on the remaining residents. And, the cities are being left with those persons who demand more costly services yet can pay little of the expense. The school systems are a good example of this. To further complicate the picture, non-white youth unemployment is rising and as jobs continue to move away from the inner cities, the potential opportunities for black youth may become further diminished.

The movement of younger employed households out of the older cities has increased the importance of transfer payments to these cities. Between 1970–76, over 20 percent of all income growth in the country came from transfer payments and in some large cities the percentage has been as much as 50 percent. This large dependence on assistance in terms of some type of social or welfare payment is giving citizens more flexibility to live where they prefer which is not our large cities. As transfer payments approach 50 percent of all Federal outlays, their impact on where people choose to locate will be even more pronounced.

Regional Development

With a declining birthrate, regional migration has been a prime factor in explaining an area's population growth or decline. Immigration from other countries is the second major cause of population growth particularly in New York, California, and Texas.

The contrasting developments in the Northeast and the South demonstrate how recent shifts in net migration, together with the overall drop in the birthrate, have produced sharply diverging rates of population growth, according to Morrison. The Northeast is now experiencing a net reduction in population due to the fact that between 1960–75, outmigration offset the natural population increase. By contrast, while the population growth rate in the South during the 1970's did not differ appreciably from that of the 1960's, the source of the South's population growth did change. The South's present margin over the Northeast, therefore, is due to migration whereas in the 1960's it was due to natural increase.

The crux of interest in the regional population shift lies not so much in the gross figures on the national population slowdown as in the political, economic, and cultural changes that regions undergo as migrants move among them. Migration shifts have begun to reshuffle traditional power bases across the Nation and consequently are posing six common kinds of problems:

Head-count concerns (formulas for distributing Federal largesse typically give weight to number of inhabitants; therefore regions unable to boast the same if not more bodies may lose funds, even though they may deserve more Federal money for that very reason).

Labor force quality concerns (young adults educated at one region's expense may move and take their investment with them).

Concerns about dependency (accumulation of large numbers of people receiving public assistance impose real and perceived costs on certain areas).

Concern over undocumented aliens (wide disagreement persists about the effects of illegal aliens as they scatter throughout the Nation).

Local shrinking pains (non-growing areas continue to face problems of residential and productive obsolescence and tax bases will shrink as service demands grow due to selective outmigration and the added dependency burden).

Newly experienced growth (arriving migrants cause congestion, sprawl, and support costs adding to the frustration of local officials who are unable to dampen the external forces that attract migrants in the first place).

Robert Theobald suggested that the mass movement from north to south and east to west is not in the best interest of any region or individual. Therefore, it is in the context of maximum vs. optimum rates of economic growth that total rethinking of the regional issue may be feasible and necessary. It seems clear that opposition to growth for its own sake will increase. Individual attitudes are changing and people seem to be moving away from a desire for a higher standard of living toward a wish for better quality of life. Thus, some believe there is a need to construct a new economy theory to capture these elements and values. This theory might have communication institutions replacing our present controls models as the Nation moves from an industrial/mobile society towards a communications/community society.

Next Steps

The objective of these hearings was to determine how demographic change might affect or be impacted by economic policy. While the numbers are reasonably clear, the nuances and secondary implications are not as clearly focused. The witnesses explored many of the changes in depth, but the post-hearing analysis revealed some major questions which may need to be explored in later phases of the Special Study on Economic Change. Three of these include:

With the shift in size of various age cohorts because of a decline in the birthrate and an aging population, will new personal problems and maladies arise that will put unique pressures on the human services side of the welfare state?

Does the drift toward rural areas have such a negative impact on U.S. economic policy that we ought also to have a population policy?

Is there an institutional means whereby technical demographic analysis could enter the policymaking process in a more systematic and timely fashion?

LABOR FORCE TRENDS

Need for Better Projections

Several of the most critical labor force developments of the past decade or so were unforeseen, or certainly insufficiently emphasized in earlier demographic and labor force projections according to Prof. Karl E. Taeuber. These have included:

The great teenage influx into the labor force.

The enormous step-up in the labor force participation ratio among women.

The large flow of immigration, both legal and illegal.

The impact of a growing older-age group in the population.

Inadequate demographic and labor force projections make it much harder to shape public policy. Good projections are an early warning system that, by alerting us to dangers and consequences, help us foresee and, it is to be hoped, avoid or mitigate problems. Effective projections are a tool to assist policymakers to intervene in an effort to create a better future.

The various U.S. statistical agencies charged with data collection responsibility have served the Nation well. They have been in the forefront in the development of research tools.

However, the professional research and analysis needs and responsibilities of these agencies have not yet been sufficiently recognized. It is these analytical resources which must be strengthened, if improved projections are to be available for our use in the future.

Youth Employment in General

The enormous increase in teenage job seekers in the seventies was largely unforeseen by demographic specialists, even in the face of the baby boom of the post World War II period.

This teenage bulge and flow into the labor force is now peaking, and will have no counterpart in the mid and late eighties, because of a slip back to relatively low birth rates. Taeuber notes, however, the U.S. tradition of fairly high fertility plus the great value placed on family and home may once again produce conditions under which birthrates will go back up. He does not share this view, personally, but points to this possibility as having future significance for future labor force trends.

The sheer numbers of young people who have come into the labor market over the last 10 years have tended to produce high unemployment rates among the Nation's youth, even when the country as a whole has been at or near full employment. Prof. Bernard E. Anderson points out that black youth have been particularly disadvantaged, and over the past 20 years their unemployment rate has been above 25 percent. (For white youth this figure did not exeed 13 percent.)

It is estimated that almost one-half of the unemployed are young people aged 16–24.

Minority Employment

The passing of the baby boom cohort should, in the next decade, ease the unemployment problems of youth, as their numbers decline in proportion to other groups in the labor force. Anderson points out, however, that present demographic data suggest that this decline among youth entrants to the labor force will be far more conspicuous among white than black youth. The higher birth rate among blacks, plus the location (urban ghettos often) and discrimination and educational disadvantages of black youth are likely to keep their unemployment rates high in the coming decade.

