



Unemployment and education may well be the most important topics on the economic agenda for 1964. As former Secretary of Health, Education and Welfare, and as an industrialist with long experience with the Eastman Kodak Company, Marion B. Folsom speaks here with a voice of authority on this vital subject, as he did recently before the Senate Subcommittee on Manpower and Employment.

WHERE UNEMPLOYMENT HITS HARDEST

By MARION B. FOLSOM

THE PERSISTENCE of average unemployment rates of around 5½ or 6 per cent for six years is certainly one of the main economic problems of our time. If unemployment were distributed evenly among the labor force, with everyone unemployed for twelve or fifteen days each year, there would still be a serious loss of output and income. But unemployment is not distributed evenly. It is heavily concentrated on a small but significant number of people.

During 1961 there were 82,000,000 people who worked or looked for work. Eighty-two per cent of these people had no unemployment at all during the year. But 6 per cent—5,000,000 people—had fifteen or more weeks of unemployment. From the standpoint of human welfare, it seems much more serious that 5,000,000 people should be unemployed for fifteen weeks than that 75,000,000 people should be unemployed for one week each.

The situation is in fact worse than this. The consequences are most severe for people who fall into two categories. On the one hand, there are the people whose incomes are quite low even when they are employed and who are likely to have only tiny financial resources to carry them through a period of unemployment. By and large, the unskilled, uneducated, and non-white earn the lowest incomes when they are employed and have the highest incidence of un-

employment. For example, in 1962 average unemployment was 5.6 per cent, but unemployment among unskilled laborers was 12.4 per cent. Unemployment among white males with one or more years of college was 2 per cent, but unemployment among white males with fewer than eight years of schooling was over 8 per cent. Unemployment among whites was 4.9 per cent, but among non-whites was 11 per cent.

The other category in which unemployment is especially heavy and serious is young people. In 1962, when unemployment among all males was 5.3 per cent, unemployment among males eighteen and nineteen years old was 13.8 per cent and in the twenty-to-twenty-four bracket was 8.9 per cent. Most of these young people do not have family responsibilities, and unemployment among them might therefore be considered less serious. But it should be remembered that these young people are unemployed in their formative years, and the experience, work habits, and social attitudes they gain or miss during these years are very important.

Unemployment is also concentrated in certain communities. Neighborhoods with large populations of Negroes or unskilled white workers are likely to have high unemployment rates. Harlem in New York or the old Allegheny section of Pittsburgh, both with unemployment rates in excess of 20 per cent for males, are examples of this. There are other communities in which high unemployment rates result from the depressed

condition of the dominant industries. This is true of the coal towns of Pennsylvania and West Virginia, where unemployment has exceeded 10 per cent for many years.

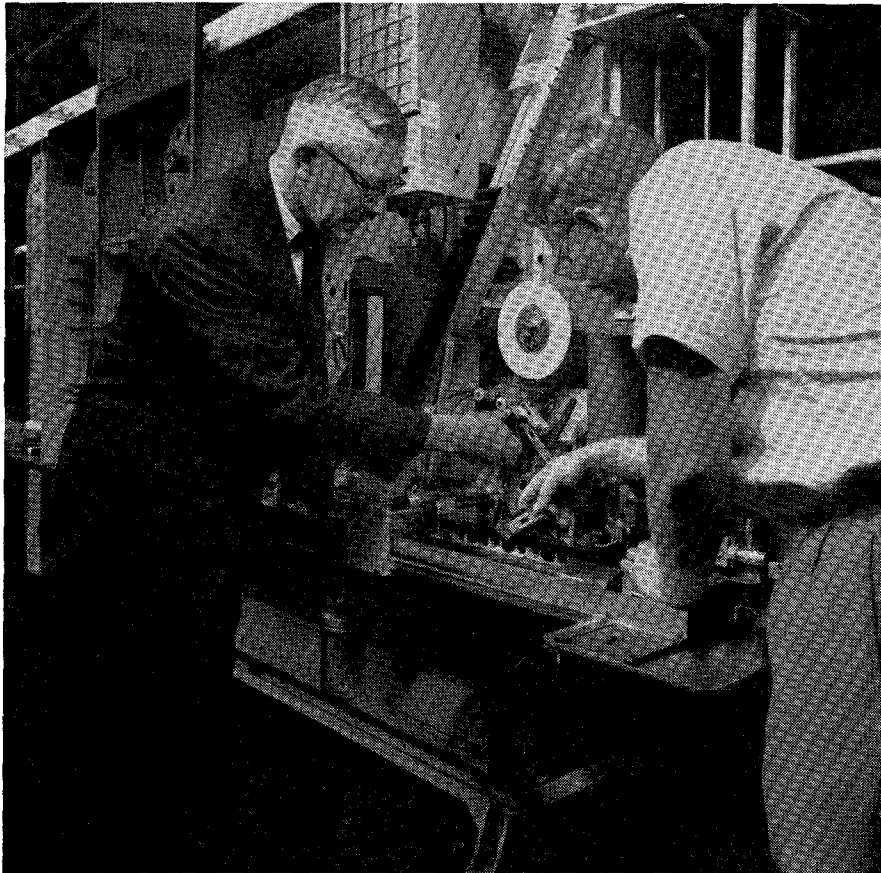
In communities where unemployment rates are in excess of 10 per cent the evil economic and psychological effects are felt even by those who are employed. Such communities cannot provide the environment of good schools, good houses, confidence, and ambition in which children should be raised.

