High Employment with a Check on Inflation

I believe there is substantial evidence to support the hope that inflation can be contained without sacrificing the high level of employment that is required if we are to attain a measurable degree of success in tackling the problem of poverty.

Three principal points lead me to this conclusion.

First, this Administration, as Dr. McCracken indicated Monday, will work to reduce inflationary pressures gradually, not abruptly. Our aim is not to achieve a zero price rise this year—this could not occur short of a sizeable recession. It is rather to halt the acceleration in the rate of price increase and then gradually—to bring the rate to a more acceptable level. In a sense, this operation involves turning the 1960–64 experience around. Then, a relatively stable price level was coupled with a gradual reduction in the unemployment rate. Now, we are aiming to maintain a relatively stable unemployment rate with a gradual reduction in the rate of increase in prices. To do more than this in a short time involves too great a risk. We must remember that inflationary expectations have been building for several years (See chart 1.) and they cannot immediately be dissipated. By starting now, and holding firmly and steadily to this objective, we can accomplish a worthwhile reduction in the rate of price increase this year, and set the stage for a further reduction next year. At the same time, an opportunity will be provided for the economy to create the expanding number of jobs that are required to keep employment in line with the growth in the labor force.

Second, a growing proportion of workers are now employed in industries that generally do not lay people off as soon as a slackening in demand occurs. For various reasons, employment in the so-called service producing industries (trade, transportation, utilities, finance, services, and government) is far more stable than in most manufacturing, mining or construction industries. This relatively stable sector has been growing much more rapidly than the economy as a whole, and it seems likely that this trend will continue.

In 1950, 59 out of every 100 jobs outside of agriculture were in the service producing industries. Ten years later, the proportion had risen to 62 out of 100 and today the figure is 65. By 1975, it is projected to rise to about 68 out of 100. A very large proportion—more than 85%—of the new jobs provided by the growing economy will be in the service sector.

Chart 2 shows how employment in the service producing industries held up during each of the four postwar recessions, when employment in the goods industries declined. In 1948–49, when employment in the goods industries dropped 6½ percent, service employment increased slightly. In 1953–54, goods employment dropped 6 percent, and again service employment rose slightly. In 1957–58, the decline in goods employment of 7 percent was accompanied by a very slight decline in service employment. In 1960–61, goods employment declined 3 percent, while service employment rose 1 percent. Since the last recession, in 1960–61, a large proportion of workers have obtained jobs in the service industries, and as I have said, the shift is expected to go farther still.

The hypothetical calculation at the bottom of the chart suggests that, as a result of this shift, we can anticipate greater stability in total employment should a slackening in demand occur. The effect of this shift in any one year is not large, but it is in a favorable direction and the cumulative impact of this development is of fundamental importance to our thinking and policy on economic stabilization and growth.

Third is the increased variety and growing quantitative importance of policy instruments available in addition to the traditional tools of fiscal and monetary policy. I concetrate, of course, on those policies in the manpower and labor market area, but I note the importance here of such matters as vigorous efforts in the anti-trust field and the further development of freedom in international trade.

These manpower policies are aimed at three specific targets: at individual groups within the population with markedly high rates of unemployment (e.g., disadvantaged teenagers working under the Neighborhood Youth Corps, ghetto residents newly placed through the JOBS program); at the development of greater supplies of labor where acute shortages exist oh can be foreseen (e.g., MDTA institutional and on-the-job training programs), and at the more efficient functioning of the labor market (e.g., upgrading and computerizing the work of the U.S. Employment Service).