Some differences of opinion were expressed as to the significance of the effects of minimum wages on youth unemployment, particularly black youth unemployment rates. Anderson felt there was some research to support the view that the minimum wage legislation had negative effects on youth employment.

Research cited by Anderson reveals that those youths without any serious work experience during their teens, continue to have great difficulty in obtaining decent jobs as adults, when compared to those who do obtain almost any kind of job during their youth years. This indicates that sitting back and merely waiting for teenagers to age as a solution to their job problem will not work. Rather, Anderson and also Assistant Secretary of Labor Arnold Packer believe that we should continue targeted efforts to alleviate black teenage unemployment. In fact, Anderson stated that the future reduction in teenage labor force entries, do not suggest that remedial employment and training programs will be less necessary in the years immediately ahead than they are now.

Attacking specific areas such as the black unemployment rate, is important to any future efforts to cut overall unemployment. Even under a relatively favorable employment picture (an unemployment rate down to 4.8 percent by 1983), Packer notes the black unemployment rate would still be 9.2 percent, or 2.2 times the white rate. If, by targeted efforts, the black rate could be chopped to 1.5 times the white rate, the general unemployment would fall, in 1983 projections, from 4.8 to 4.4 percent.

Specific structural unemployment, such as among blacks, should be attacked in order to lower the general unemployment rate. Funds for programs aimed at structural unemployment increased from $4 billion in 1974 to $12 billion in 1979. Packer acknowledged that budget outlays for manpower programs, including job creation and training expenditures, would continue at comparably high levels in the eighties, even assuming that the general unemployment rate came down to 4.8 percent. The Labor Department anticipates that the President's welfare reform proposal plan for job creation is on the order of 1.4 million jobs, and to this one would add the hundreds of thousands of targeted jobs for special, structually disadvantaged youth and others—all of which gets close to 2 million slots of some sort.

Women in the Labor Force

The second of the demographic trends affecting labor which was largely unforeseen, has been the enormous increase in labor force participation by women. Alice M. Yohalem reported the female labor

force participation rate of 36.7 percent in 1962 had increased nearly a third to 48.1 percent in 1977. Current forecasts suggest that the number of working women will continue to grow substantially, about one-third again, by 1990. Even this may be an underestimate since official forecasts have tended to underproject female labor growth rates.

While economic pressures doubtless are the primary explanation of growing female labor force participation, much of it also springs from the need for self realization. For example, one sample which asked working women if they would continue to work even if they had no financial need elicited a reply of yes from almost 60 percent.

Unemployment rates for female workers tend to be relatively high. This takes on growing social consequences in view of the increasing number of families with female heads of household (14 percent in 1977). One limited answer to the employment problems of female workers is in part-time employment already more characteristic of women than men. More than one-third of females and only 13 percent of males worked part-time in 1976, although not all part-time work is a matter of voluntary preference.

The anticipated continued rapid growth of the service sector which has traditionally drawn heavily upon female employees, should help ease somewhat the employment-unemployment problems of women in the years ahead.

Special targeted employment and training programs for women workers are also seen as part of any succesful attack on the general unemployment rate. The female-male unemployment ratio has been 1.3 to 1.0. Even a modest reduction in the ratio to 1.15 would bring the overall national rate down by a quarter of a percentage point.

Training and Employment Programs

A move to target federally assisted employment programs even more forcefully in the future than has been done in the past in order to relieve structural unemployment, was strongly recommended by Dr. Eli Ginzburg, Chairman of the National Commission for Manpower Policy. Present-day eligibility requirements under CETA programs embrace up to 25 million people, and this, he said, permits entirely too much creaming. He maintains that it does not give the effectiveness it should if the economically, structurally disadvantaged are to get the maximum assistance from Federal manpower programs.

The Federal Government needs also to develop better information checks on the CETA program. Ginzberg said if a Federal-State-local system aimed at the disadvantaged in the labor force (including youths, blacks and women) is to be a responsible system, the Congress must have a better information system than it now has. The division of manpower programming and funding between the Labor Department and Health, Education and Welfare adds to the problem of responsible oversight, and Ginzberg argued for getting manpower programs back into the Department of Labor.

The recent emphasis on public service employment programs is understandable in the light of the high levels of unemployment, but its present level looks fairly large in view of the lack of evidence that it is a good transitional device to get people into permanent employment. Ginzberg indicated that he and his associates were dubious about going

above that figure of 725,000 public service jobs. In turn, this suggests the need for a large training component in all manpower-job programs, if a genuine transitional effort is to be made.

A large proportion of all the manpower training and job creation programs, to date, have been primarily income transfer rather than a permanent work and employment enhancing effort. Indeed only in the past year or so with the lifting of Federal job creation (public service employment) to the level of 725,000 has any dent been made by manpower programming on the Government job market. Even the 725,000 level is less than 1 percent of the jobs in the United States. Prior to the past year or two, funding of manpower programs was so modest, when compared to other countries such as Sweden or Germany, that its being characterized as an income transfer should come as no surprise. Serious training frequently involves as much as 1½ years of support, and the earlier programs did not provide the resources for such an effort. The tendency was to thin out dollar support, give a little bit to a lot of people, resulting in income support, rather than manpower development.

For the future, Ginzburg, strongly urges that there be greater linkages between all Federal manpower programs and the private sector. Until now, Federal efforts to effect cooperation with the private sector in promoting manpower training and job creation have had only limited success. According to Packer, the Labor Department's new CETA proposals anticipate a great expansion of programs aimed at encouraging the private sector, with appropriate Federal assistance, where necessary, to undertake much more employment and training of structurally disadvantaged workers.

Edward A. Robie argued that considering the necessary, related human aspects of counseling, encouraging and supporting the integration of structurally disadvantaged workers in private employment, it is likely that smaller rather than larger business establishments might be a more fruitful target for Federal programs in the future.