I think that two conclusions can be drawn from these observations. One is that measures designed to reduce the average rate of unemployment will help to reduce unemployment in those categories where the rates are highest.

The other is that such measures will still leave excessively high rates in some categories unless we either reduce the average so far as to cause bottlenecks and inflation or take special steps to reduce the concentration of unemployment in certain groups.

Thus there are two things we have to do. First, we need to take general measures to reduce general unemployment. This is the most important and urgent requirement. I have in mind chiefly a prompt and substantial tax reduction. Second, we should proceed with special steps to correct the tendency of the unskilled, young, and Negroes to experience unemployment rates much higher than the national average, whatever the national average may be.

We must deal with two basic prob-



Retraining a worker—"It is not necessary that some groups have unemployment rates two or three times the national average."

lems: the problem of relatively low productivity and the problem of racial discrimination.

The relatively low productivity of the groups with the highest unemployment is shown by the fact that people in these groups receive the lowest wages when they are employed. Their relatively low productivity is the natural consequence of their relative lack of education, experience, and skill.

THIS problem would be corrected, or at least substantially diminished, if the wage rates of less productive people were lower, relative to average wage rates. The distribution of unemployment is significantly influenced by the structure of wage rates. Obviously, if everyone from illiterates to Ph.D.s received the same wage rate, unemployment rates among the uneducated and shortages among the highly educated would be even larger than they are. It is only the spread of wage rates that keeps the spread of unemployment rates from being still greater. A further adjustment of wage rates—meaning lower relative wage rates for those groups among whom unemployment is highest—would help reduce the concentration of unemployment.

Several factors prevent adjustments of wage rates. These include minimum

wage laws, the floor set under wages by unemployment compensation and other benefits, the structure of wage rates set in many companies with or without collective bargaining, customary patterns, and the ideas of both employers and employees about what is a fair wage for a particular job.

Certainly it is bad public or private policy to set wage rates at levels that prevent people seeking work from finding it. We must try to achieve better adjustment in the wage structure. We should avoid setting legal minimum wages that deprive people of opportunity for work or for training.

But at least in the case of the most disadvantaged people this cannot be the whole solution. Their problem is not only that they have a high rate of unemployment but also that they receive low incomes when they work. What we want is not only to help them find jobs but to help them find jobs at wage rates as high as or higher than they now earn when employed.

This brings us back to the need for raising the productivity of the people who suffer both from low incomes and high risks of unemployment, so that more of them can find employment at their present or higher wage rates. The key to doing this is education.

We are only just becoming aware of

the role that education has played and is playing in American economic development. It is worth looking at this briefly in historical perspective, because it throws light on our present situation.

Three powerful forces have been at work in the historical development of the American economy.

