

7-22-1965

Postulates for Economic Policy: Assuming the Commitment to the War on Poverty is Serious: Part I: Unemployment and Aggregate Demand

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Program Hypothesis Paper
Wage Earners, etc.

"Postulates for Economic Policy
Assuming the Commitment to the
War on Poverty is Serious"

Part I: Unemployment and
Aggregate Demand

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A paper submitted to the Research and Plans Division
Office of Economic Opportunity

July 22, 1965

I

Introduction

Unemployment rates in the United States have been and still (mid year, 1965) are much too high. The success of the war on poverty will ultimately depend upon most of the present poor--or their successor generations--having jobs that yield adequate incomes. If we do not want a "pie in the sky" war on poverty we want to achieve a large enough number of such well paying jobs in the near future.

The 1965 Council of Economic Advisors Report indicated that the heads of some 60% of the families living in poverty in 1963 were in the labor force and that about half of these heads of families worked all year, the other half experienced some unemployment.¹ Although the labor force participation evidence indicates that the number who would benefit from tight labor markets would be somewhat greater than the data relating to heads of families, it must be understood that the focus of this report is limited to the benefits that would result from an expansion of job opportunities. Nothing in this report should be taken to indicate that measures are not necessary which improve the lot of those poor and near poor who are not in the labor force; on the contrary, I believe that a large part of the fiscal stimulus needed to sustain the expansion of the economy should be directed

1. 1965 Economic Report of the President, Table 21, p. 166.

at the poor who are not in the labor force.

The employment aspect of the war on poverty can be divided into three steps: first, the creation of an adequate number of jobs, second, the generation of adequate incomes from jobs, and third, the improvement of the training and placement of workers. It is an open question of whether the generation of a broadly based adequate number of jobs will by itself tend to improve relative incomes from what are at present low paying jobs. My view is that sustained tightness over a broad spectrum of labor markets will improve the relative wages from what are at present low paying jobs.

For purposes of the war poverty, the unit of analysis is the family--and therefore the income with which we are concerned is family income. Secondary earners in a family--which is responsive to the availability of work for married women and part-time and summer jobs for teenage boys and girls--will aid family incomes. Such subsidiary employment is important in moving families well above the poverty line. Just crossing the poverty line by a few dollars per year will not generate the same "discretionary" income, which enables a family to finance a rise in its general expectation level, as will two or more earners in a family. A large number of available jobs for women, teen-agers and young adults can lead to a substantial increase in income for many families so that they can move well above the poverty level.

The annual average unemployment rate in 1957 was 4.3%, in no year since then has the annual average been below 5%. The first

quarter 1965 rate of 4.8% is the first quarter rate below 5% since the third quarter of 1957, in the second quarter of 1965 the progress of the first quarter was continued.

In stating that unemployment is too high, it is necessary to ask by what standard. In other sections of this report I will take up questions of the standards to be used in ranking economic policies and details of how a decline of unemployment will affect the present poor.

In this section an examination of specific group unemployment rates is undertaken. On the basis of the "total" unemployment rates that are compatible with the specific group rates, it seems as if there is no labor supply reason why total unemployment rates of 3% should not be attainable. Thus it is argued that if there are any structural aspects to the unemployment problem in the U.S., they are not an effective barrier to reducing unemployment to a 3% target.

The major policy recommendation is that we shift the emphasis on our policies to stimulate aggregate demand. In the past 5 years the emphasis has been upon stimulating the economy by increasing the well being of the already affluent; what has been characterized as a "trickle down upon them" approach to economic expansion. If the war on poverty is serious--and if we really mean to build a Great Society--the fiscal stimuli in the rest of the '60's should emphasize increasing the well being of the poor and near poor; the

expansion should seep up from below so to speak. Those who are now well off will do well enough with such a program, whereas those who are now poor do not seem to benefit to the extent that seems desirable from the reverse emphasis.