Expansion of the Labor Force

In looking to future employment trends the labor force itself exhibits a remarkable capacity for expansion. The more jobs created in recent years, the more this seemed to elicit greater labor force participation.

The potential increases in labor supply from immigration as well as the general encouragement which a dynamic economy gives to wider labor force participation seemed to rule out labor shortages in the U.S. economy in the near future.

In the United States, female labor force participation has risen along with new job creation in recent years, and thereby kept jobless rates from dropping more than they have. Yet the United States is still well behind Sweden in female labor force participation rates, so this area of labor force expansion is far from exhausted. The new legislation on the rights of older workers could, if inflation continues, step up their labor force participation. Moreover, it is clear enough that many of the youngsters in and around school would enter the labor force, if new job creation were sufficiently encouraging. Thus, in spite of the outstanding record of job creation in recent years (6 million jobs

added to the U.S. total in 2 years, 1975–77), unemployment remains high, and a large number of potential employees overhangs the general labor market. All of this convinced Ginzberg that the number interested in jobs was beyond the economy's reasonable capabilities in the short run—not in the long run. Indeed, the enormous increase in jobs in the past 2 years were beyond what a wild optimist might have foreseen, and yet even these barely kept ahead of a booming labor force. This great increase in jobs, incidentally, far surpassed all the European economies where job and labor force growth frequently approached a zero level.

Service Industries

A careful examination of recent trends in the service economy provided somewhat greater optimism with regard to new job opportunities in the judgment of Dr. Irving Leveson. Several factors are leading to a shift from capital intensive to more labor intensive production, with resulting greater boosts in employment than might have been anticipated by simple projections from even the recent past. Among these factors have been: the rapid rise in energy prices (which puts a greater squeeze on capital intensive industries); the effects of inflation which tend to cause a front loading of costs for capital projects and is now somewhat discouraging to capital intensive industry; and the increased costs for environmental and related types of regulations, which have fallen particularly heavily on capital intensive industries. Added to these factors is the greater availability of the type of labor (female, better educated, etc.) which also encourages investment flows into many of those service type industries which tend to be more labor intensive. These trends help account for the rapid employment increase in recent years, and also offer ground for optimism as regards job creation in the immediate future.

In the past many service jobs carried with them relatively lower wages and fringe benefits than was true in most goods production. With the great growth of investment in these sectors comes modernization, larger employment units, and with this will also come greater unionization and increases in workers' benefits, according to Leveson.

The possibilities of service industry expansion are in the process of development. Productivity in many services which has lagged behind that of goods production, can also be expected to increase, as investment flows to that sector are stepped up and the size of production units increased. Indeed, it is likely that obsolete Federal methods of measurement are already understating productivity in the services, as for example, in hospitals. This, in turn, tends to overstate price increases in those sectors which leads to an overstatement of inflation. This can lead to escalation of other prices and wages which are adjusted to these inflated indexes. All of these produce a kind of ratcheting effect. New resources should be allocated to improve the various measurements of the service sector.

Personnel Policies

While the great influx of women and teenage workers has posed a variety of macro-economic and manpower problems for the ecoonomy, the same forces have tended to press new micro challenges on American management according to Robie. The large scale availability and

recruitment of minority workers and female workers has forced a reshaping of many business personnel policies. The need to come to terms with these groups which are understandably sensitive of their rights imposes new responsibilities upon management. Added to this are such new laws as OSHA and ERISA—and the combined effect of all these new forces is to construct a greater sense and practice of due process rights for individual workers and groups in industry—as against the older, less challenged prevalence of management rights. The assertion of the rights of these new groups is often backed by legislation. Some general dissatisfaction with the work environment is also compelling management to use its skills to the fullest and in many new ways, in order to maintain productivity levels. In the past this "due process" for individuals has been associated with unions, but the process continues to grow today, even though the growth of unionism has been leveling.

Immigration

Among those parts of the U.S. labor force whose growth has been above average in recent years, David S. North noted, we should include illegal aliens whose numbers have been increasing rapidly, both absolutely and relatively. While it is difficult to estimate the number of undocumented workers precisely, one respected estimate by the Social Security Administration, put the number of illegal aliens in the Nation at 3.9 million as of April 1973. This figure has undoubtedly grown since then, and there are certainly several million illegal workers here now. There is a pressing need to bring the 1973 estimate up to date, which would cost only around $50,000.

In a sense, illegal workers already here, and those who seek entry (an almost inexhaustible potential) are like a safety valve for the U.S. economy. They represent a fairly quick, relatively cheap means of increasing the labor force in a relatively short time. On the other hand, they cluster in jobs which pay low wages, and depress conditions in that part of the labor market. Since that low-end of the labor market is already a loose one, the illegals tend to impact upon (by displacement and/or lowering of standards) mostly those workers (blacks, Puerto Ricans, teenagers, the aging, the handicapped, and women) who are already in a relatively weak position.

While it can be argued illegal workers often take jobs Americans might not accept, at the same time they undercut the labor market position of the unemployed in the United States. Such jobs could and possibly would be made more attractive to American workers if a large supply of illegal workers were not available. The kind of clustering of illegal aliens which tends to occur in certain job markets leads to a situation where these jobs get to be known as jobs for illegals and no one else even applies for them.

The illegals are understandably appealing to many employers. They are generally hard working, pleasant, attractive, docile and uncomplaining. They are also favored by some employers because of their powerlessness since they cannot appeal mistreatment, claim unemployment insurance, etc.

To cope with the problems of illegals in our midst and the continuing flow at our borders, a five-part program was suggested:

A generous amnesty policy for most illegals already here, such as converting most illegal immigrants' status.

A serious effort to control our own borders to reduce sharply future illegal entries. More resources are needed to accomplish this goal.

Enact legislation to eliminate exploitation practices by passing an employer sanctions bill.

Use the temporary worker program of the Immigration Act to relieve any local shortages, rather than revive the bracero program.