One is growth in the stock of physical capital. Another is advanced technology and organizational improvements. Third is the increase in average educational attainment of the labor force, as measured by years of school completed and amount of training acquired on the job.

These three forces have all worked to permit employment of a labor force that grew rapidly from decade to decade at steadily higher incomes per worker. The rise of income per worker is an important part of the picture. Without growth of capital, advance of technology, and improvement of education it would still have been possible to employ the rapidly rising labor force, just as it is possible now to employ a much larger labor force in a country like India. But to employ the growing labor force at anything like the wages that have prevailed in America would have been manifestly impossible without the rise in productivity that resulted from these three forces.

It should be noted that this rise of employment went on despite recurrent fears that the growth of capital and advance of technology would prevent continued employment of even the existing labor force. In fact, the result was exactly contrary to these fears.

WHILE capital growth and technological advance have tended to raise the average productivity of labor, they have not raised the productivity of all workers equally. They have tended to raise most the productivity of the better educated and skilled workers and to raise least or actually to reduce the productivity of the less educated and skilled. Capital equipment embodying new techniques particularly tended to displace and compete with those workers who were capable only of routine physical and mental activity. At the same time the value of those qualified people who could work with the new equipment, or who could do things machines could not do, rose most rapidly.

Clearly, if the labor force's education and skills remained constant, progress in capital and technology would have caused an even more unbalanced situation. Better qualified workers would have become much scarcer, and their wages much higher, relative to average wages. There would have been an increasing surplus of uneducated and unskilled people, spreading unemployment.

ment among them, and declining wages relative to the average.

One result of educational improvement has been to prevent disparity of income and employment opportunity from growing. As capital investment and technological advance reduced the relative demand for unskilled workers—who could only lift, pull, or carry—education reduced the proportion of workers who could only do that and nothing more.

By education, the number of people competing for the decreasing number of jobs that could be done by unskilled people steadily diminished, and they were able to find employment at wages not too far behind the rising average level. By education, we have also increased the proportion of the labor force that could use, work with, and complement increasing capital and advancing technology. But education has not eliminated the pool of workers with productivity far below the average, with incomes far below the average, and with an exceptionally high risk of unemployment.

The people in this pool are much better educated than the unskilled of fifty or a hundred years ago and they earn higher incomes. A century ago they were people with no schooling, fifty years ago they were people with less than, say, six years of schooling, and today they are people with less than, say, ten years of schooling. But they have not reduced their gap behind the rapidly rising productivity of our average worker. This is the most obvious problem today, whether it shows itself in high unemployment rates among the unskilled or in low incomes.

Of course, no amount of education will eliminate individual differences in productivity. These depend partly upon qualities that are innate or determined by environmental factors other than education. But we are far from having exhausted the potentialities of education for raising the relative productivity of the less productive.

I draw three conclusions from this analysis of our past:

► The problem of low incomes and high unemployment rates among the less educated and less skilled is not new.

► Merely improving education will not eliminate or reduce the problem. A certain rate of improvement of education is necessary just to keep even, to keep technology and investment from making the problem worse.

► To gain ground we shall have to accelerate the pace at which we improve education.

There are people who maintain that the speed and character of technologi-

cal change in the next decade or two will displace workers much more rapidly and farther up the skill ladder than in the past. Whether this will happen is uncertain. If it does, an even more rapid upgrading of the skills of the labor force will be required.

In the next decade or two we shall have an unusual opportunity to raise the qualifications of the labor force. An exceptionally large proportion of the people who will be in the labor force ten years from now will be young people. They are now in school, and we still have the chance to raise their basic capacities in the most favorable circumstances. If we miss this chance, many of these young people will have a hard time finding a job that leads to a progressive career. Many who do find an initial career will be unqualified for the adjustments that future technological change may require of them.

Let me recapitulate my general argument up to this point:

We need to take some general measures, notably the reduction of taxes, that will raise the over-all level of economic activity, increase the demand for labor of all kinds, and reduce average unemployment.

As we do this, and as the average unemployment rate falls, we will find that unemployment rates fall very low in some categories of the labor force while they remain fairly high in others. After a point it will be difficult to push unemployment down further.