II

Labor Force Participation

In discussing the impact of any program of job creation upon poverty, the questions of labor force participation rates for specific population groups and the responsiveness of these rates to job opportunities is important. For example, the impact upon the labor force participation of a W.P.A. type program in which jobs are made available to all without a means test at hourly rates approximating the national minimum wage is important in determining its effect. Such a program would presumably attract not only those now employed who are receiving grossly substandard wages but also some of the presently unemployed teenagers, young adults and married women. In addition, it will not only affect those now in the labor force but it might very well draw a considerable number of additional "secondary" workers into the labor force. The size of the W.P.A. effort needed might be much larger than a count of the present unemployed and very low wage workers would indicate.

In addition such a program might show great seasonal variability. In particular we might enjoy huge youth employment programs during the summer months and benefit from the willingness of married women to

join such a program during the school year. In addition if part-time as well as full time jobs were available the program might become very large indeed, if the female labor force participation rate responds to the availability of jobs. In defining a program of job creation such items need to be considered.

Much work has been done on the sensitivity of labor force participation rates to economic conditions--in particular to unemployment rates. The results of this work has not as yet resulted in any firm conclusion. However the evidence does point to the conclusion that the higher the unemployment rate the smaller the labor force participation rate, and that the most sensitive groups to such labor market conditions are what some call the secondary labor force--the young, the old, and married women.

This might very well mean that the response of the G.N.P. to tight labor markets is less than is indicated by the increase in employment to the extent that the rise in employment will be heavily weighted by such secondary workers. However if it means that the presently employed members of the prime labor force are upgraded as labor market tightens, then the G.N.P. response could be just as large as if there was an addition to the prime or core labor force groups.

That is, as long as prime age adults hold jobs which are lower than their capabilities and training would permit, the drawing of older, younger, and female workers into the labor force may be

accompanied by a decrease in what, in the study of underdeveloped economies, is called disguised unemployment.

Before we go into some of the work on the responsiveness of labor force participation to unemployment rates, a remark by Bowen and Finnegan seems appropriate:

Although it is a bit off the main track of this paper, it may be of interest to know that the (unweighted) mean participation rate among cities for teenage males not enrolled in school was only 73 per cent. One may reasonably ask, what is a teenage male who is not in school, not employed, and not unemployed, doing? The size of the group (5 per cent of all teenage males, 27 per cent of those not enrolled in school) makes us reluctant to suggest that what we have here is an objective definition of juvenile delinquency; but it is not clear what other broad categories exist, except for young men unable to work because of disability.²

A program of job creation which is sensitive to the teenage labor supply would draw these 5% of the age group into the labor force. Although Bowen and Finnegan do not present the same type of information for teenage females it may be that the out of school-not in the labor force-group may be of the same magnitude.

2. W.G. Bowen and T.A. Finnegan, "Labor Force Participation and Unemployment" in A.M. Ross (ed.) "Employment Policy and the Labor Market", University of California Press, pp. 140-141. In a discussion of these ideas at the "Continuing Seminar on Monetary Economics" at Berkeley, it was pointed out that these dangling youths may be a result of the draft and the delays involved in being inducted to the armed forces.

Table I³

Labor Force Participation Rates
Sex and Age
1960, 1964, and 1970
annual averages

Sex and Age	1960	1964	1970
Both Sexes			
14 years and over	57.4	56.5	57.5
MALE			
14 years and over	79.7	77.2	77.0
14 to 19 years	46.3	43.0	44.4
14 and 15 years	22.5	20.6	21.8
16 and 17 years	45.9	42.2	43.3
18 and 19 years	73.1	72.3	70.3
20 to 24 years	88.9	86.6	86.6
25 to 34 years	96.4	96.1	96.2
35 to 44 years	96.4	96.0	96.7
45 to 54 years	94.3	94.4	95.0
55 to 64 years	85.2	84.1	84.3
65 years and over	32.2	27.1	25.1
FEMALE			
14 years and over	36.1	37.0	39.1
14 to 19 years	30.1	28.1	30.1
14 and 15 years	12.8	12.0	12.7
16 and 17 years	28.6	26.7	28.9
18 and 19 years	51.0	49.9	50.6
20 to 24 years	46.1	49.2	50.3
25 to 34 years	35.8	37.1	38.6
35 to 44 years	43.1	44.8	47.5
45 to 54 years	49.3	51.0	55.3
55 to 64 years	36.7	39.8	43.8
65 years and over	10.5	9.6	9.8