Adopt a much tougher program vis-a-vis nations which send us illegal immigrants. We should help them expand their own labor intensive development programs, and press on them other measures to improve education and income distribution. This, in turn, might help reduce the birth rate in these countries, and relieve emigration pressures. Unless some progress is made in reducing the great social and economic inequalities between the United States and some of its Caribbean and Latin American neighbors, pressures for emigration in these latter areas will continue to be very great.

Older Workers

Few issues are as fraught with significance for the development of the U.S. labor force as those usually subsumed under the title of the older worker. Dr. Harold L. Sheppard noted that this group in the labor force, usually defined as those over 45 years of age, tends to experience significant structural unemployment. The labor force participation rate of this group varies almost directly with changes in the business cycle. A kind of early, involuntary retirement sets in among older workers when the economy declines, and frequently this retirement becomes permanent. Yet there is growing public agreement that it is desirable to expand job opportunities for older workers, to offset what otherwise will be the growing burden of supporting an expanding aged population.

The new legislation lifting the retirement age to 70 is recognition of the fact that we are coming to a new understanding or definition of what is "old." With improved health and greater longevity, it is increasingly recognized that 65 year olds are today generally in much better physical and mental shape than 65 year olds of a previous generation. It will be to their advantage and to society's advantage to insure adequate work opportuntities for this age group.

PRODUCTIVITY

After reaching a robust level in the first two decades after World War II, the U.S. rate of productivity output per manhour began to stagnate. Without some changes in economic policy as well as on the human-organizational side of American business, the prospect is for some modest recovery in that rate, but it will probably continue to lag behind its peaks of the fifties and early sixties.

Benefits of Rising Productivity

Dr. George H. Kuper noted productivity can be a major tool in helping to achieve a number of important national goals, including higher living standards, inflation control, job conservation, and a better quality of life. It can hardly be a coincidence that price stability was achieved in the first half of the sixties when the productivity rate was at a substantial 3.6 percent per year. Job conservation is enhanced when high productivity offsets rising wage costs, and it enables American companies to compete effectively at home and abroad. The links between raising living standards and rising productivity are clear, but these become even sharper as we enter a period when there may be lower rates of labor force growth. Higher productivity enables more people to meet their material wants and then they come to place greater value on leisure, education, health and recreation, all of which enhance the quality of life.

Productivity Trends

Jerome Mark said the facts about recent productivity trends are not much in dispute. In the first two decades following World War II, output per manhour increased approximately 3.2 percent per year. In the ensuing 10 years, that rate fell to 1.6 percent per year. (The most commonly used productivity measurement should, however, be distinguished from what is sometimes called total factor productivity which is a more general measure.)

The principal explanations for the drop off in the productivity rate offered by Mark are:

Changes in the composition of the work force (a rising proportion of women and young workers who, at first tend to be less productive than more mature workers).

The effects of inter-industry shifts. In earlier decades the economy gained in efficiency from the shift of millions of people out of agriculture, a lower value added sector, to industry. This source of gain was soon largely exhausted and relatively little of the work force was left in agriculture. About 12 to 18 percent or 0.2 to 0.3 percentage points of the decline in the recent productivity rate, is attributable to general work force changes. In the earlier postwar decades, the shift of workers out of agriculture to industry added as much as 0.4 percentage points to the productivity rate, but since 1967 such shifts have accounted for less than 0.1 percentage point.

Some decline in the capital-labor ratio. Between 1966 and 1973 the relative (to employment) reduction in business investment may have slowed the productivity rate as much as 0.2 percentage points per year. Trends since 1973 are difficult to evaluate, since the 1975 recession naturally had a drastic effect on investment. The full decade low productivity trend 1967–1976 is, therefore, to be taken with some caution.

Future Prospects

Future productivity prospects appear somewhat brighter than the experience of the most recent decade. Mark noted that the composition of the labor force should be more favorable in that the bulge of teenage entries will be over by the early 1980's, while the continued increase in the participation rate of women will be primarily in the central age groups. Moreover, the proportion of women entering semiskilled, skilled and professional occupations, with the latter especially tending to be above average productivity, it expected to increase over the next decade. Little or no leverage for the productivity rate can be expected from agriculture to industry shifts and future capital-labor ratio trends are uncertain. The net result may be a productivity growth rate lower than over the past 30 years (2.8 percent per year), but at a higher rate than in the most recent decade.

The productivity slowdown from 1966 to 1974 might not seem to have been particularly disturbing from the standpoint of long-term growth, being associated with changes in the labor force and some dip in the intensity of use of employed labor and capital from a peak reached in 1966. Beginning in 1974, however, this comfortable characterization of the productivity slowdown has less application, and we now seem to be confronted with new and serious deterrents to productivity growth.

The low productivity rate in recent year, and also the slow recovery from the recent recession can largely be attributed, in the view of Dr. Edward Denison, to the diversion of a growing share of the labor and capital employed by business to pollution abatement and to the protection of employee safety and health. In addition, he stated, rising crime has forced business to divert resources to crime prevention, and thefts of output have directly reduced measured output. These changes in the legal and human environment in which business operates are estimated by him to have retarded the growth rate by 0.4 percentage points.

These same factors present a serious problem in any consideration of future economic trends since productivity remains as, in the words of Prof. Solomon Fabricant, the major source of a higher standard for our people, and it is vital to the maintenance of the economic and political position of the United States among nations.

Fabricant's research does indicate, however, that the general, economy-wide level of productivity in the United States continues to be ahead of other democratic, industrialized nations. Taking the United States as 100, for example, in 1975, his estimates show that output per employed person in Canada was 90 percent compared to the United States, Germany was 73, Japan stood at 60, the United Kingdom, 58,

and the U.S.S.R., 34. On the other hand, Kuper noted that an international panel of experts reported to the U.S. National Center for Productivity and Quality of Working Life that future productivity prospects for the United States tended to be poorer than for its trading partners in Europe and Japan. Some of this foreign gain, however, would still be in the nature of catching up with U.S. technology and superior organization. The Japanese, for example, whose productivity accomplishments are often cited, are still, according to Denison, in some respects only catching up with the United States, although they are equal or ahead in a few industries like steel or shipbuilding.