The groups that will still have a high incidence of unemployment will differ in several respects from the groups with low unemployment—age, location, industrial attachment, and race, for exam-

ple. The underlying difference, however, will be their limitations in education and skills.

Our basic objective, therefore, is to increase the supply of workers qualified to fill the jobs for which there will be a demand as the economy expands and to reduce the number qualified only for unskilled jobs.

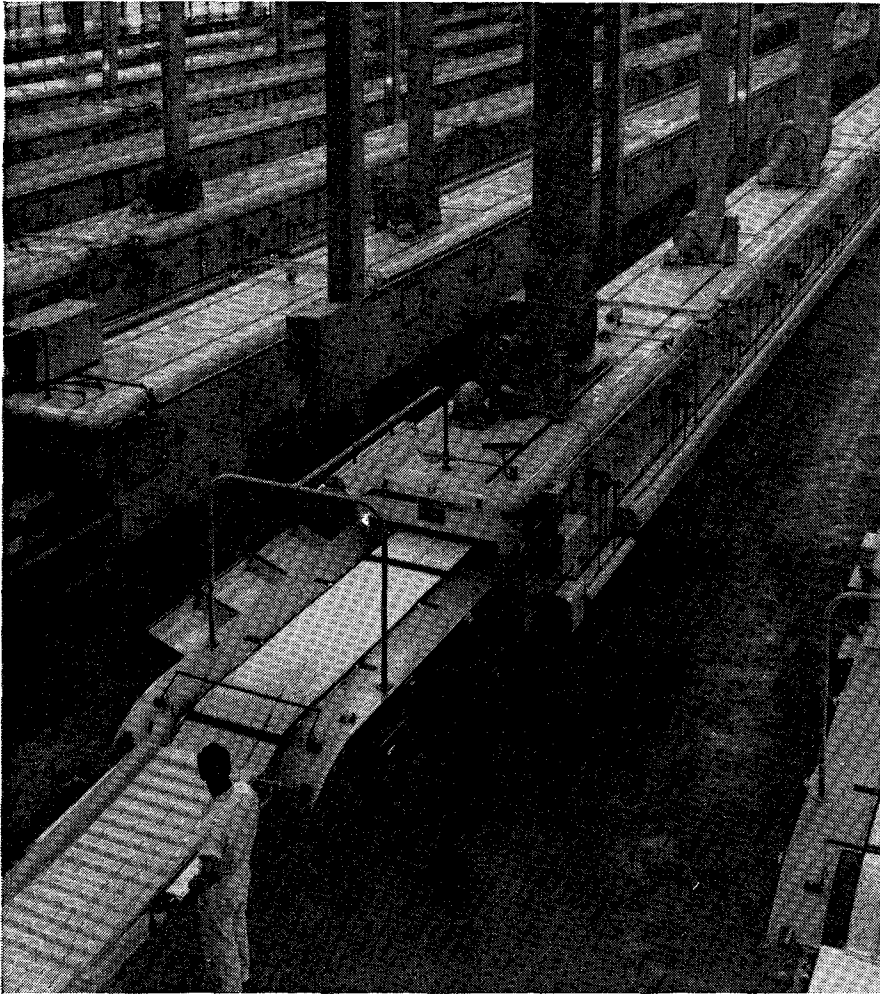
The key is education and training. I do not mean to imply that education and training are the sole answers. Of course, there are also important problems of mobility, information about employment opportunities, improvement in employment services, and entrance barriers into some occupations. However, the improvement of education is fundamental.

For the large majority of people our educational system works well—not ideally, but well. They advance through school, more or less in step with their capacities, make the transition to a job without too much waste motion, gain experience and skill on the job, and enjoy a rising income and reasonable job security. They shift from school to job at different stages, some after high school and some after college, and receive more on-the-job training the more qualified they are for it.