3. Manpower Report of the President, March 1965, p. 248

9

In Table I detailed age-sex distributions of the labor force participation rate for 1960 and 1964 as well as a 1970 projection are given. The major expected changes in labor force participation reflect trends in higher education, earlier retirement and female participation. To the extent that the higher school leaving age and the earlier and more common retirement reflect a reaction to slack labor markets, we can expect that these participation rates will react to labor market conditions.

In Table II estimates of the reaction of the age-sex and marital status groups to unemployment rate changes are exhibited. The entries in Table II indicate the percentage change in labor force participation rates for each age-sex group for each 1% change in the overall unemployment rate. For example for males 14-19 a 1% decrease in the overall unemployment rate will be associated with a 1.94% increase in the labor force participation of this group.

The data in Table II are based upon a cross section analysis of unemployment rates in different metropolitan areas. It might very well be that given the willingness to migrate of the U.S. labor force, the higher participation rates associated with lower unemployment rates may reflect the movement of those serious about finding jobs to areas with job opportunities.

Table II^{1/2}

Sensitivity Labor Force Participation Rates
to Changes in the Unemployment Rate

Age-Sex and Marital Status
for Women

Groups	
M:14-19	-1.94** (0.28)
M:20-24	+0.30 (0.17)
M:25-54	-0.24** (0.06)
M:55-64	-0.66** (0.20)
M:65+	-1.62** (0.24)
SW:14-19	-0.73** (0.24)
SW:20-24	-0.29 (0.25)
SW:25-64	-0.57** (0.20)
SW:65+	-0.16 (0.30)
MW	-0.76** (0.18)
W-HA	-0.76** (0.25)
DW	-0.81** (0.17)
WW	-0.86** (0.12)
Total groups	-0.68

Adapted from W.G. Bowen and T.A. Finnegan "Labor Force Participation and Unemployment", A.M. Ross (ed.), Employment policy and the Labor Market", University of California Press, p. 154.

Notation:

** Significant at the 1 per cent level

M males

SW single women

MW married women

W-HA married women, husband present

DW divorced women

WW widowed women

However the large migration to California during the 1950's took place with unemployment rates at about the same level as in the nation as a whole. The migrants, in large part, came to California without a job. They were both in the labor force and unemployed. The unemployment rates did not reflect the favorable employment opportunities, and it is employment opportunities which draw people into the labor market. Under certain dynamic conditions unemployment rates are not a good proxy for employment opportunities.

Roughly for every 1% decline in unemployment, Bowen and Finnegan indicate that 2/3 of 1% increase in the labor force participation will occur. That is to lower the unemployment rate by 1% something in the neighborhood of a 1.67% increase in employment will have to occur.

Although there are serious questions that can be raised about the interpretation of cross section results, some remarks by Bowen and Finnegan are important for our purpose.

The other aspect of the results shown is the differential impact of unemployment on the labor force participation of the thirteen separate groups-- and, to our way of thinking, this aspect is as intriguing as the total estimates. Married women are the nearest we have to a dominant group (in terms of the volume of their hidden unemployment, that is). According to our best estimates, they accounted for more than one third of the total volume of hidden unemployment in urban areas in 1960. All of the female groups combined contributed 415,000 persons to the hidden unemployment total--58 percent. It is revealing to note, by way of contrast, that females comprised only 36 percent of total reported unemployment in urban areas in 1960.⁵

5. Ibid., p. 156.

The effects of unemployment on the labor force participation of teenagers also have especially important social connotations. We see from Table I that taking account of hidden unemployment gives us an adjusted unemployment rate for M: 14-19 of 17.2 percent and for SW: 14-19 of 11.7 percent, compared with an overall adjusted rate of 6.4 percent. While teenagers, as new entrants to the labor force, can be expected to have unemployment rates somewhat above average, the magnitude of these differences is greater than we would expect on that ground alone, and we view these findings as evidence of a problem of great social as well as economic significance.⁶

A tighter labor market should draw a substantial number of women and teenagers and older workers into the labor force. Employment opportunities for these groups--created if need be by a permanent Job Corps program--can lead to a substantial supplement to family income. This combined with full employment for the core labor force group is the heart of any serious anti-poverty program.