Inhibiting Factors

Estimating future productivity trends in the United States, when compared to earlier post-war years, Fabricant like Denison tended to a somewhat pessimistic view. Four decisive factors, he felt, will affect future productivity trends:

The state of laws and regulations aimed at goals other than growth. These regulations divert management's time as well as resources.

The cartel induced rise in the price of petroleum which rendered a significant part of the Nation's capital obsolete.

The relatively great recession that began in 1973, and which has added to the heavy uncertainty of business.

The high and unsteady inflation rate, and the erratic (and inept) governmental efforts to cope with it added to this business uncertainty.

The inflation, among other things, has led to some overtaxing of business which adds to business uncertainty.

While there were some shadings of disagreement among the various technical experts who testified on productivity trends, there is a consensus among them about the main elements in recent productivity trends and near future prospects. Such a relatively rare consensus indicated the value of careful investigation and the need for thoughtful airing and exchange of information. This kind of agreement might serve as a model for reaching consensus in other critical economic and social areas which at the present time are centers of great diversity and conflict of opinion among different socio-economic groups in the United States. This present diversity contrasts with earlier post-war decades when a greater degree of consensus among groups made it more plausible for the Nation to come to grips with some of the difficult issues then confronting the American people.

National Center for Productivity and Quality of Work Life

Given the importance of productivity, several witnesses took pains to express their support for the National Center for Productivity and Quality of Work Life which is being phased out in September 1978. They felt great value in focusing attention upon productivity, by having one special agency devote resources directly to its study and understanding. Jerome Rosow, Director of the Work in America Institute, noted that some of the very countries which were registering much greater productivity gains than the United States in recent years have the most strongly backed governmental productivity centers.

Mark, Denison, and Fabricant all stressed that no one factor could be depended upon to accomplish this desirable objective. A variety of capital, labor, education and technical factors influenced productivity growth.

The Need for Business Investment

Dr. Michael Evans and Prof. John Kendrick stressed the need to encourage business investment as a centerpiece in a productivity improvement program. Both of them proposed that special incentives, tax credits or other subsidies, be used to shore up lagging expenditures for research and development. Such policies would offer a strong payoff in productivity—as much as 0.5 percentage point in the rate, according to Kendrick.

Tax cuts to improve the flow of capital investment were also proposed to strengthen productivity. The relationship of tangible investment and of stock prices to construction costs, with a lag of 1 year, was also held to be significant for potential productivity improvement. Improvement in stock prices tend to induce firms to engage in spending on new business construction and equipment. For this reason, Evans stated, a rollback in the capital gains tax in order to assist the stock market might also be favorable for productivity. Evans and Kendrick shared Denison's view that government regulations such as OSHA and part of the environmental control program had significantly retarded productivity.

In addressing the question of future productivity growth, several witnesses insisted that even a restoration of the best prevailing rate in the post-war period would not be sufficient to allow us to keep pace with our main competitors. According to Kendrick, a general, national, economic growth rate of 5 percent might be possible, if some of the aforeproposed tax changes are adopted, to release the dynamic forces of the private economy.

Other Spurs to Productivity

Broad proposals to expedite productivity growth included:

Improved arrangements among government, private enterprises and science and technology centers—this especially to include more effective relations between university technology centers and business.

Improving productivity in the already large public sector, which presents special challenges in the absence of the clearcut indicators of accomplishment such as profitability. Improving public management is one clear road to pursue in the improvement of productivity in this sector, and related to this is the need to develop effective performance indicators, such as unit cost data in the public sector, according to Kuper.

Considerable emphasis was placed upon improving human relationships at the work place. Rosow pointed out that while technological advancement is the main cause of productivity growth this is also a good bit of illusion, since technology is only a potential for productivity. Nothing really happens with technology until people—that is, labor and management—make it happen.

For labor and management to improve productivity, four conditions have to be met; namely:

Management must clearly address the goal of improved labor-management relations to improve productivity.

There must be provision for effective gain sharing between the parties.

There must be an assurance of job security.

There must be a free flowing interchange of ideas.

Worker Participation in Decisionmaking

While an adversary nature characterizes labor-management relations in the United States, there is a growing demand on the part of some workers for greater participation in industrial decisionmaking. Management in a few companies has responded to their challenge and there have been a significant number of useful experiments wherein employers and unions have joined efforts both to humanize the work environment and also increase productivity. Several such cases, including those involving plants of the General Motors Corp., and Nabisco, were cited by Ted Mills.

Some caution was expressed lest the pursuit of new work humanization and participation programs overlook the fact that in many work settings basic conditions such as noise and dirt levels, speedups, unsafe and dull work, still demand radical improvement. Conditions such as these, over the long run, lead to less productivity and poorer products. One union witness, George J. Poulin, noted that each day his organization received 10 to 15 letters from workers who are suffering from liver damage, brain damage, emphysema, brittle bones, rashes, blurry vision, and thousands of other crippling diseases, which have their origin in the work place.

The difficulties of structuring a system of cooperation to advance work humanization and worker participation along with improved productivity in the typical American environment of labor-management adversary relationship was stressed. This seemed to contrast with the environment in a country such as Germany where a greater degree of cooperation, and less of an adversary posture, seems more characteristic of labor-management relations.

Steering a balanced course between an excessively adversary relationship on the one hand, as against a system under which the union might be coopted by the enterprise, or management might feel it has given away too much decision power to workers and their union, on the other, poses a delicate balancing act. Effecting a balance between these two attitudes and roles can be a major challenge to unions and management. In successful cases where such blends have been made, productivity increases of 10 percent and more are not uncommon in U.S. plants, Rosow said.