But serious difficulties of two kinds appear in this system. One problem arises for too many young people around the time of completing high school, when they should be moving into a career. Some of these young people drop out before graduation, and others graduate. Many who graduate and a much larger proportion of those who drop out have great difficulty in finding employment. After some years of intermittent

Unemployment Rates

	1951-53 Average	1955-57 Average	1960-62 Average
<i>Total</i>	2.7%	4.0%	6.3%
White	2.5	3.6	5.3
Non-white	4.5	7.8	11.2
<i>By Occupation</i>			
Professional, technical	1.1	1.1	1.8
Craftsmen, foremen	2.5	3.7	5.6
Operatives	3.8	5.8	8.4
Laborers, except farm & mine	5.8	9.3	13.1
<i>All Males</i>	2.5	3.8	5.7
18 and 19	6.7	10.7	15.0
20-24	3.9	7.0	9.5
35-44	1.7	2.6	4.0



Automated factory—"Skills acquired during years of work have been made obsolete by technological changes."

unemployment they settle into jobs that require and provide little further training or development, where wages are low, and where unemployment risks are high.

The other problem arises for some people at a later stage of their careers when they find that skills, large or small, acquired during years of work have been made obsolete by technological changes or other changes. Many workers with high skills are likely to have some transferable abilities. Especially if they are employed by diversified firms with facilities for retraining, their adjustment to a new job may not be too difficult. But for workers with little skill, employed in small firms and in areas not economically vigorous, the problem is serious.

We should put the facilities of our universities and community colleges to work providing night courses to upgrade technical skills and professional knowledge and to broaden the educational background of administrative and staff personnel.

Tuition for adult education courses should pay the cost of making the additional education available. In my opinion, businesses should offer to pay at

least half the tuition for courses their employees undertake to attend in evening classes. Business should cooperate with the academic community in formulating the courses to be offered for employee training, so that the adult education offered corresponds to needs and is up to date.

We are now trying to deal with the above two problems through expanded programs of vocational training for the young and retraining for middle-aged or older workers. These absolutely indispensable programs have considerable federal inspiration and financing. We must now work to develop them as effectively as we can.

AT the same time we should recognize that vocational training and retraining programs by themselves can only partially correct deficiencies that occurred earlier. The reason the teen-ager has difficulty finding a good job is basically his failure to acquire basic literacy and computational skills, discipline, motivation, and ability to work with teachers, supervisors, and colleagues. If he had these qualities, the chance of making the transition from school to a progressive work experience would be much

better, even with present inadequacies in vocational training. Without them, his vocational training, while necessary and probably the best we can do, will succeed only moderately.

The same can be said about the mature worker displaced by economic change. His adaptability in this circumstance is directly related to the quality of whatever basic education he acquired earlier.

The need is not merely to raise the qualifications of those individuals, teenagers or older, who would otherwise have a high risk of unemployment. There is also a loss when the high school graduate capable of much more productive work settles down to a lifetime of semi-skilled labor because he does not go on to college. If the more capable people advance to higher occupations, those formally less qualified can then move in to semi-skilled jobs. We should try to thin out the ranks of the unskilled by moving up as many people as we can, thereby improving the opportunities of those who, for one reason or another, remain unskilled.

The problem of high, productive employment involves our whole educational system, from kindergarten through university, as well as the training that is provided by business and evening adult education.

TO improve primary and secondary education will be difficult. The President of Columbia University once said that no educational system had yet been devised that would keep an intelligent, curious, ambitious young person from getting a good education.

The most difficult part of the problem is to provide a good education for young people of average innate ability or less, from homes in which there is little intellectual interest, growing up in environments in which the value of education is unclear.

Children from poor and uneducated families need better schools—not only better than they now have but also better than the present average of our schools. They should have smaller classes, because there is likely to be a greater discipline problem and more need for individual attention. They need more and better guidance and counseling, in part because their parents are less able to provide it. They need more capable and understanding teachers.

While we are making a special effort to improve the elementary and secondary education provided for our disadvantaged children we should also be working to bring the average level of public education more nearly in line with the requirements of a world that is becoming technologically and socially more complex. All this will take money,

effort, and research, but it will be well worth the investment.

In our current enthusiasm for vocational training and retraining we must not neglect the fundamental need for improving basic, *prevocational* training. The danger of such neglect is increased by the present situation with respect to federal aid. At first unwilling to accept federal aid to general primary and secondary education, but realizing the importance of educational aid of some sort, we now devote increasing federal funds to vocational training, retraining, and higher education.