6. Ibid., p. 157. Note: Hidden unemployment is a measure of the number not now in the labor force who would be in the labor force if the unemployment rate were the target rate. Bowen and Finnegan, like many others working in this field, use a 4% definition of the target unemployment rate.

III

Employment Targets

One view of what the target unemployment rate should be can be derived from the experience of other countries. In Table III data on the "Percent of the Civilian Labor Force Unemployed in Selected European Countries and the United States, 1950-62" is presented. The numbers in parenthesis are these countries' unemployment statistics revised to conform to American definitions. As a result of the experience recorded in Table III, European countries' employment goals call for much tighter labor market conditions than both the U.S. experience and goals. Professor Gordon estimated European goals as:

Today in Western Europe 2 per cent unemployment is the target most frequently mentioned. When translated into American definitions, this may mean an unemployment rate from something below 2 per cent to perhaps 3 per cent as a maximum. Virtually all countries are very loath to announce an official quantitative target. But various scraps of evidence permit one to infer the approximate goal in some of the leading European countries today, expressed in terms of American definitions, about as follows:

	Per Cent
France.	2.0-2.5
Germany	1.5-2.0
Sweden	1.2-1.5
United Kingdom.	1.8-2.7 ²

7. Ibid, p.43.

Table III⁸

Per Cent of Civilian Labor Force Unemployed
in Selected European Countries and the U.S.
1953-62

Year	Bel- gium	France	Germany	Italy	Nether- lands	Sweden	United Kingdom	U.S.
1953	5.3	. . .	5.5	. .	2.5	2.8	1.3	2.8
1954	5.0	1.6	5.2	8.7	1.8	2.6	1.0	5.3
1955	3.8	1.4	3.9	7.5	1.3	2.5	0.8	4.2
1956	2.8	1.1	3.1	9.3	0.9	1.7	0.9	4.0
1957	2.3	0.8	2.7	7.4	1.2	1.9	1.1	4.2
1958	3.3	0.9	3.7	6.4	2.3	2.5	1.7	6.6
1959	3.9	1.3	1.9	5.4	1.8	2.0	1.7	5.3
1960a	3.3	1.2(1.9)	0.9(1.0)	4.0(4.3)	1.1	1.8 ^b	1.3(2.4)	5.4
1961	2.6	1.1(1.7)	0.6(0.5)	3.4(3.7)	0.8	1.7(1.5)	1.1(2.2)	6.5
1962	2.0	1.2(1.8)	0.5 ^b	2.9(3.2)	. .	1.5(1.5)	1.6(2.8)	5.4

Sources of Data: Manpower Statistics, 1950-1962 (Paris Organization for Economic Co-operation and Development, 1963), except for Swedish data for 1950-1959, which are from International Labor Review, Statistical Supplement, LXX (November, 1954), 98, and Yearbook of Labour Statistics, 1962 (Geneva: International Labor Office, 1962), table 10. The horizontal lines in the Swedish column indicate minor changes in the method of compiling the statistics.

^a The figures in parentheses for these years are unemployment rates revised to correspond to American definitions. They are taken from Robert J. Myers, "Unemployment in Western Europe and the United States," in A.M. Ross (ed.), Unemployment in the American Economy (New York: Wiley, 1964), p. 174.

^b Revised figures not available

⁸ Adapted from R.A. Gordon, "Full Employment As a Policy Goal", in A.M. Ross Employment Policy and the Price Level, University of California Press, 1965, p. 27.