WORK TIME

Historical Trends

Prof. Robert L. Clark reported so far as regular weekly hours of work are concerned, the United States in the 20th century has experienced a curious split history. Between 1900 and 1940, there was a sharp and significant downward trend in the average hours of work, from close to 60 hours in 1900 to 40 hours per week in 1940. During those years, from a third to a half of the increase in productivity was, in effect, devoted to reducing work hours. Since 1940 and 1950, this decline in weekly work hours has largely halted, even though productivity increases have continued. Such reductions as seemed to occur in the work week (from an average, according to Bureau of Labor Statistics data, of 40.3 in 1947 to around 36 in 1977), largely reflect the influx of women and young workers, many of whom work only part-time. (These part-time hours pull down the overall average.)

The pent-up wartime demand for consumer goods, the post-war baby boom which added to general family rearing costs, the added education costs, all of these have been cited as reasons why the reductions of work hours did not continue along its earlier, historical trajectory, even though productivity continued to rise.

Among other reasons for this sudden drop-off in historical tendency to reduce work hours, Clark also drew attention to certain institutional constraints, imposed by government, which make additional hiring less attractive to employers. Specifically, he referred to the operations of Federal unemployment and old-age insurance systems, deductions for which cut off at stipulated income levels. Under these circumstances many employers would rather work their regular force longer hours than reduce work time, and hire additional employees. Taking on the latter would impose additional taxes.

New Ways To Shorten Hours

Two ways of getting around this obstacle to reducing the hours of regular workers and to hiring new, added workers were suggested by union witnesses. One was to improve higher overtime rates, to discourage employers from scheduling overtime hours for their existing work force. A second, proposed by John L. Zalusky, was to take off the earning limit on the portion of social security tax paid by the employer.

The Federal tax preference treatment for fringe benefit payments to workers, as opposed to direct wages, also can discourage new hiring. Rather than undertake the added cost of such fringe benefit payments for added workers, employers, again, often prefer to work their existing force longer hours, Clark said.

Dr. Jack Carlson also suggested the minimum wage law tended to discourage new hiring, since those last to be hired were likely to be less skilled than their predecessors.

Such reductions as have been occurring in work time tend to take the form of longer paid vacations and more personal holidays, Zalusky reported. As a result of collective bargaining in the steel industry, workers have advanced from 1 week of paid vacation for workers with 5 years or more of service, to today's system of vacations which graduate in a series of steps from 1 week for those with 1 year of service to 5 weeks for workers with 25 years of service. In addition, steel workers also receive additional paid holidays annually, and every 5 years, very senior workers enjoy a sabbatical leave of 10–13 weeks. In all, it is estimated a steel worker might enjoy up to 43 days off per year, nearly 1 day a week.

Union Goals

The recent bargaining program of the United Automobile Workers had three basic goals, according to Howard Young, including more leisure time; a stimulus for employers to hire more people; and a desire to protect employers from any under utilization of capacity. The union felt it could move to a 4-day week only gradually, and, therefore, concentrated upon (and succeeded in) negotiating 5 new days of leave to help realize these three objectives. These 5 days are to be scheduled in advance by individual workers each year (7 days in the second year of the new automobile industry union-management contract). They find very few people undercut the plan by coming in to work on their personal holidays. If the employer tries to schedule one of the days as a regular holiday, an individual ends up with triple time pay, and this deters the employer.

It should be noted that despite these and similar advances in many other collective bargaining agreements, Federal statistical data for all male workers who have been less affected by part-time work development, reveal only a small decline in average weekly hours over the past decade.

All of the witnesses appearing on this subject felt future cuts in work time were likely. Some concern was expressed over the costs of hours reduction, and a question was raised as to whether this move might be inflationary.

Young, however, argued that under present practices the part of the population which is unemployed when work time is not reduced, experiences a kind of forced, unpaid leisure. Work time is cut, but the burden is unfairly shared.

Union witnesses were not, however, sympathetic to proposals of work sharing to offset an economic downturn. They tended to respond negatively, for example, to proposals that the United States follow the lead of several European countries, most notably the Federal Republic of Germany, which in the current recession encouraged employers to reduce the work week to something like 32 hours for everyone (rather than institute wide layoffs), and utilized payments from the unemployment insurance fund to make up part of the lost wages. Zalusky said workers in this country feel they have a vested right in terms of seniority to a full job at a certain income to meet their bills. Moreover, any tampering with unemployment insurance would provoke negative reactions among workers.

Future Outlook

As productivity advances in the economy, there is general agreement that work time will be cut in the future. Experts from different interest positions, labor, business and academic life, tended to agree that with increasing life expectancy, by and large shorter career lives were not likely; rather, as Carlson put it, the wave of the future seemed to be shorter work weeks and days, as a 4-day work week, a 6-hour work day and flexible part-time work schedules.

The growing participation of women in the work force seemed, particularly, to enhance the prospects of more flexible work schedules. Yohalem reported the Federal Government is already giving some support to develop permanent part-time employment and this increases the opportunities for men and women to pursue dual careers. She hoped the private sector might be induced to follow the Federal example in the future.

Poulin said organized labor has been cautious about the wider adoption of flex-time which generally permits individual worker variation in the choice of the opening or closing of work time in a given day, with central core hours uniform. To date, flex-time has largely been confined to white-collar employees; but its popularity in parts of Western Europe seem to be forcing some U.S. unions to consider it more seriously.

INFLATION

Breaking the Price Spiral

Dr. Gardner Ackley began by quoting from testimony which he gave before the Joint Economic Committee in May 1958, over 20 years ago; he then had said, "The problem of inflation may very well be our No. 1 domestic economic problem in the years ahead."

He added that our present problem is not the recent speed-up in the inflation rate, which was accidental and transient, but the persistence for 10 years of an unacceptable rate, and our unwillingness to consider reasonable means to deal with it. Some of our present inflation is deliberately legislated, as through farm price and minimum wage legislation and future payroll tax increases. For most of the decade of the 1970's, 1972–73 excepted, aggregate demand has not been excessive—but costs and prices have interacted to keep the spiral of inflation going.