It is time for the federal government to recognize the national interest in the improvement of general primary and secondary education. It should back up this recognition by providing federal financial assistance where it is most needed.

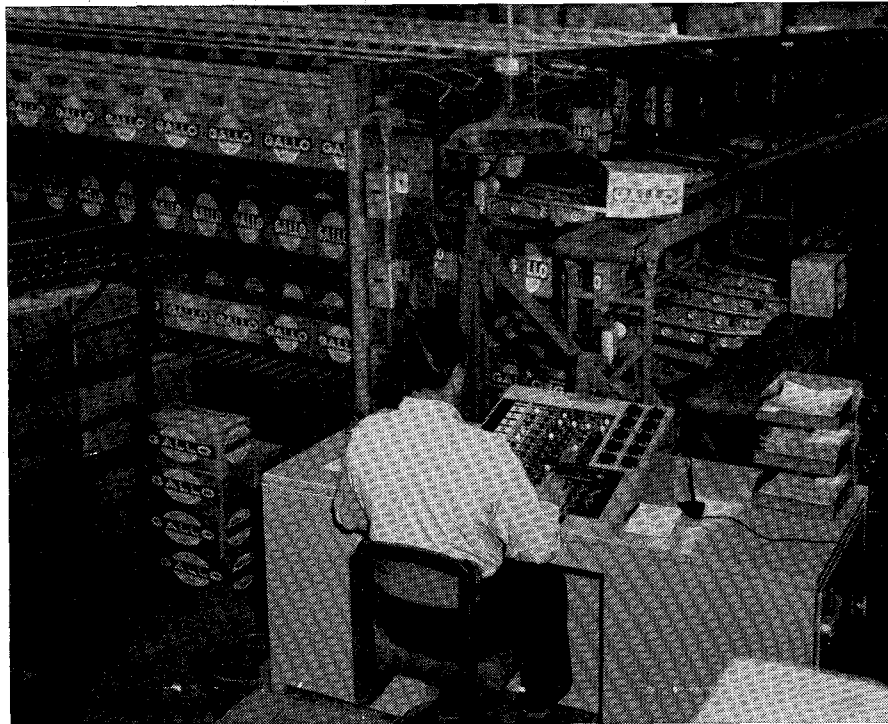
The statement on this subject made by CED's Research and Policy Committee four years ago is still true:

The national interest in good schools everywhere and the national interest in a decentralized school system are not irreconcilable. The combination of these two interests calls for the assumption of an important but limited responsibility by the federal government. This is a residual responsibility. It is to provide support to the extent necessary in situations where the decentralized system cannot provide good schools. And this support should be reserved for cases where the deficiency is clear.

The clear and present need is for federal financial assistance to the states that have extremely low personal incomes relative to the number of school children.

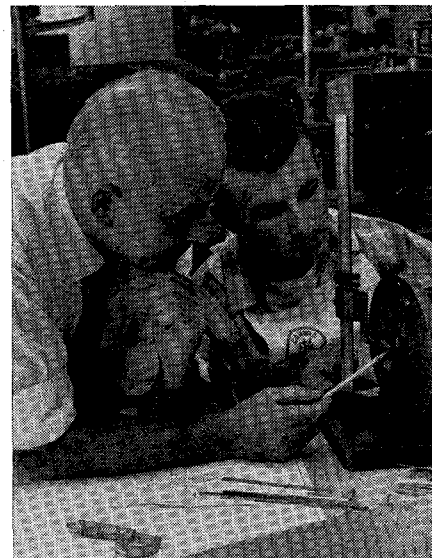
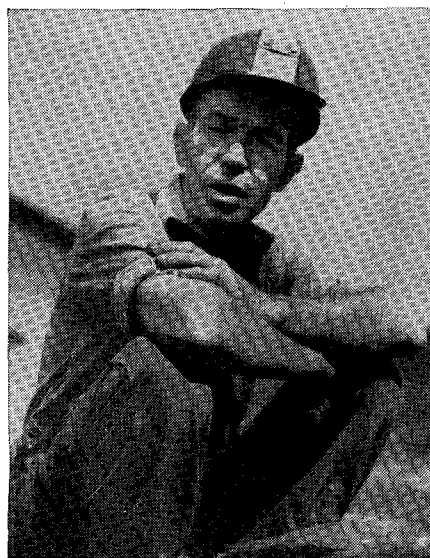
Federal funds spent upon improvement and expansion of the education available to Americans is the best possible investment of tax money. Everything we are able to learn about economic growth and sound self-government indicates that funds invested in education are returned many times over. In considering what federal spending should or should not be approved, priorities in terms of national needs and benefits should be our guide. The benefits to be expected from improvement of education throughout the nation should assign a very high priority to such spending.