Another way of looking at unemployment rate targets is to take specific subgroups of the population and establish targets for these subgroups. There is a structure--perhaps not too stable--among the age-sex, occupational and race subgroup unemployment rates. Thus a first approximation only allows you to select one target rate and, from this target rate for a specific subgroup, an overall target rate can be derived as well as the specific unemployment rates for other subgroups.

In the following discussion it is assumed that the structure of unemployment rates for the various subgroups is stable. In fact this structure varies. Professor R.A. Gordon in a comment on an earlier draft of this report has indicated that ". . . that the relative pattern does change over the cycle" and that "Its stability depends in part on the period over which a given expansion occurs."

If anything we can expect labor market tightness to decrease unemployment rates for "non-prime" or "non core" groups in the labor force relative to the prime or central groups--especially to the extent that the non-prime group is subject to discrimination. However general labor market tightness may draw more of the discriminated against and more secondary workers into the labor force. Thus whatever happens to relative unemployment rates will reflect the effect of substitution in production on the one hand and the response of labor market participation rates on the other.

In Tables IV, VI, and VII ratios of specific unemployment rates to the overall group average are presented for different breakdown of the population. For example in Table IV, 1965 QI the specific unemployment rate for males 25 years and over was .65 of the unemployment rate for the entire labor force.

Let us take as our target a male 25 years or over unemployment rate equal to a Swedish or German target for their entire labor force of 1.5 to 2.0%. Assuming the structure of unemployment rates does not vary, the overall unemployment rate will be from $\frac{1.5\%}{.65} = 2.3\%$ to $\frac{2.0\%}{.65} = 3.1\%$. If we want to achieve overall European unemployment rates not for the entire labor force but for the central element in our labor force we will need to generate much lower overall unemployment rates than we have achieved in the recent past.

From Table IV we note that the unemployment rate for white males was .77 of the overall rate in the 1965 QI. A white male rate of 1.5% (2%) would be associated with an overall rate of 1.95% (2.59), i.e. approximately 2% (2.5%). Note that an overall unemployment rate of 2% by the 1965 QI ratios would generate the unemployment rates exhibited in Table V.

Table IV⁹

Ratio to Total: Unemployment Rates by Age,
Color and Sex, 1965 Q1

Age, sex, and color	
Overall rate	4.8
Total.	1.00
Male88
14 to 19 years.	2.69
20 to 24 years.	1.42
25 and over.65
Female.	1.25
14 to 19 years	3.48
20 to 24 years	1.60
25 and over88
Male, white77
Nonwhite.	1.77
14 to 19 years:	
White.	2.40
Nonwhite	4.67
20 years and over:	
White.65
Nonwhite	1.48
Female, white.	1.12
Nonwhite.	1.90
14 to 19 years:	
White.	3.08
Nonwhite	6.79
20 years and over:	
White.90
Nonwhite	1.58

9. Adapted from Gertrude Bancroft "Lessons from the Pattern of Unemployment in the Last Five Years", a paper prepared for a Conference on Unemployment Research, New York City June 14-16, 1965, held under the auspices of the Unemployment and the American Economy Research Project, University of California, Berkeley.

Table V

Unemployment Rates, Age, Sex and Race
Assuming a 2% overall Rate

Male, White	1.54	Female, white	2.26
Non-White	3.54	Non-White	3.80
14 to 19 years		14 to 19 years	
White	4.80	White	6.08
Non-White	9.34	Non-White	13.58
20 years and over		20 years and over	
White	1.30	White	1.80
Non-White	2.96	Non-White	3.16

It is evident from Table V social policy might require the development of labor market institutions which lower the differentials in white-non-white and teenager-adult unemployment rates. Of course much of the complex of manpower, civil rights and Office of Economic Opportunity programs is directed toward reducing these differentials. However note that the Council of Economic Advisors interim target unemployment rate of 4% implies a 18.68% non-white male teenager and 5.92% non-white male adult unemployment rate. The non-white female teenager unemployment rate of 27.16% implied in a 4% overall unemployment rate presents an enormous task for the special programs. In terms of the various special programs designed to reduce differential unemployment rates it seems obvious that tight labor markets

are needed in order to bring the tasks of these special programs down to a manageable size.