Methods of dealing with this inflation include:

Fiscal and monetary policies to raise the unemployment rate, which is too costly a method.

Direct wage and price controls, which likewise cause economic and moral damage.

Creation of effective competition in labor and product markets, whose achievability remains in doubt.

A noncompulsory incomes policy.

Only the last method was favored by Ackley. He pointed to some weaknesses in the jawboning of the 1960's, but remarked that the present Council on Wage and Price Stability had the advantage of a legislative basis. Another possibility was the adoption of some form of tax-based incomes policy. His own preference was for a highly selective coverage of wages and prices, and for advisory involvement, on a formal basis, of representatives of labor, business and the public.

The major necessity of such a system was its acceptability as fair and reasonable. Yet, Ackley was skeptical that present circumstances offered a good chance of an effective attack on inflation. Rather, a deterioration of our general social consensus appeared to be an important source of our present inflation, which tended to aggravate truculence rather than to push toward consensus.

Prof. Hendrik S. Houthakker noted that the Employment Act of 1946 did not say anything about inflation. Moreover, the relationship between growth and inflation is complex. Fast growth may stimulate inflation; yet U.S. industries which have contributed most to economic growth have tended to contribute less to inflation, and vice versa. (The telephone industry is an example of the former type and the primary metals industries are examples of the latter.) Thus, policies which encourage growth will on the whole have a positive effect on price stability. These policies should encourage domestic competition, competition from foreign products, and competition in the labor market; they

should promote legislation that would reduce tendencies to monopoly, for example, introducing a graduation in the corporate income tax based on the rate of return to equity capital; and legislation that would remove antiquated accounting standards such as historical cost bookkeeping, which distorts profit reporting in an inflationary period.

Dr. Jack A. Meyer, observing that various events in the winter of 1977–78 had contributed to a temporary surge in inflation, stated that the main problem was chronic long-term inflation. Since mandatory controls had been shown to push problems under the rug rather than to deal with the elemental causes, and since demand restraint was inappropriate, the alternative was to pursue a voluntary approach. The frustrations in this approach are that no one wants to start the anti-inflation process, that it is very easy, but misleading, to have the government blamed for being the major source of inflation, and that there are great temptations to make exceptions to the general policy for hard cases well argued. Moreover, there is no quick fix; rather, policy must be characterized by three things—balance, a sense of equity and gradualism.

In colloquy with Committee members the panelists dealt with several issues—the difficulty of moderating catch-up demands from labor unions and of shifting the pattern of major wage settlements:

The need for improvements in accounting methods, especially for reporting of profits.

The deeply rooted inflationary bias in labor and business management procedures.

The ratchet effect on prices of the acceptance of price leadership "in the interest of the industry."

The necessity of accepting competition from imports.

The case for and against a "social contract" approach to dealing with inflation.

Managing Money

Leif H. Olsen outlined the relationship between changes in the money supply and nominal gross national product. Comparing the period 1960–70 with 1970–77, there was a three percent increase in the average annual rate of change of both these variables, but no change in the rate of increase in real output. He inferred that a monetary policy which accommodates ongoing price increases will provide the basis for persistent inflation. But reducing the rate of growth of the money supply incurred some risks of slowing down the growth of real output. With a careful slowdown over an extended period of time, it would be possible to avoid producing a recession.

Prof. Hyman P. Minsky dealt with other aspects of monetary management—the sources of economic instability and the effectiveness of traditional monetary policy in dealing with persistent inflation. His theme was that periodic financial crises were endemic to a capitalist system like the United States and that the relative tranquility of 1952–66 was exceptional. Since 1966, the actions of the banking authorities to prevent financial crises from starting a debt deflation have led to subsequent inflation. An initially robust financial system has become fragile and crisis prone. Doing well leads to an investment boom, but higher interest rates both increase the cost of investment and depress the value of capital assets. Hence the boom is liable to

generate unsound financial postures, triggering runs on banks and other financial institutions. The economy's natural path is cyclical, not self-equilibrating. Hence, the Federal Reserve, in validating the Franklin Bank's overseas liabilities and the Federal Government, in incurring a massive deficit in early 1975, sowed the seeds of our current inflation, to which dollar depreciation added new strength. This means that the lessons learned about managing money in the tranquil years 1952–66 are of little or no use in controlling the instability and inflation of the late 1970's.

Prof. Benjamin M. Friedman presented five basic propositions on the longer-run problems associated with inflation and monetary policy:

Aggregate demand conditions matter very much for inflation in the medium and long-run, for inflation has an overwhelming built-in inertia.

Monetary policy is a key determinant of aggregate demand and, hence, of inflation, for high rates of money growth affect demand and so affect prices. Over a long time frame, stable money growth is a necessary condition for stable prices.

Monetary policy can break the momentum of a deeply ingrained inflation only at prohibitive cost in terms of economic slack, and, hence, other policy tools are necessary. Monetary policy in the right direction is necessary, but it is highly risky to have anti-inflation policy rely only upon tight money growth.

Potential technological change could cause some problems for monetary policy because of the associated changes in the public's use of money.

Aggregate supply conditions matter in the medium to long run for inflation, because steps to increase productivity and to promote capital formation in productive sectors will tend to reduce inflation.

Finally, Friedman said that anti-inflation policy would be more effective if the public were convinced that it was here to say, and not liable to be changed. The public would then be better able to reach a consensus that the costs of inflation were not worth sustaining.

The issues dealt with by the panelists in colloquy with Committee members included:

The inflationary potential of long-lead-time investment, and the risks of offering incentives to undertake things that are not worth doing.

The increasing proportion of banks' liabilities that are not part of the money supply.

The ineffectiveness of placing ceilings on increases in bank loans, if at the same time the banks can buy Government securities.

The tax inducements to debt rather than equity financing.

The inadequacy of macroeconomic policies unaided by microeconomic policies.