Federal aid will not relieve the states and localities of their financial responsibilities. It would, I believe, only emphasize the need for improvement of education that arises from technological change and our rising standards of economic and social performance. The responsibilities of the states will be especially great because only they can provide the necessary leadership for effi-



—Wide World.

New techniques, new problems—Above, a pushbutton warehouse in San Francisco; below, left, unemployed miner who can no longer find employers for pick-and-shovel work; below, right, a factory worker receives special training for a new job.



—Earl Palmer (Monkmeyer).

cient reorganization of school districts and the financial aid required for districts with particularly low incomes.

We need to develop a comprehensive system of community colleges within commuting distance of most people in the country. Some states are well on their way to this, but others are far behind. The community college should not be an excuse for deferring to an older age the higher-quality education that should be obtained in high school. The time of students and teachers is too valuable to be wasted in stretching out the learning process. But the community college can:

1) Provide, for young people and adults, vocational-technical training of a kind that requires high school education as background.

2) Provide, for high school students and others, kinds of vocational-technical training too specialized and requiring too much equipment to be included in the curriculum of most high schools.

3) Provide economically the initial ingredients of a general college education for students who will transfer to a four-year college and for those who will not.

There could and should be close cooperation between a community college



"You're all fired!"

Education and Society

WE HAVE NOT SUFFICIENTLY valued intellectual achievement—either in what we paid for it or in the respect and freedom we gave it. This applies to all fields of intellectual endeavor, and not merely to the sciences. Education's responsibility for national security extends far beyond the training of scientists and servicemen.

This country has developed a powerful economy. It is an economy that is extremely responsive to the demands of the people, whether expressed privately through the market or publicly through the government. The economy produces efficiently and in large quantities what the people want. We have also developed a responsive political system that produces the kind of government policy the people want. But, however powerful and responsive economic and political instruments may be, they are not enough in themselves to produce a good society and good lives for its members. These instruments will produce what is good, desirable, and valuable only if the people want what is good, desirable, and valuable.

The education of the people to improve the quality of the choices made and thus to make the best use of the power of our economy and of our government is not a responsibility of the schools alone. The responsibility is shared by all the institutions and processes that form peoples' understanding—families, churches, adult education programs, the media of public information, and the course of life itself. But the schools are basic.
—From "Paying for Better Public Schools," a statement on national policy by the Research and Policy Committee of the CED.

and industries of the community. A vast amount of training is now being done by industry, to say nothing of the informal learning by experience that has always gone on. A Department of Labor survey showed that in spring of 1962 about 7 per cent of all employees in non-agricultural industries were receiving training. For the nation as a whole, this amounted to about 3,000,000 workers. Training programs were much more common in large establishments than in small ones. Whereas 19 per cent of all establishments had training programs, 75 per cent of establishments with 500 or more employees had programs.

I think that business will find investment in the education and training of its employees of increasing value. Where training specialized to particular firms or industries is needed, the larger firms at least will commonly be able and willing to provide it. But the smaller firms may have to rely on outside training and institutions, public or private. Moreover, even the larger firms may find it necessary or efficient to rely on outside institutions for providing education so general, so close to the continuing function of academic institutions, that the firm has no special competence for providing it. Conversely, education may be so specialized that even a very large firm cannot provide it.