In order to achieve a 1.5% (2.0%) unemployment rate for white-collar workers (again assuming the stable relative unemployment rate) we would need an overall unemployment rate of 2.4% (3.2%) (Table VI)

Note that a 1.5% unemployment rate for white-collar workers (2.4% overall rate) implies, given stability in the ratios, a 1% rate for Professional and Technical workers and a .8% for Managers, Officials, and Proprietors. That is the ratios in Table VII indicate that severe bottlenecks in the broad classes of workers will not occur even with an overall rate some .6 of the Council of Economic Advisors interim target.

Table VI¹⁰

Ratios to Total: Unemployment Rates by Major
Occupation Groups, Quarterly Averages

	1965 Q1
<u>Major Occupation Group</u>	
Experienced Unemployed	1.00
White-collar workers	.63
Professional and Technical	.43
Managers, officials, and Proprietors	.33
Clerical Workers	.90
Sales workers	.88
Blue-collar workers	1.38
Craftsmen and foremen	.98
Operatives	1.38
Non-farm laborers	2.28
Service workers	1.43
Private household workers	1.13
Other service workers	1.53
Farm workers	.60
Farmers and farm managers	.13
Farm laborers and foremen	1.10

10. Ibid.

Whether severe bottlenecks will occur in nicer classifications we cannot say, however, I would venture to guess that severe localized bottlenecks within the labor force are mainly the result of dynamic growth properties of the economy rather than of overall labor market conditions.

If we lower our target and say we want to achieve European standard 1.5% unemployment rates for the age-sex group with the lowest specific unemployment rate in 1964--males 35-44 (Table VII, column 2)--the overall rate would be 2.7% (Even if we lower our sights to a 2% unemployment rate among males 35-44 the overall unemployment rate will only be 3.4%.)

On the basis of a very limited objective--to reduce the unemployment rate among the prime groups to the European overall standard--the target overall unemployment rate for the United States should be within the range of 2.3% to 3.4%. This target is more like the Clark Committee's target of 3%,¹¹ than the often repeated Council of Economic Advisors' interim target of 4%.

11. See Subcommittee on Employment and Manpower, Committee on Labor and Public Welfare, U.S. Senate, Toward Full Employment: Proposals for a Comprehensive Employment and Manpower Policy in the United States, (Washington, Government Printing Office, 1964, p. 40)

Table VII
 Estimate of Unemployment Rate
 1970 1975 1980
 1964 specific rates and 1970, '75 and '80 Age-
 Distribution of Labor Force

	Unemployment Rates 1964		Age-Sex Distribution of Labor Force			Computation of Specific Contribution to Unemployment rate		
	Rate	Ratio to Total Rate	1970	1975	1980	1970	1975	1980
Total	5.2							
Male-total	4.7	.903	.649	.643	.640	.586	.580	.577
Male 14-15	9.0	1.73	.010	.009	.009	.017	.016	.016
16-17	17.1	3.281	.019	.019	.017	.062	.062	.055
18-19	14.6	2.803	.030	.030	.029	.084	.084	.081
20-24	8.1	1.557	.086	.089	.089	.133	.138	.138
25-34	3.5	.673	.140	.159	.173	.094	.107	.116
35-44	2.9	.557	.127	.114	.119	.070	.063	.066
45-54	3.2	.615	.124	.115	.100	.076	.070	.061
55-64	3.9	.750	.085	.083	.080	.063	.062	.060
65 +	4.0	.760	.024	.022	.020	.018	.016	.015
Female-total	6.2	1.192	.350	.356	.359	.417	.424	.427
14-15	5.9	1.134	.005	.005	.005	.005	.005	.005
16-17	18.8	3.615	.012	.012	.011	.043	.043	.039
18-19	15.1	2.903	.021	.021	.020	.060	.060	.058
20-24	8.6	1.653	.049	.051	.053	.080	.084	.087
25-34	6.3	1.211	.056	.065	.072	.067	.078	.087
35-44	5.0	.960	.064	.059	.062	.061	.056	.059
45-54	3.9	.750	.077	.075	.067	.058	.056	.050
55-64	3.5	.673	.049	.051	.052	.032	.034	.035
65 +	3.4	.653	.012	.021	.013	.007	.013	.008