The Fixed Investment Decision

Dr. Robert R. Chambers examined the reasons for the lower-than-desirable rates of investment in new enterprises and in expansion, and attributed a large share of blame to inflation and to uncertainty created

by government. As for inflation, it raises interest rates and hence raises the required rate of return on capital; high pay-off and short-term profit projects are favored. Furthermore, it reduces the reliability of forecasts of prices and costs for the more distant future. As for government-induced uncertainty, everyone assumes that substantial changes will have been made in the rules and regulations, overshadowing normal market forces. Hence, there has been a weakening of private investors' willingness to make long-term commitments.

Dr. Allen Sinai, noting the sluggish recovery of business fixed investment during the current expansion, attributed the negative impact on capital spending primarily to inflation. The consequences of inflation included reduction of purchasing power, higher interest rates, a weaker stock market, the illusory overstatement of profits, higher financing needs and a heavier debt burden. All of these induced slower real growth, lower capacity utilization and poor productivity gains. So as costs rose and the present value of future returns was reduced, the incentives to invest were weakened. Restrictive monetary and fiscal policies aimed at cutting back inflation were likely to aggravate the sluggishness. What is needed is an autonomous reduction in wage and price increases. Many autonomous measures are possible, from jawboning to removing barriers to competition, eliminating inflationary regulations and introducing incentives, perhaps through the tax system, to lower wage increases. In addition, a combination of tight fiscal policy with easier monetary would help to reduce borrowing costs and stimulate capital formation, especially if it is possible to reverse the downtrend in the expected return on capital.

Dr. Gary M. Wenglowski emphasized the importance of business investment in structures, which are relatively long-lived capital goods. In the most recent business cycle the decline in this form of investment was far steeper than in previous cycles and the recovery was both delayed and feeble, especially in non-residential commercial construction. Some of this occurred in reaction to heavy investment in 1965–70, to a drop in capacity utilization and to the emergence of world-wide excess capacity in some industries. But the effect of embedded inflation in raising the cost of capital and the absence of any conviction that corporate profit rates will derive any benefit from inflation are deterrents to investment. This makes for a major maladjustment and a dilemma—if we wait until expected returns improve, we may slip into stagnation.

The panelists' discussion ranged over several topics:

The differential effects of uncertainty, both in regard to prices and costs, and in regard to regulations, on long-lead-time investments.

The higher hurdle rates of expected returns that long-term projects have to offer in order to gain approval.

The depressant effect of lower profit margins in the past eight years.

The desirability of having the tax system take better account of the rising replacement cost of capital, through changes in methods of depreciation.

The tendency for the capital stock of the United States to age in relation to other countries' capital stock and for less investment in advanced technology here as compared with elsewhere in the industrial world.

Psychological Responses to Inflation

Dr. Tilford C. Gaines began by noting that the American consumer's reaction to the expectation of inflation had been to defer major purchases and to increase his savings rate. This was valuable in restraining inflation and in helping to stabilize the economy. Recent surveys suggest that this traditional behavior may be shifting as concern grows about the persistence of inflation. Buying plans, especially for big ticket purchases, have been accelerated. Hence there is more concern over our longer-term ability to control inflation or to avoid stagnant economic growth. The principal risk is that this shift in behavior might give rise to a self-fulfilling prophecy, in which the fear of inflation leads to the very inflation that was feared. What is needed to avoid this situation is a governmental posture that encourages confidence and savings.

Prof. Kenneth E. Boulding's statement emphasized that in the 20 years following World War II, real (i.e. inflation-adjusted) interest rates were low. Since the late 1960's the proportion of national income going to interest has risen steadily, so it is now more than it was in 1929; at the same time there has been a real squeeze on profits. This has created the incentive to buy bonds rather than the products of employment, real capital goods. Hence inflation has been responsible, in part, for unacceptably high rates of unemployment. Inflation is a result of everybody wanting more than there is, when people are paid in depreciating dollars. The only way to achieve stable prices with full employment is to have an interest rate sufficiently below the profit rate to ensure that people will take risks to employ men and women to produce real goods. We are in dangerous straits between the Scylla of accelerating inflation and the Charybdis of clumsy attempts at control, either of which could lead to collapse. But we may avoid both of these risks.

Prof. F. Thomas Juster expressed the view that it was consumer caution in the face of uncertain real income change that had resulted in relatively high realized savings rates. Anticipatory buying has at times modified this general effect recently. Future behavioral responses may not be validly predicted by these past relationships. This is so because consumers generally perceive that inflation does them harm, with prices thought to have gone up substantially more than income in the past 5 years and expected to do the same in the future. On the other hand, consumers are apt to regard wage increases as justified by the need to catch up with past price increases. So even favorable economic performance is seen negatively when it takes place in an inflationary environment.

In the discussion that followed the panelists' statements, the following issues were dealt with:

The relation of recent poor performance (especially in relation to inflation) of conventional financial assets, such as securities and bonds to the speculative rise in property prices.

The manner in which tax and regulatory provisions distort the rational choice of investments by offering special incentives for certain types of investment.

The need for consistent Government policies that will gradually turn down inflation expectations.

The inevitable incompleteness of indexing e.g., in failing to cover outstanding financial contracts such as pension arrangements or life insurance policies.

The possibility of indexing being either pro-inflationary or anti-inflationary.

Boulding concluded the hearing with the observations that the debt structure extends over time, the past cannot be significantly renegotiated, and policy can only apply to the ongoing. Since our society could probably not survive a revolution of falling expectations, what is needed is an atmosphere of putting up with certain things instead of expecting to solve all problems.

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Wednesday, May 31, 1978.—Long-Term Demographic Trends

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Thursday, June 1, 1978.—Long-Term Demographic Trends

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Tuesday, June 6, 1978.—Employment Prospects and Problems

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Tuesday, June 13, 1978.—Productivity: What Can Be Done About It?

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Wednesday, June 14, 1978.—The Future of Work Time

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Thursday, June 15, 1978.—Manpower in the Coming Decade: Some Overviews

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Wednesday, June 21, 1978—The Fixed Investment Decision

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