Many large firms are now sending executive and professional personnel to universities to continue their education, not only in subjects directly related to their work but also in more general subjects, such as literature, philosophy, history, and economics. These administrative and staff people are helped not only to become more competent in their work but also more interested, alert, imaginative, and adaptable. The same consideration applies, with appropriate adjustment for subjects studied and time spent, to workers at all levels. Businesses have an interest in the continuing education of their employees; they should encourage it and be prepared to share the cost in time and money. This will be particularly true so long as many people enter industry ill-prepared, through no fault of their own, in basic skills like reading, writing, and computation. Evening classes in local schools can provide adult education economically and conveniently, and without loss of work time.

My argument places a heavy burden on education. This is not new in America. The wide diffusion among Americans of the ability to lead an independent and satisfying life has been more dependent upon the improvement of education than upon anything else. Education will have to run even faster in the decades ahead to keep pace with changing conditions and aspirations.

How business and government get along with each other is always of primary concern in a democratic society. The late Theodore V. Houser, chairman of the Committee for Economic Development and former chairman of Sears, Roebuck and Co., spoke recently on this subject before a group of European businessmen and industrialists gathered in Paris. One of his last tasks before his death on December 17 was revising this talk for publication in SR.

GOVERNMENT AND BUSINESS: THE VITAL BALANCE

By THEODORE V. HOUSER

WHAT government does, or what people do through government, has a large influence upon business, and a few facts will suggest how large that influence is. Government, local and national, in the United States now collects in taxes and other charges about 30 per cent of the gross national product, including about one-half of all corporate profits. Government spends about \$120 billion a year on goods and services—over 20 per cent of the gross national product. Government and government enterprises produce about one-seventh of the national income, almost entirely in the form of services of military and civilian personnel. Government spends about \$20 billion a year on education and thus has a major influence on the quality of the labor force available to business. Annual expenditures for research and development in the United States amount to some \$14 billion, of which about two-thirds is financed by government. And the four major industries subject to the most government control—agriculture, finance, transportation and communications, and public utilities—account for about 18 per cent of privately produced national income.

But marshaling such information demonstrates only a quantitative fact. What we need are some qualitative facts—facts about the nature, purposes, and effects of government influence.

Describing the relation between government and business is necessary because we want to know whether we Americans now have what can properly be called a free-enterprise system. We

ask this not out of mere curiosity but because it has important policy implications. Are we so far from a free market system that the ordinary presumptions against government intervention in that system do not apply? Have government actions so weakened and distorted the free market that the only way we can now rationalize the economic system is to impose an over-all government plan upon it? Has the scope of free markets in our own and other countries become so limited that it no longer makes sense to talk about freer international trade as a way to greater efficiency?

The answers to these questions lie as much in the character of government influence over the economy as in the amount of that influence. It is necessary to distinguish between those government actions that distort the market and justify some qualifications of a free market policy and those government actions that do not.

THE function of business is to produce what people want at as low a real cost as possible. The freedom of the businessman is the freedom to do this. He legitimately defends his freedom on the ground that, when free, he does produce what people want at least real cost. Americans in general believe that private business is most likely to serve this essential function when operating in an environment of competition. Extensive legislation in America, going back over seventy years, is intended to assure the maintenance of competition. This government action is considered necessary for continued business freedom in this country.

But government actions that keep business from producing what people want or that keep business from producing at the lowest real cost *do* impair business functions and the efficiency of our market system. They call for corrective action, either negative or positive in nature—that is, either for elimination of the original distortion or further action to compensate for it.

In the United States, as elsewhere, there are government actions of this kind. But not all government action that influences the economy is like this. Much of it expresses, through government purchasing, what people want. The American people apparently want to send a man to the moon before 1970 and are willing to spend huge amounts for this purpose. The people may be wise or unwise to want this. But the fact that this demand is expressed through government does not impair the function of business and the market in meeting the demand as efficiently as possible.

Government makes large investments—in education, in research, in highways, for example. These investments affect real costs and, therefore, what and how business produces. But if these investments are made in what can be called a businesslike way, private business and free market response to them is in the direction of increased efficiency.

Roughly, the distinction I draw is between government activity *in and through* the market, as buyer and seller, and government action *upon* the market, as suppressor or controller. By far the largest part of government activity in the United States is of the