FORECAST UNEMPLOYMENT

Rate: 1.023 1.047 1.036

Note: The Forecast Unemployment rate is the product of the 1964 specific unemployment rates and the forecast age-sex distribution of the labor force. It can be interpreted as the aggregate unemployment rate per 1% unemployment rate in 1964 assuming specific unemployment rates do not change and the weights change as forecast.

An additional bit of information supporting a 3% unemployment rate as a first stage target is that we achieved rates of 3.2%, 2.9% and 2.8% in 1951, '52 and '53. True this was a Korean War period--but the economic affect of the Korean War was that of a broad based fiscal expansion.

Given that a 3% unemployment rate is feasible in terms of what other industrialized economies achieve and the specific unemployment rates associated with it, is there a feasible program to achieve such rates in the near future?

Belgium, Germany and Italy reduced their unemployment rates from levels approximating the U.S. level to a much lower level in a relatively short time (Table III). In 1953 Belgium had a 5.5% unemployment rate. Over the next 4 years the rate was 5%(1954), 3.8%(1955), 2.8%(1956) and 2.3%(1957); the average yearly reduction in unemployment rate was .9%. Although a recession in unemployment rates set in, so that by 1959 unemployment peaked at 3.9%, the rate was down to 2% by 1962.

In 1954 Germany had a measured unemployment rate of 5.2 (the same as + U.S. in 1964). This was followed by unemployment rates 3.9%(1955), 3.1%(1956), 2.7%(1957 and '58) ; 1.97% (1959). The annual average reduction in the unemployment rate between 1954 and 1957 was .83%; between 1954 and 1959 the annual average decline was .6%. Since 1959 German unemployment

rates have been below 1%. There is no sign in the unemployment data that Germany suffered any serious side effects either from the rapid reduction of the unemployment rate or the continued maintenance of tight full employment.

In many ways Italy is more like the United States than Germany and Belgium in that it has a heterogeneous population as far as education and sophistication is concerned. Italy also has had a large internal migration of a "different" people from its south to the rest of the country. Nevertheless starting with a 5.4% unemployment rate in 1959, the unemployment rate, by their own measuring technique, was reduced to 4%(1960), 3.4%(1961) and 2.9%(1962); an average of .83% per year. It is true Italy did undergo a pause in 1963-64, mainly due to balance of payments and internal credit difficulties.

However, given that the U.S. had as 5.4% unemployment rate in 1962, a decrease of some .7% per year should have been feasible if the European experience is any guide. That is a vigorous expansion should have yielded a 4.7% unemployment rate in 1963, 4%(1964), and 3.3%(1965). As it is the 1964 unemployment rate was 5.2%.

There has been a great deal of self-congratulating around Washington about the success of economic policy in

avoiding a recession. From the point of view of unemployment, the years 1962, '63 and '64 can be interpreted as a high level stagnation. The first quarter of 1965 is the first sign of real progress. As a result fears about overheating the economy are being voiced by those who accept stagnation as progress.

It is worth noting that the G.N.P. annual rate in the first quarter of 1965 was \$14 billion in excess of 1964's fourth quarter G.N.P. This is a rise of more than 2% in a quarter, or ignoring compounding more than an 8% annual rate of increase. This 8% annual rate of increase in output was associated with a .2 percentage points decrease in the unemployment rate. If we can extrapolate this progress for the next few years we should achieve unemployment rates of 5.2%, 4.4%, 3.6%, and 2.8% for 1964-67. However the forecast as of midyear 1965 is that the expansion rate of the first quarter of '65 will not be maintained, in spite of some additional fiscal stimulus. As a result the forecast unemployment rate for all of 1965 is 4.9%, somewhat above the achieved rates in 1965's 1st and 2nd quarters.